Helping you make the right financial decisions for both now & the future
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Life Stage - Enhancers

Welcome to the first FM Financial Life Stage Newsletters. Designed to give you specific and relevant information and articles. Enhancers are people, like you, that are looking at enhancing their lives with travel, opportunities and financial information so they can easily negotiate the path to retirement in the coming years.

We hope you enjoy reading the informative articles. Please let us know your feedback, and any topics you would like covered in future editions.

January 2015: Resolutions for a wealthy future - Shedding a few kilos and getting fit are popular New Year's resolutions, but along with improving your health why not resolve to boost your wealth? The best way to do that is to have a clear picture about what you want to achieve.

Perhaps you want to buy a new car, holiday home, or go on an overseas adventure? Make sure your list contains some fun short-term goals as well as some that will set you up for the future.

Remember to share your goals - Even the simple act of talking about your goals makes success more likely.
If you would like to discuss the best way to achieve your New Year's resolutions - remember your FM planner is only a phone call or an email away. We are here to help and ensure your life and financial well being is the best it can be. After all, you deserve it!

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Where there's a *will*

Australians are living longer than ever before and accumulating more wealth in the process. Chances are you not only hope to enjoy your nest egg while you are alive but also to make sure that what remains when you die is distributed according to your wishes. To do that you need an estate plan with an up-to-date will.

An estate plan involves making appropriate financial and legal arrangements to pass on everything you own when you die. This might include the family home, superannuation, life insurance, investments, a business and personal items.

Dying intestate

Dying without a valid will means dying intestate and this can create unintended financial and emotional stress for your family. A will may be invalid if it is poorly drafted or the legal rules have not been followed.

When this happens, debts are paid from the assets in your estate and the remainder is distributed according to a pre-determined formula. As a result, some people may receive more or less than you intended and your estate could be eaten away by unnecessary taxes and legal costs.

It is estimated that as many as 60 per cent of people die intestate and, of the 40 per cent who do have a will, many aren't sure where it is located, or whether it is valid.

Just like a financial plan, a will needs to be reviewed and updated when your circumstances change, such as with the birth of a child or a divorce. It needs to be signed and witnessed in the correct way and kept in a safe place.

It is a good idea to leave a copy of your will with your solicitor or the executor of your estate so the family are not forced to search the house for it when you die.

A helping hand

The best way to make sure all your affairs are in order is to establish an estate plan with the help of a solicitor. A will is a good starting point, but it should not end there.

Now that we are living longer it is increasingly necessary to have measures in place in case we become mentally or physically unable to cope.

Giving a trusted relative or friend an enduring power of attorney gives them legal authority to look after your financial affairs.

A medical enduring power of attorney authorises a person to make healthcare decisions for you if you no longer have the capacity to do so. An enduring power of guardianship authorises someone to make personal and lifestyle decisions for you if you become mentally incompetent.

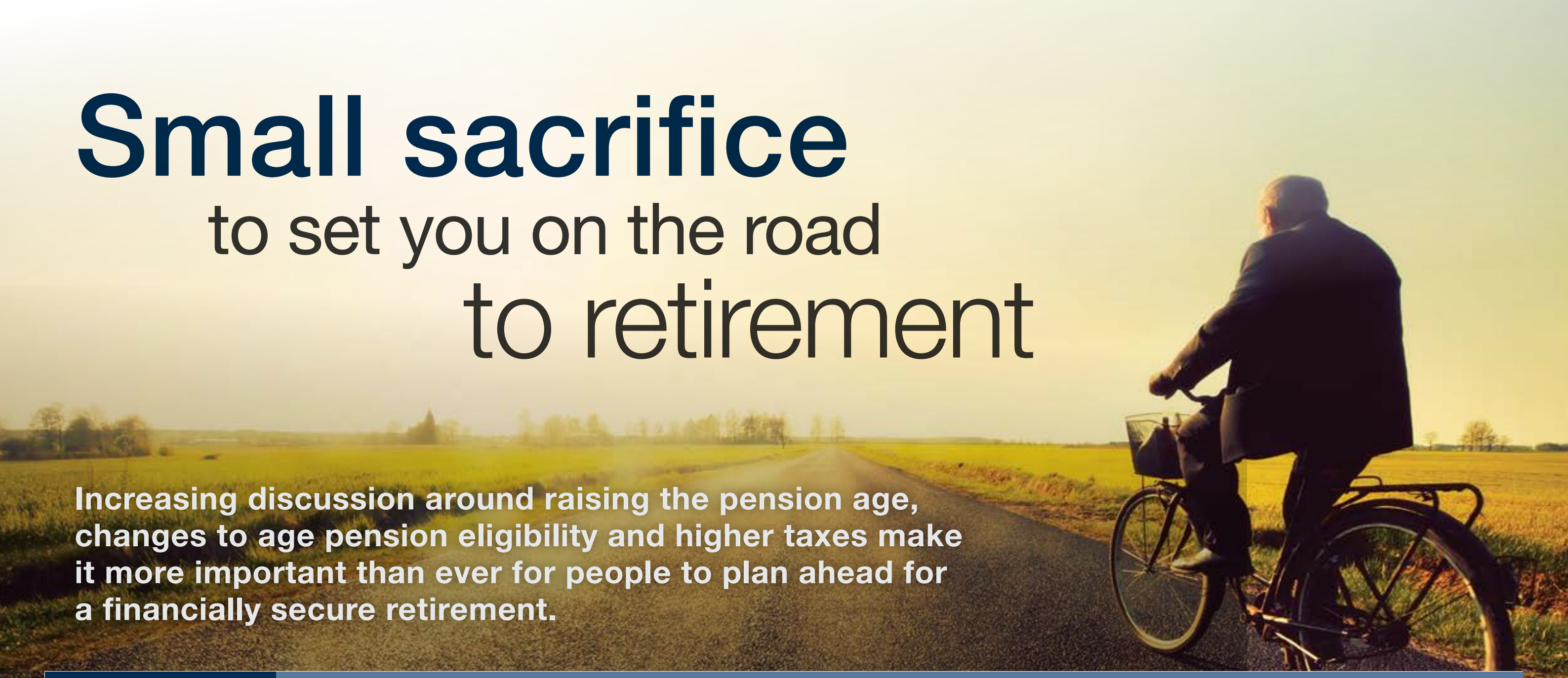
Superannuation and Insurance

You also need to take estate planning into account when you invest because issues such as tax and ownership structure can have far-reaching effects beyond the grave. For example, many people are not aware that superannuation and life insurance (whether held inside super or outside) are not covered by a will.

Your financial adviser can work collaboratively with your solicitor to ensure that all your assets are distributed to the people you nominate in the most tax efficient manner.

In the case of superannuation, it may be possible to make a binding death benefit nomination. This allows you to leave your superannuation to the people you have nominated, including your estate. Where it is paid to your estate it will then be distributed according to your will.

The best way of ensuring all your assets are preserved and end up in the hands of the people you love most is to seek help from a trusted professional. Not only is this the legally and financially wise thing to do, it is a final act of kindness to your family at what can be a very stressful time.



Small sacrifice to set you on the road to retirement

Increasing discussion around raising the pension age, changes to age pension eligibility and higher taxes make it more important than ever for people to plan ahead for a financially secure retirement.

Finding extra cash for savings at the end of the month can be a tall order. But if you follow the adage that you won't miss what you never had, then salary sacrifice can be a tax effective way to save for retirement.

It is done by entering into a written agreement with your employer to 'sacrifice' part of your pre-tax salary into your superannuation fund. In exchange, your contribution is taxed at the concessional rate of 15 per cent instead of your marginal tax rate.[i]

Tax savings

Depending on your marginal tax rate, the tax savings can be significant. For example, the difference between the top marginal tax rate of 45 per cent* and the 15 per cent concessional rate is 30 per cent.

However, the government's generosity does have limits. If you earn more than $300,000 a year you can make the same concessional contributions but the tax rate rises from 15 per cent to 30 per cent.

And no matter how much you earn, all concessional super contributions including salary sacrifice and your employer's 9.25 per cent super guarantee payments are capped depending on your age.

Currently the maximum concessional contribution is $30,000 pa a year up to age 50.

From 1 July 2014 anyone aged 50 and over will also be able to contribute up to $35,000 a year at the concessional rate of 15 per cent.

You can also make additional contributions to super from your after tax income. These are called non-concessional contributions and are currently capped at $180,000 pa a year.

With a maximum of $540,000 allowable over three years under what is known as the bring-forward rule.

Avoid penalties

It is important to keep track of all your super contributions because the Australian Taxation Office may charge a penalty if the caps are breached.[ii]

The harsh penalty regime of previous years has been softened recently in recognition of the fact that most breaches are accidental. Even so, any excess concessional contributions may be taxed at your marginal tax rate.

Under changes announced in the Budget, if you inadvertantly breach the non-concessional contribution cap you can withdraw the excess and earnings will be taxed at your marginal rate.

If you leave the excess contributions in your fund they will be subject to a penalty tax.

Contributing additional amounts to superannuation can be a tax effective way to boost your retirement nest egg, as the table below illustrates. But like most things to do with superannuation and tax it can be complicated and there are rules.

Please contact us to discuss how salary sacrifice could help you achieve your retirement goals.

CASE STUDY: A super boost

Crystal earns $90,000 before tax, excluding her employer's super contribution.

As the table shows, if Crystal decides to redirect $10,000 of her pay into salary sacrifice super contributions,
she will save $2,350 in tax, with the extra money going into her super fund.

	Does nothing	Salary sacrifices $10,000
Take-home pay	$67,403	$61,253
Tax	$22,597	$18,747
Extra money into super	$0	$8,500
Net benefit	$67,403	$69,753 ($2,350 better off)

Source: MoneySmart
Assumptions: Estimates are based on 2014/2015 income tax rates and a Medicare Levy of 2%.
*Excludes the 2 per cent Medicare Levy Surcharge.

[i] https://www.moneysmart.gov.au/superannuation-and-retirement/how-super-works/super-contributions/
[ii] https://www.ato.gov.au/Individuals/Super/In-detail/Contributions/Super-contributions

Super up, tax down for over 55s

Boosting superannuation savings while cutting tax might sound too good to be true, but for the over 55s the Transition to Retirement pension is a legitimate strategy than can deliver extra benefits.

The TTR pension was originally introduced to assist people wanting to ease their way out of the workforce. You could work part time and top up your salary with income from your super.

But with a TTR pension you can also work full time, top up your super balance and draw a tax-free income. No wonder it is often referred to as the Magic Pudding strategy – like the cut-and-come-again pudding in Norman Lindsay's children's story.

This is how it works. An individual who has reached preservation age (currently 55 years) and is under 65 salary sacrifices into their super fund at the same time as drawing income from it via a TTR pension.

You may be asking, what's the point of doing that?

Tax concessions

By replacing salary income with pension income, and redirecting some of your salary to super, you effectively take advantage of low tax rates inside super.

Depending on your circumstances the strategy may improve your net income, reduce your tax and increase your end retirement benefit.

Whereas salary income is taxed at personal marginal tax rates, salary sacrifice super contributions are taxed at a maximum of 15 per cent. This is potentially lower than the tax charged if salary income is received in the hand.

Once you turn 60 income stream payments are tax free.

A further bonus comes from paying zero tax on the investment earnings of assets supporting the TTR income stream.

Because of the potential tax benefits of putting money into super, there are caps on the concessional contributions you can make each year which includes salary sacrificed as well as the superannuation guarantee paid by an employer.

The annual general concessional contributions cap is $25,000 for the 2013-14 year. A special concessional cap of $35,000 applies to anyone aged 59 years or over on 30 June 2013.

If you would like to discuss how the TTR strategy might work for you, don't hesitate to call.

How it works

Jim, 55, earns $100,000 a year and has $220,000 in super. He wants to keep working full-time for a few years to boost his retirement savings.

The strategy: Jim transfers most of his super to an account-based pension where he no longer pays tax on investment earnings; he salary sacrifices a large amount into super which saves income tax, but reduces his take-home pay; he withdraws a minimum of four per cent up to 10 per cent of his pension balance each year, which boosts his overall income back to his current level.

The benefits: Jim's take-home income stays the same but he saves over $2000 in tax in the first year. This means he will have more money in super when he finally stops work.

If Jim keeps the strategy going past age 60 his tax savings will be even greater as he will no longer pay tax on the pension income.

The calculations:	Current ($)	TTR strategy ($)	
Gross income	**100,000**	**100,000**	
Minus salary sacrifice	0	-15,750	
TTR pension income	0	12,662	
Taxable income	100,000	96,912	
Minus tax & Medicare Levy	-26,447	-23,359	
Take home pay	**73,553**	**73,553**	(Take home pay stays the same)
Super contributions: employer contributions	9,250	9,250	
Super contributions: salary sacrifice	0	15,750	
Investment returns	15,400	15,400	
Minus contributions tax	-1,387	-3,750	
Minus TTR pension drawdown	0	-12,662	
Minus tax on earnings	-1,386	-31	
Net gain in super	**21,877**	**23,957**	($2,080 more goes into super)
Total tax paid	29,220	27,140	