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

Welcome to the first FM Financial Life Stage Newsletters.
Designed to give you specific information and articles that are relevant to you, as a Retiree.
We hope you enjoy reading the informative articles and find them relevant.
Please let us know your feedback, and any topics you would like covered in future editions by emailing info@fmfinancial.com.au or calling us on 1300 763 544

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 keep you on track in 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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TRAVEL TIPS TO STRETCH YOUR DOLLAR FURTHER

It takes more than a dip in the dollar to get between a determined Australian and an overseas holiday. With a little bit of planning, savvy travellers can overcome an expected fall in the Aussie dollar by traveling smarter, not less.

Our dollar has been trading around the 93 US cents mark for much of 2014 after hitting a high of US$1.10 in July 2011. However, most economists expect the Aussie dollar to settle closer to 80 US cents sometime next year.

If the Aussie dollar is knocked off its perch, there are a number of strategies you can put in place before heading offshore that will ease the pain on your hip pocket. You could begin by investigating travel destinations where your purchasing power is increased.

Japan

The land of the cherry blossom tops the list of best value for money for Australian holidaymakers in 2014, according to travel booking site Expedia. But these days, visitors are more likely to be heading north in search of snow not cherry blossoms.

Australian skiers have taken to Japan's powdery snow in their droves. If temples, sushi and quirky fashion are more your style, Japan has a rich cultural heritage that is hard to beat.

Indonesia

Next on Expedia's value list is Indonesia. Australians have adopted Bali as their own, but why not take a side-trip to Java's ancient Buddhist temple of Borobudur next time you visit? Or do some island-hopping to Lombok, Flores or Komodo, home of the eponymous dragon? You can learn to dive, explore the forests or just sit by the pool.

Greece

Lonely Planet knows a thing or two about budget travel, and top of its list for 2014 is Greece. Visitor numbers have fallen in the wake of the financial crisis which turned Greece into the economic basket case of Europe. But the ancient Acropolis and the lazy charm of the Greek Islands are timeless, and all the more enjoyable while prices are low in an attempt to lure back the tourist dollar.

Portugal

Portugal has always been a hit with the budget-conscious but it tends to be overshadowed by its brilliant, noisy neighbour Spain. The once-great seafaring nation offers quaint seaside villages, great food and wine, ancient architecture and the surf's not bad either.

Argentina

They lost to Germany in this year's world cup and now they are in the thick of a currency crisis after defaulting on part of their foreign debt for the second time in 12 years. The proud Argentinians may be down on their luck, but they sure know how to live. In Buenos Aires, the 'Paris of South America', hotel prices have fallen. So tango, shop and eat your fill of grilled meat at recessionary prices.

Plan ahead

Once you choose your destination, think about booking and paying for at least part of your trip up-front to lock in the favourable exchange rate.

And if you are worried that the dollar may fall before you depart, you could start making progressive cash transfers to a pre-paid travel card. Most major banks, airlines and foreign currency specialist offer travel cards that can be loaded with up to 10 currencies.

By shifting cash in stages, you are effectively taking advantage of the investment practice known as dollar cost averaging. Not only do you stand to get more foreign currency for your dollars while they are high, and limit purchases when the dollar is low, you also get to sleep at night without the anxiety of trying to time volatile currency markets.

Plan ahead *for* super pension changes

The goal posts are about to shift for self-funded retirees, with changes to the way income from superannuation pensions is means tested. The result could be that fewer in the future will qualify for a part-age pension or the Commonwealth Seniors Health Card.

Currently, the full value of an account-based super pension is not counted in the income test to determine eligibility for the age pension. The amount received is reduced by its deductible amount, which is calculated by dividing the account balance at the start (less lump sum withdrawals) by the member's life expectancy.

By comparison, other financial assets such as bank accounts and shares are 'deemed' to earn a certain amount of income that is assessed under the income test, regardless of how much they actually earned (see deeming rates below).

But from January 1, 2015 income from super pensions will also be deemed, putting it on a level footing with assets held outside super.

As the new rules will only apply to pensions commenced on or after that date, retirees with an account- based super pension in place prior to January 1 may keep their current entitlements.

Accessing the health card

Eligibility for the highly-prized Commonwealth Seniors Health Card is also about to be tightened. The health card provides access to benefits potentially worth thousands of dollars a year, including pharmaceutical discounts and travel concessions.

There is no asset test for the health card but there is an income test. An individual must have adjusted taxable income of less than $50,000 and a couple less than $80,000.[iii] Because account-based super pensions are tax-free they currently do not get counted. But it is proposed that this will change on January 1 when deemed income from account-based pensions will be included in the income test for the health card.

Who is affected?

The new rules are grandfathered, which means anyone who already has a super pension on January 1, 2015 and either a part age pension or the health card will not be affected.

So if you turn 65 before January 1 you could start a pension and qualify for the health card under the old rules. But if you turn 65 on or after that date you will be assessed under the new rules.

However, even if you have a pension in place on January 1 and then stop and re-start for any reason, your eligibility for the part-age pension or the health card will be reassessed under the less generous deeming rate system. This could happen if you fail to pay the minimum pension amount for the year or commute a pension to add extra money under a re-contribution strategy.

Time to plan

The good news is you still have time to put planning strategies in place to safeguard current entitlements.

For example, if you still have money in an accumulation fund you might consider moving it into a pension now. And if you want your partner to continue receiving a part pension or the health card after your death you may need to have an automatic reversionary pension in place at the commencement of the pension.

Don't hesitate to give us a call if you would like to review your pension and income stream ahead of the changes.

Current deeming rates and proposed changes

The current deeming rates for a single retiree are two per cent for the first $48,000 of a pension account balance and 3.5 per cent for the remainder. For couples the threshold amount is $79,600.[i]

From 20 September 2017, it is proposed that the deeming thresholds for means-tested payments be lowered to $30,000 income for singles and $50,000 for couples.[ii] This will make it even harder to qualify for a full or part pension under the income test.

[i] Australian Government, Dept of Human Services, http://www.humanservices.gov.au/customer/enablers/deeming

[ii] 'Planning for the pension changes' by Bruce Brammell, Eureka Report 19 May 2014

[iii] As above

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.