



Autumn 2017

Autumn has arrived after a flurry of economic data on the home front during February. The company reporting season for the six months to December was extremely positive overall, confirming that corporate Australia is in good shape.

CommSec's survey of results from the ASX top 200 companies showed 94 per cent recorded a profit in the December half, with total profits up 130 per cent on the previous corresponding period (up 37 per cent excluding BHP). Earnings per share rose 19 per cent, cash levels were up 11 per cent and dividends were up 6 per cent. The strong performance was due to booming home construction and higher commodity prices, especially for iron ore, which is up 80 per cent over the past year to around US\$90 a tonne.

One area of concern is the low level of business investment. The latest figures from the Australian Bureau of Statistics show new spending on buildings and equipment fell 2.1 per cent in the December quarter, down 15.5 per cent over the year. While the Aussie dollar has fallen from record highs during the mining boom, Reserve Bank governor Philip Lowe told the House of Representatives Standing Committee on Economics "it would be better if it was lower still" to support the rebalancing of the economy. The dollar is currently trading at around US76c.

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Countdown to super deadline

The clock is ticking for investors who want to take advantage of the more generous tax concessions available in super this financial year. As of July 1, new rules come into effect that will reduce contribution limits.

Until then, individuals under 65 can make a non-concessional (after-tax) contribution of up to \$540,000 under the bring-forward rule which allows you to bring forward two years' contributions. That means couples can put up to \$1.08 million into super while the opportunity lasts.

From July 1, the cap on non-concessional contributions will reduce from \$180,000 a year to \$100,000 or \$300,000 under the bring forward rule.

But this is only one of the wide-ranging super changes you need to plan for if you want to take full advantage of the existing rules.

Concessional contribution caps

Tighter rules will also apply to tax-deductible concessional contributions. This financial year contributions of up to \$35,000 are permitted for people aged 50 and over, or \$30,000 for those under 50. But from July 1, the limit will be \$25,000 for everyone. These limits include the 9.5 per cent compulsory super contributions made by your employer.

These changes to the concessional and non-concessional caps provide an incentive to take full advantage of the existing rules if you can. This is especially so if you have an opportunity to make a large

non-concessional contribution funded by an inheritance, the sale of a property or other assets.

Before you bring forward a sale or take any other action, be aware that there could be tax or other considerations so it's important to get advice.

There's an added incentive for people who already have large account balances to act now. From July 1, non-concessional contributions won't be allowed if your super balance is higher than \$1.6 million.

Pension account limits

Super has two phases, an accumulation phase where you grow your retirement savings in a concessional tax environment, and pension phase where no tax is paid on earnings or withdrawals. Under existing rules, there are no limits on the amount of money you can hold in super. But from July 1, a maximum of \$1.6 million can be held by a retiree in a tax-free pension account.

Non-concessional contributions before July 1 that push the balance above \$1.6 million can stay in super.

But individuals who have more than \$1.6 million in a pension account on that date will be required to put the excess back into an accumulation account where earnings are taxed at 15 per cent, or take the excess out of super entirely.

Transition to retirement tax changes

Earnings in a transition to retirement (TTR) pension will lose their tax exemption from July 1. All earnings on income and capital gains will be taxed at the concessional super rate of 15 per cent. Capital gains on assets held for longer than 12 months will be taxed at the discount rate of 10 per cent.

If you are one of the many people using a TTR strategy in combination with salary sacrifice to boost your super, the loss of the tax exemption may reduce the total amount you accumulate for retirement. While TTR pensions are still attractive, you may like to talk to us about additional ways to boost your retirement savings.

High earners to pay more tax

Individuals who earn \$300,000 or more currently pay tax at a rate of 30 per cent on their super contributions, instead of the 15 per cent everyone else pays. But from July 1, the higher tax rate will apply to incomes of \$250,000 or more.

If you expect to earn between \$250,000 and \$300,000 next financial year, you may want to make the most of your allowable concessional contributions before June 30.

The reforms that will be ushered in on July 1 amount to the biggest shake-up of super in a decade. As always, if you would like to discuss how the changes might affect you and what you can do to prepare, don't hesitate to call.

HONESTY is the **best** POLICY with insurance



Life insurance is one of the most important investments you can make to protect your family's future wellbeing. And like any investment, it needs careful consideration.

Taking out too little or too much insurance can be costly. Failing to disclose all relevant information to an insurer could result in a claim being denied – possibly after years of paying premiums – just when you need help most.

Negotiating in good faith

Heartbreaking stories about insurance companies failing to pay out when a policyholder suffers an illness or injury get plenty of media attention. What's often glossed over in these reports is that the company is within its legal rights to deny the claim.

There are several reasons a claim can legitimately be denied: unpaid premiums; exclusion periods or clauses; or a medical condition not being severe enough to qualify for a payout. But non-disclosure is the most easily avoidable reason for claims being denied.

An insurance policy is a contract, which means both parties are required to enter into it in good faith. That means you have to respond truthfully when your insurer asks you specific questions. You also need to volunteer any information, such as pre-existing health conditions, that would be relevant in deciding whether to insure you.

The good news is that most claims are paid out in full. That noted, one

of the first things an insurer will do on receiving any claim, particularly a life insurance claim that's likely to involve a substantial pay out, is double check the policyholder didn't misrepresent their circumstances when taking out the policy.

Getting assistance

Non-disclosure issues are one reason it pays to choose a retail product rather than a direct life insurance policy. As the name suggests, a direct insurance policy is sold as a one-size-fits-all direct to the consumer, rather than through an adviser. It's easy to apply for online or over the phone, with little or no medical information required.

With a retail policy, an expert adviser will walk you through the application process, taking care to ensure you don't inadvertently fail to disclose any relevant information. It may be a little more expensive but it can save you money in the long run. An Australian Securities and Investments Commission (ASIC) report found average declined claim rates were highest for non-advised policies (12 per cent), compared to 7 per cent for retail policies.¹

There are other reasons direct insurance policies can offer false economy. These include a basic level of cover with few extra benefits and a wide-ranging clause stating 'claims due to pre-existing conditions are not valid'.

As life changes, so should your insurance

Another issue to be aware of is that your insurance needs will vary at different life stages. So it's sensible to get into the habit of reviewing your insurance cover annually or, at the very least, whenever major life events, such as the following, occur.

• You welcome or farewell a child

Kids are expensive, something to consider when calculating the income your partner would require should the worst happen. Alternatively, if your children have reached the age where they are independent, you may be able to scale back your policy and premiums.

• You welcome or farewell a partner


As your relationship status changes, so might your main beneficiary and the amount you wish them to receive.

• Your income or debt levels fluctuate

That payout of \$80,000 a year, which seemed sufficient when you had the lifestyle of a young middle manager, might not be so livable when you're a fifty something executive. On the other hand, once you own your home and your partner will not be left with the burden of a mortgage, you may be able to reduce your cover.

The right insurance solution for you and your family will be as unique as you are. If you would like to discuss your insurance needs, don't hesitate to give us a call.

ⁱ ASIC REP 498 'Life Insurance Claims: An Industry Review', 12 October 2016



Beware of pension pressure

Changes to the pension assets test that came into force on January 1 have resulted in some retirees losing some, or all, of their pension entitlements.

The big question now is whether the tighter assets test will encourage people to change the way they plan and behave in the years leading up to retirement to qualify for the age pension.

Human nature being what it is, people tend to worry more about a financial loss than they do about missing out on a potential financial gain. This is a common decision-making error described by behavioural experts in prospect theory.ⁱ When you apply this fear of loss to the tightening of the pension assets test, there is a danger that people could become so worried about losing even a few dollars of age pension that they make knee-jerk financial decisions that leave them worse off in the long run.

Tighter assets test

Under the new rules, retirees will lose \$3 a fortnight for every \$1,000 in assets they hold above a certain threshold, up from \$1.50 under the previous rules. Even though the thresholds are higher, allowing more people to qualify for a full pension, fewer middle and higher income earners will qualify for a part pension.

The obvious solution is to reduce your assets, right? Maybe not, if doing so means you end up shooting yourself in the foot.

On the surface, getting rid of assets may be tempting, especially for anyone near the upper asset threshold. Single homeowners lose the part pension once

their assets total \$542,500 (\$742,500 for non-homeowners), for homeowning couples the upper threshold is \$816,000 (\$1,016,000).ⁱⁱ

The incentive for reducing assets is that retirees stand to gain \$3 in pension per fortnight (or \$78 a year) for every \$1,000 of assets they use up. The argument goes that every \$100,000 of assets you enjoy spending today is worth an extra \$7,800 a year in pension. That's equivalent to a return of 7.8 per cent, far better than money in the bank.

Spending money to earn money

There are lots of ways pre-retirees could choose to use up some of their assets to qualify for the age pension. You could take a big trip, pour money into renovations or buy a more expensive house (the family home is exempt from the pension assets test). Or you might decide to give the kids and grandkids part of their inheritance early.

Of course, there's nothing wrong with any of these decisions if you are confident that they won't leave you short of funds in retirement. But if the sole aim is to maximise pension entitlements, you could well be selling yourself short. For one thing, it ignores the potential opportunity to sell assets in retirement to supplement your income when needed.

The goal of retirement planning is to accumulate enough assets during your working life to provide a comfortable standard of living for what could be 30 years or more of retirement. For all but the very wealthy, this will most likely be achieved by progressively drawing down capital to supplement a superannuation pension and part age pension.

Such a strategy is likely to result in higher standard of living in retirement, especially in the early years while you are fit and healthy and may want to travel. Then, if your savings expire before you do, there is always the full age pension to fall back on. But if you run down your assets with the sole objective of qualifying for the pension, your choices could be limited.

Plan for the long haul

Everyone's retirement aspirations and financial circumstance are different. But in the long run, a strategy that maximises your sources of readily accessible cash in retirement, rather than focusing on a single income stream, is more likely to provide a comfortable and worry-free lifestyle.

If you would like to discuss your retirement income needs, don't hesitate to call.

ⁱ Prospect theory, <http://psychologydictionary.org/prospect-theory/>

ⁱⁱ <https://www.humanservices.gov.au/customer/enablers/assets#assetstestlimits>