AUGUST 2022

Goldsborough

Quarterly financial planning news and views

Omicron and Russia: a one-two punch to the world's central banks

Back in our March 2021 newsletter we commented on the $1.9 trillion US stimulus package and a decline in bond prices. Central banks around the world kept interest rates at near zero in spite of rising inflation telling everyone to keep calm there is nothing to see here.

Then we went on a wild ride, with Aussie bonds leading the charge having their worst financial year since 1973, recording a negative 10.5%.

What went so wrong, how did the RBA go from saying they wouldn't raise rates until 2024 to raising rates 1.75% in just three months in the middle of 2022? On top of this, only as recently as June, the bond market was pricing in the RBA to have rates at 4.4% by May 2023!

This time last year I was in agreement with the central banks believing they had things under control. The message that Covid was driving up inflation temporarily, with it distorting demand and supply. People not travelling nor spending on eating out or entertaining, instead increasing their spend on durable goods like cars, renovations and white goods. While the manufacture and delivery of these very goods slumped due to lockdowns and sickness.

The Covid haze seemed to be gradually lifting in 2021 with the world learning to live with the disease. This was until around December 2021 when the Omicron variant emerged. This much more transmissible variant does not agree well with China's zero covid approach, causing ongoing supply disruptions.

Making things worse, Russia invaded the Ukraine in February 2022 causing a massive disruption of oil, gas and wheat supplies for the world. This was like a one-two hit to central banks in their fight on inflation leaving them "behind the curve" and scrambling to raise rates and tame inflation before it got out of hand.

On a positive note, for the bond market since around 20 June, we have seen a dramatic rebound. Perversely, this is due to a less resilient economy than originally thought. We now have falling house prices and a drop off in consumer sentiment telling us interest rate rises to date should temper inflation somewhat and the RBA may not need to raise rates as high as previously thought.

Where we go from here is largely in our government's hands. One part of Australia's inflation story is to do with gas prices. Ironically, we have one of the largest gas reserves in the world yet domestically we pay the same war-induced high prices as countries in Europe. Which if not fixed through government policy of taxation, or gas reservation, we could see inflation go higher on the back of a doubling or tripling of electricity prices within the national grid (excludes WA who aren't in the national grid and funnily enough reserve gas for domestic use). This would not bode well for house prices and therefore the Australian economy. ■

Goldsborough Financial Services
AFSL 225330
ABN 89 064 640 142

160 Greenhill Road, Parkside SA 5063
T 08 8378 4000 **F** 08 8373 4544
E mail@goldsborough.com.au
W goldsborough.com.au

SAM MARTIN CFP®
Authorised Representative (252676)

MICHELLE SANCHEZ
Authorised Representative (325471)

Opportunities from recent changes to contribution rules

After spending a week of my annual leave painting the house, getting stuck into some re-contribution strategies is a very welcome change. From 1 July 2022, there have been some good news changes to contribution rules and limits which I'll outline for you as well as discuss some possible opportunities resulting from the changes.

Firstly, the Super Guarantee (SG) rate that employers are required to pay on your income has now increased from 10% to 10.5%. The rate will gradually increase each financial year until it reaches 12% in 2025/26 and later years. In light of the higher SG rate, if you're making any additional contributions over and above SG, you should review your total concessional contributions to ensure they remain within the concessional contribution limit of $27,500 pa.

In addition, on 1 July 2022, new rules were introduced to make it easier for people aged 67 to 75 to contribute to super. The new rules create opportunities for you to move more money into super for retirement, equalise super balances between you and your partner, and reduce the potential tax your beneficiaries may pay if you pass away.

Two important changes to super rules allow people aged between 67 and 75 to top up or restructure their super, to make the most of the tax effective super environment.

1. Contribute to super regardless of employment status

For those under 75, the removal of the work test means you can now contribute to super without meeting a work test.

This is a significant change as prior to the new rules, if you were between age 67 and 75, you had to have worked at least 40 hours within 30 consecutive days to contribute.

2. Contribute up to $330,000 as an after-tax contribution

You can now make an after-tax (non-concessional) contribution of up to $330,000 over a three year period, under changes to the bring-forward rules*. Prior to this change, you had to be under age 67 to utilise the bring-forward rule.

These changes may enable a number of strategies that would otherwise not be possible. For example, if your partner's super balance is lower than yours, you can both benefit from topping up their super. The new rules allow contributions to be made into your partner's super account as long as they are under age 75. If you don't have money outside of super to contribute, you can withdraw funds from your own super account to contribute to your partner's.

The result is that your super balances are more even, which can have many benefits:

- Giving the spouse with the lower balance a greater sense of financial independence and security.
- Qualifying for a range of concessions, which may help reduce tax.
- Having more money in the tax-free pension environment at retirement (by taking full advantage of your respective transfer balance caps – this is the maximum amount that each of you can use to start a tax-free pension).
- You may gain protection against future legislative changes to tax or super rules.

The changes may also allow you to reduce the tax that your adult children will have to pay if they inherit your super. If a tax dependant (such as a partner) receives a lump sum super death benefit, they do not pay tax, however, your adult children likely will. Your super account is generally made up of two components:

Taxable component

If you pass away and this is paid to someone who is not a tax dependant (such as an adult child) they pay up to 17% in tax.

Tax-free component

If you pass away and this is paid to your adult child, they don't pay tax. By withdrawing the taxable component as a tax-free lump sum and recontributing that same money back into super as an after-tax (non-concessional) contribution, it converts to the tax-free component. This allows you to increase the tax-free component of your balance, reducing the tax any non-tax dependent beneficiaries may pay if you pass away.

Re-contribution strategies are complex, so it's important to discuss your situation with your financial adviser to weigh up the pros and cons of such a strategy particular to your situation and to ensure the strategy is implemented correctly to avoid costly mistakes. ■

** Note: the cap you have available under the bring-forward rule will reduce if your total super balance is $1.48 million or more and is reduced to nil if your total super balance is $1.7 million or more.*

CRAIG KIRKWOOD AFP®
Authorised Representative (401525)

Happy new financial year

The super and the tax system is an ever-changing landscape and this year is no different. The article below summarises several changes taking effect in the new financial year.

Commonwealth Senior Health Card (CSHC) eligibility

One of the great things about a federal election is that it flushes out all sorts of promises from each party vying for the attention of voters. One of those was increasing the eligibility for the CSHC which is set to occur from 20th September 2022 and benefit up to 50,000 Australians.

A CSHC is a prized possession for self-funded retirees because it offers a range of concessions such as access to the pharmaceutical benefits scheme, bulk billing for doctor visits and cheaper utility bills.

The card is issued by Centrelink to people over pension age who do not qualify due to their level of assets, but have an income that is below the required threshold (there is no asset test).

Family situation	Current	New threshold
Single	$57,761	$90,000
Couple (combined)	$92,416	$144,000
Couple (separated by illness)	$115,522	$180,000

The two main ways to apply for the card are by visiting Centrelink or to go online and fill out the forms. The income test for the card will look at both your adjusted taxable income, and the deemed income from your account-based income streams.

In South Australia, Concession SA is responsible for administering the household concessions and will need to be contacted after your card is issued and updated with any changes to your circumstances (such as change of electricity provider).

Superannuation Guarantee (SG) increased from 10% to 10.5%

From the 1st July 2022 employers must increase the super contribution of their employees to 10.5%. This is good for employees as more money is being contributed into the low tax environment of super. However, some people may need to check the wording of their contact. If your contract states a 'total package' amount, you may have got an increase in SG but a decrease in your wage or salary to reflect the same total package. This SG increase is legislated to go up by 0.5% on the 1st of July each year until 2025 when it will reach 12%.

Income threshold for Super Guarantee contributions has been removed

Prior to the 1st July 2022 employers only had to pay the superannuation guarantee if their employee earned over $450 for the month. This threshold has now been abolished and it is estimated this will mean 300,000 workers will be better off under the change.

50% account-based pension drawdown extended for FY2023

The 50% reduction to the required minimum pension drawdown announced in March 2020 in response to the pandemic has been extended for 2022-2023.

Work test abolished for after-tax contributions for people aged 67-74

Previously individuals in this age group had to satisfy a work test to make an after-tax (non-concessional contribution) to super. This no longer applies, making it easier to contribute a lump sum from things such as an inheritance or asset sale into the tax-free environment of super. This change also allows for the opportunity for clients to consider a re-contribution strategy that your adviser can discuss in more detail.

Downsizer eligibility reduced from age 65 to 60

This scheme allows you to put up to $300,000 into super from the proceeds of the sale of your principal place of residence, with additional criteria to be met. The reduction in age provides greater flexibility for people to downsize their home and contribute some of their built up equity to help fund their retirement.

If you would like to discuss any of these changes in more detail, please contact your adviser. ■

BORIS PEDISIC CFP®
Authorised Representative (301739)

Do I need $1 million to retire comfortably?

How much money do you need to retire? It's a question most Australians ask themselves at some stage. You may have heard you need $1 million – a figure that's often mentioned.

The truth is there's no one-size-fits-all amount. A comfortable retirement will look different for everyone. The amount of money you will need when you retire depends on many factors, including:

1. The lifestyle you want

Think about how you plan to spend your money in retirement. If you own your own home and are debt-free, a **general** rule of thumb, is that you will need two-thirds (67%) of your pre-retirement income to maintain your current standard of living in retirement.

With this in mind, it's important to have a "**retirement budget**." There are many budgeting tools available online e.g. **moneysmart.gov.au/budgeting/budget-planner**.

2. The major costs that might be part of your retirement plans

- paying off your mortgage
- home renovations
- travel – both within and outside Australia (how often and for how long)
- new car/caravan/boat etc
- medical costs
- rent – if you are not a homeowner

3. How long you need your money to last

Most people can now expect to live well into their eighties. This means that if you stop working at 65, you will need retirement income for **20 years or more**.

So why are we all so worried about not having enough?

The Australian Super Fund Association (ASFA), which is the peak body in this country on all things super, has "solved" this problem by objectively outlining the annual budget needed by the **average Australian** to fund either a **modest or comfortable** standard of living in their post-work years.

A **modest** retirement lifestyle is considered better than the Age Pension, however, it still only allows for the basics. For example, very basic private health insurance, an occasional trip to the cinema or restaurants and only an annual domestic holiday (no overseas trips).

A **comfortable** retirement lifestyle allows for a broad range of leisure and recreational activities, full private health insurance, a modern car, good clothes, a range of electronic equipment, as well as domestic (and some) international travel.

Current full Aged Pension rates (Aug 22)

Single	$25,677 p.a*
Couple	$38,708 p.a*
* this includes all supplements	

ASFA modest lifestyle standard

Single	$29,632 p.a
Couple	$42,621 p.a.

ASFA comfortable lifestyle standard

Single	$46,494 p.a.
Couple	$65,445 p.a. .

The approximate savings/super amount required at retirement for a **modest lifestyle** for either a **single or couple is $70,000**, given that most of the income is via the Aged Pension.

The approximate savings/super amount required at retirement for a **comfortable lifestyle** for a **single is $545,000** and for a **couple is $640,000**.

The Aged Pension is updated twice a year with CPI (usually in March and September). The ASFA figures above, are updated quarterly. All figures above assume that the retirees own their own home outright. The approximate savings/super figures detailed above, assume an inflation rate of 2.75% p.a. and an investment earning rate of 6% p.a.

Source: ASFA Retirement Standard

Rival opinion

There is a new contender defining the approximate savings/super amounts, as well as the income levels needed in retirement. Super Consumers Australia (SCA), aim "to counter the established industry lobby groups." They claim that the ASFA numbers are too high, due to a vested interest campaign for more super.

SCA was established a few years ago with money docked from the big banks for bad behaviour. Recently, it released its first "rule of thumb" estimates of the true dollar figures workers at certain ages need to accumulate in super to secure adequate income in retirement.

**SCA Savings Targets*
for current retirees (aged 65–69)**

Fortnightly spending‡	Annual spending‡	Savings by age 65
Single		
$1,115 low	$29,000	$73,000
$1,462 med	$38,000	$258,000
$1,962 high	$51,000	$743,000
Couple†		
$1,615 low	$42,000	$95,000
$2,154 med	$56,000	$352,000
$2,885 high	$75,000	$1,021,000

Source: Super Consumers Australia (SCA)

** These targets assume you will own your own home outright (or otherwise won't pay rent or a mortgage) when you retire*

† Figures for couples represent the combined spending of two people living together

‡ Spending levels are in today's dollars and have been adjusted for inflation. These levels are based on ABS data and retirees' spending.

The figures are based on analysis of the **actual** spending levels of retiree households today and range from a "low" spending level of $29,000 a year for a single person (requiring a super balance of just $73,000) to a "high" spending level of $51,000 a year (requiring a super balance of $743,000).

So, in conclusion, how much do you need to save for retirement?

The simple answer is - it depends on a variety of factors, however, for many people, industry experts suggest that the **million-dollar retirement number is a myth**. ■

MATTHEW KELLY CFP®
Authorised Representative (314983)

Issues to consider if children pay their parent's Refundable Accommodation Deposit

In many cases a person's wealth is tied up in the family home. In many situations, the home is sold to fund the payment of the Refundable Accommodation Deposit (RAD) and other aged care fees. However, there can be many reasons as to why people want to retain the home.

If the home is retained, the resident can then face a challenging situation when it comes to funding their accommodation costs. Any RAD that is unpaid will incur a Daily Accommodation Payment (DAP).

This can place significant pressure on cash flow and present another source of anxiety.

Thoughts may then turn to funding options, in particular assistance from the client's children (or other family members). With the average RAD being around $550,000, not many people will have lump sums readily available to pay the RAD. Therefore, resources may be pooled between siblings (or the wider family) to pay the RAD.

If there is a transfer of funds from children to pay the care fees for the parent, it is important that legal advice is sought. The RAD forms part of the aged care resident's estate regardless of who paid it, and the aged care facility is bound to make the payment of the RAD to the estate upon the resident passing away.

Therefore, this should be reflected in the parent's Will to ensure the estate pays back the relevant amounts to those who contributed them, otherwise there can be unintended consequences (particularly if there is conflict between family members).

Also, in the situation whereby the family home is retained (and we assume there is no protected person living in the property), it is important to note that after 2 years from leaving the home to enter aged care, the client is then treated as a non-homeowner and the value of the home will be included as an asset when calculating their Age Pension. This will result in a significant reduction or loss of Age Pension entitlement altogether, depending on the value of the home. ■

LACHLAN HARVEY CFP®
Authorised Representative (227293)

Helping adult children to buy property?

Houses are expensive. Many parents are wanting to help their adult children to enjoy the benefits of homeownership for financial security and family stability. This leads many parents to explore options for assisting their children to buy a home. Let's consider some of these options.

Parental loan or gift

Is it a loan or a gift? Make it clear from the outset. If it's a loan, then an agreement should be prepared to ensure that the terms of the loan are clear and that with the passing of time the loan is not misinterpreted as a gift.

Often a loan to a child will be interest free and repayable upon demand. Legally, there can be issues with a long-term loan that is repayable upon demand. Legislation can impose a limitation period for unsecured personal loans. For example, in New South Wales this is six years, after which the loan may become unenforceable.

In the case of a gift, declaring that in writing may help the child to obtain finance as lenders will often seek assurance that there are no future repayments required. It will also reduce the risk of a potential estate dispute in future.

When providing a long-term loan or gift the opportunity cost of having that cash invested can be substantial over time. This can impact the income of the parent and their lifestyle.

If the parent receives Social Security benefits such as Age Pension, the loan will be assessed as an asset in a similar way to if the funds were held in the bank. Even if the parent makes a gift to the child, gifts over $10,000 in a financial year count as a 'deprived asset'. This means that it counts as an assessable asset for Centrelink for 5 years.

In the event of the child experiencing a divorce, a gift may end up being split with the spouse. A loan may give some protection from this occurring.

What happens if the parent dies? If the loan has not been repaid, how is it considered when the parent's estate is divided? What impact will this have if there are multiple children who have received different financial benefits throughout the parents' lifetime? Will there be adequate other funds to allow the estate to compensate other family members?

Don't underestimate the consequences of providing unequal financial assistance to siblings. Being fair does not always mean being equal, however these things can simmer on the back burner for many years before becoming a full-blown family conflict. Just because it seemed fair at the time does not mean everyone will feel that way in future.

Parental guarantees

Becoming a guarantor for a loan is a popular option for parents that are unable to provide a gift or loan.

There are risks for the parent. If the child defaults on the loan, the parent may be required to repay the full outstanding loan balance plus interest, fees, and any other penalties. Often the parent would be required to provide security for their guarantee in the form of a mortgage against their own home. Parents should also ask themselves, "if I die, will the guarantee prevent the sale of my home in order to finalise my estate?" Or "what if I want to, or need to, move into aged care?"

Parent as co-owner

An alternative is parents becoming a co-owner of the property with their child as "joint" owner or "tenants in common." Tenants in common allows the parent to own a percentage of the property. The advantage here is that rather than providing a cash gift or loan, the parent would share in the equity of the property and long-term growth. This may provide the parent with a level of financial protection.

The parent could amend their Will to leave their share of the property to the child.

Will rent be charged on the parents' percentage of the property? What would the tax implications be for the parent? It's likely that capital gains tax would apply when sold, as the home is not the primary place of residence. State-based land tax may also apply.

A co-ownership agreement should be signed to protect the interests of all parties including the parent, child (and potentially partner). The agreement would detail how any income or expenses of the property would be dealt with, as well as what happens if any party wants to sell. For example, the child may have first option to buy the remaining share of the property at market value if the parent chooses to sell.

There are risks here for the child. For example, what if the parent is required to sell their share due to bankruptcy or divorce? Even if they have the first right of refusal, they may not be in a financial position to buy the remaining share of the property. ■

BRENTON MIEGEL CFP®
Authorised Representative (227297)

Four common barriers to saving more super

What's stopping you from saving for a retirement you can really look forward to?

Take a look at these four common barriers to saving more super and make a plan for having all your goals and financial priorities in order.

1. Enjoying life to the full

Living for the moment is something that may come very naturally to you. Perhaps you've always been comfortable living month to month on your salary, seizing opportunities to try or buy something new. After all, you can't take it with you. Saving for retirement might seem like putting money away for a future that's distant and unknown and can't compare with having the chance to enjoy your life and income in the present.

But if you're in the habit of enjoying life to the full now, you'll probably want to carry on doing so after you've stopped earning an income. Take time to look at what you're spending now and then compare it with the income you can expect from your super balance when you retire. If you just rely on your employer contributions will you have enough? A financial planner can help you with a plan to build up your savings gradually and still keep enough day-to-day budget for the things you enjoy. It's a great way to make sure you can keep living in the style you're accustomed to in retirement.

2. Doing away with debt

Debt can be one of the biggest expenses you'll ever take on. Your mortgage alone can cost you thousands in interest throughout your working life. It definitely makes sense to pay off debt as soon as you can, particularly when interest rates are higher like credit cards and personal loans. Reducing the most expensive loans and liabilities first is a good starting point and saving on mortgage interest by getting ahead on payments runs a close second.

But bear in mind that a house, unlike super, is not an asset you can earn income from, unless you rent it out. If staying in your home after you retire is important to you, selling it to give you an income won't be an appealing option. Coming up with a plan that allows you to build up your super balance and work towards being mortgage-free will give you the best of both worlds. You'll have a comfortable, familiar home plus enough money to enjoy your time spent living there.

3. Kids come first

If you have them, kids probably top the bill as your biggest lifetime expense. And rightly so, as no matter how attached you are to your home, your children are the centre of your world, and you'll want to offer them the best sort of life you can. While money isn't the only way to support them, it can make a big difference to the education, experiences, and other opportunities you can afford on their behalf.

But all those golden opportunities for your kids will come at a high price if you can't provide for your own needs in retirement. So saving for your super helps them as much as it helps you. A decent retirement income means you can remain independent as you grow older and pay for your own care, so they won't be obliged to look after you, financially or practically. If they are in a position to help, it can be out of their genuine care rather than your need.

4. I'll never have enough

Saving enough to live on for a couple of decades is a big ask. Sometimes, when we're faced with such an enormous commitment, it can be easier to just shrug it off as something that's just too hard to be worth making a start on. Even figuring out just how much money is involved seems challenging enough, without actually having to budget for the savings you'll need to make.

If running the numbers for your ideal retirement income and super savings plan is beyond you, consider salary sacrificing as a way to build up your super by stealth. Thanks to potential tax concessions on contributions from your gross salary, and the power of compounding returns, even a small monthly contribution can make a significant difference to your super over time, with much less impact on your current take home pay and cash flow. And the sooner you start, the better your chances of accumulating enough super for a secure retirement, with very little effort. ■

Goldsborough
Financial Services

Upcoming Seminars in 2022

We continue to hold seminars in our new boardroom, however the number of guests per session will be restricted to ensure we comply with social distancing requirements current at the time. Appropriate hygiene measures will also be in place to ensure everyone's health and well-being.

If you would like to register for any of our seminars, please contact our office on **08 8378 4000** or via email at **mail@goldsborough.com.au**. Please also keep an eye on our Facebook page or website for the most up-to-date details. ■

Retirement Living and Aged Care

Wednesday 2 November

at 6.00pm

If you or a loved one will need Retirement Living support and/or Aged Care in the coming years, then this seminar will explain the different options that are available.

Retirement Planning Talk

Tuesday 8 November

at 6.00pm

There's never a better time to plan for tomorrow than today! We'd love to help you start planning your financial future, and it's as simple as attending one of our free Retirement Planning Talks.

Referral award

Goldsborough is a referral-based business. **The biggest compliment any client can give us at Goldsborough is the referral of a friend, relative or business associate who could benefit from our services.** To show our appreciation for the referrals that we receive from our clients each quarter, we enter all names into a random draw and the winner receives a $100 gift voucher!

We have pleasure in announcing the winners of our 'Referrers Award' for the June 2022 quarter is **Helga Cooper** — congratulations **Helga**, your voucher is on its way. ■

The winner of the draw receives a $100 gift voucher!

If you do not wish to receive future editions of this newsletter please phone **08 8378 4000** or email **mail@goldsborough.com.au** and request that your name be deleted from the distribution list.

Disclaimer Statement: This newsletter contains general advice only and should not be relied upon as a substitute for financial product advice. None of the information takes into account the investment objectives, financial circumstances or investment needs of any particular investor. You must therefore assess whether it is appropriate, in the light of your own individual circumstances, to act upon the relevant information. It is advisable that you obtain professional independent financial advice before making any investment decision based on the information provided.