Helping you make the right financial decisions for both now & the future
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Transition to Retirement

Are you preparing for Retirement?
Ensuring you understand the transition process is key to making sure your Retirement Plan is right for you.
Below are articles FM Financial believe may be of interest to you during this transition time.
We encourage you to continue discussions with your Adviser as the process continues, so we can help you make the right financial decisions for both now & the future.

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Time to **review** Transition *to* Retirement Pensions

Amid the major reforms to superannuation that took effect on July 1, some significant changes to the tax treatment of your Transition to Retirement Pension (TRIP) may have flown under the radar. Some individuals will be affected more than others, so if you have a TRIP or are thinking about starting one, now is the time to review your strategy.

The Government's super reforms were designed to improve the sustainability, flexibility and integrity of the system. According to the Tax Office, the changes to TRIPs were designed to ensure that they're not used primarily for tax purposes.[i]

What is a TRIP?

A TRIP allows you to access up to 10 per cent of your super in the lead-up to retirement. The idea is that you can supplement your employment income while you continue to work full or part-time. The tax benefit comes from replacing employment income taxed at your marginal rate with concessionally-taxed income from super.

When combined with salary sacrifice, a TRIP strategy also allows you to boost your super without sacrificing some or any of your after-tax income.

As you would expect with super, there are strict rules around eligibility. For starters, you must have reached preservation age; this is currently 55 is you were born before 1 July 1960, rising to age 60 for everyone born after June 1964. Then there are maximum (10 per cent) and minimum (4 per cent) amounts you can withdraw from your TRIP account balance each financial year. And you can't withdraw your money in a lump sum, it must be received as an income stream unless you retire, turn 65 or satisfy another condition of release.

What are the changes?

The main change relates to the taxation of earnings on investments used to fund your TRIP. From July 1, earnings on these investments are no longer tax free. Instead they are now taxed at the 15 per cent rate that applies to earnings from assets held in the accumulation phase of super.

The good news is that payments you receive from your TRIP will continue to be taxed as they were previously. That is, payments are tax free if you are aged over 60, or taxed at your marginal rate with a 15 per cent tax offset if you are aged between 56 and 60.

Another of the super reforms will limit the appeal of TRIPS for high income earners. That's because the income threshold at which individuals begin to pay contributions tax at the higher rate of 30 per cent, instead of the normal super rate of 15 per cent, has been lowered from $300,000 to $250,000.

New limits on concessional (before tax) super contributions may also limit the potential benefit of the popular salary sacrifice strategy when combined with a TRIP. From 1 July, the maximum concessional contribution (including Super Guarantee payments and salary sacrifice arrangements) is $25,000 a year for everyone. Previously anyone over 49 could contribute up to $35,000 a year this way.

What should I do?

While TRIPS are still a tax effective way to manage your finances in the leadup to retirement, the new rules mean some people could be better off pursuing other strategies. In some cases, high income earners who already have a TRIP and satisfy a condition of release, such as retiring or changing jobs after turning 60, may be better switching it off or converting to a normal account-based pension.

At the very least, if you have a TRIP or are thinking of starting one and you haven't already done so, you should review whether it's still be the best option for you going forward. The new super rules are complex and their impact will depend on your overall financial situation so it's important to seek professional advice before you act.

If you think you may be affected or you would simply like to discuss your options in the leadup to retirement, don't hesitate to give us a call.

i https://www.ato.gov.au/individuals/super/super-changes/change-to-transition-to-retirement-income-streams

Greater choice in home care

When loved ones become frail and elderly, families may feel that moving them into a retirement home is their only option. But that's no longer the case. Recent changes to home care provision funding now give older people more choice and control over the type of assistance they can receive if they want to keep living at home.

As of February 28, you can stipulate the type of service you want and choose a care provider who is sympathetic and culturally appropriate for your lifestyle. It's your choice. This consumer directed approach is aimed at allowing people to age well in their own home.

The types of services include the regular things such as help getting dressed, meal preparation and transport to hospital appointments. In addition, you can now use the funds to pay for outings to cultural groups or even visits to the golf club.

Qualifying for help

To qualify for at-home care, you need to have an Aged Care Assessment Team (ACAT) assessment. There are four levels of assistance: basic care needs, low level care needs, intermediate care needs, and high level care needs. The amount of government subsidy you receive depends on the level at which you have been assessed. The higher the care needed, the higher the subsidy.

In the past, the services offered were not as flexible. Under the new system, you have much more freedom to fine tune the services you receive and control your aged care package.

Central waiting list

The new legislation also means that the waiting list system has changed. Now, once you have received your ACAT assessment, you go directly onto a central waiting list.[i] Your place on the list will depend on your immediate needs and circumstances as well as the time you have been waiting for care. Once you reach the front of the queue you will be assigned a home care package that you can use to receive care from a provider of your choice.

It's a good idea to use your time on the waiting list to investigate what provider is best for you, both geographically and in terms of the services they can deliver.

My Aged Care will help you choose a suitable provider but you can also check out the possibilities by visiting the My Aged Care website. On the website, you will see the providers available in your area and their specialities in terms of culture, religion and language.

Additional contributions

It may be that you have to contribute to the cost of your care as the subsidy is means tested. The threshold for additional contributions is an income $25,792 a year for those who are single.

If you already receive subsidised care, you will automatically be assigned a home care package under the new regime. And if you had been receiving a lower level of care than your ACAT assessment, then you will automatically move up to your correct level.

Switch providers

If for some reason you have been unhappy with your current service provider, then you can now switch providers. The funds that have been allocated to you to pay for your services will move with you. But be aware that there may be exit fees associated with switching from one provider to another. It's expected that the ability to switch will deliver a higher standard of service as providers compete to get your business.

Any unspent funds must be rolled over from month to month and year to year for as long as you remain in the package. When you die or enter a nursing home, these unspent funds will be returned to you or your estate.

While the old system had some choice insofar as you could discuss what your needs were, the new rules are much more flexible. They also offer families the peace of mind that comes from knowing your loved ones can continue to live well in familiar surroundings.

i 'Increasing choices in home care', Questions and Answers, 20 May 2016, p10, https://agedcare.health.gov.au/sites/g/files/net1426/f/documents/05_2016/increasing_choice_in_home_care_-_qas_-_20_may_2016.pdf

Achieving *your dream* of early retirement

Spending more time with your family. Picking up a brand new hobby. Exploring exotic destinations for longer than your scant weeks of annual leave would allow. However you paint it, retirement is a beautiful goal to work towards. And starting early means you've got more time and energy to enjoy it.

Early retirement has become a popular financial goal for Aussies from a wide variety of different backgrounds and circumstances. A 2016 global survey found that out of 17 countries surveyed, Australia has the one of the highest proportion of people wanting to retire early. In fact, 75% of Aussies aged 45+ wanting to retire within the next five years – as much as fifteen years before pension age.[i]

Unfortunately, most cannot afford it. There's a big disconnect between those who want to retire early, and those whose finances will allow them to stop work.

What do early retirees have in common?

Those who successfully retire early aren't just lucky, or from wealthy backgrounds. A US-based study found that early retirees fostered habits and abilities that allowed them to build their wealth sustainably over time.[ii]

The first is the mindset and discipline necessary for saving. Consistently choosing to save rather than spend – plus compound interest – means real wealth is built over decades.

Speaking of decades, early retirees are more likely to have set long-term goals and focused on them. There's a psychological reason that this is difficult for many people. Our brains are hardwired for instant gratification, and it doesn't just affect our propensity to snack or hit the sales. Anything we can see, or at least visualise strongly, is much more attractive than anything that's too far in the future to picture.

Of course, good habits in both these areas are less effective if they're not shared by your spouse. A spender can undo much of the good work of a saver, even if their finances are not completely intertwined.

Then, there's the advice factor. That study also found that those who retired early were more than twice as likely to have worked with a financial professional.

How to work towards a comfortable early retirement

Do you want to retire with time to enjoy your golden years? There are plenty of ways you can start building towards an early retirement.

1. Make a plan

Your plan should be holistic and consider all your circumstances, including children and grandchildren, and spending changes in retirement. Of course, we're happy to help you map out a plan that's right for you.

2. Establish goals

If you're one of the aforementioned 'instant gratification' types, try breaking down your savings and investment goals in to bite-sized pieces. Instead of looking at one benchmark (likely in the millions of dollars), look at multiple small goals, and ascribe them labels. For example, call your first chunk of retirement savings your 'renovate/move house fund'. Nickname your salary sacrifice 'retirement travel fund'. Feeling like you've achieved goals will help keep you on track.

3. Invest wisely

Don't allow your investment decisions to be driven by trends. Get to know your own risk appetite and tolerance. And always make sure that any individual investment is right for your personal circumstances and life stage.

4. Manage your debt

It's not fun or glamorous, but paying off debt should be a top priority. Every time you divert a dollar from paying off debt, you're effectively charging yourself interest that you'll have to deal with later in life. It's harsh, but you won't be able to retire comfortably whilst still making debt payments.

5. Set up multiple income streams

It's important to consider possibilities and entitlements beyond your super, such as government benefits. By starting early, you may also be able to build other income sources such as cash-positive property or a share portfolio.

Want more help on making your early retirement dream a reality? Contact us to arrange an appointment.

i http://www.smh.com.au/money/australians-dream-of-early-retirement-but-cant-afford-it-20160225-gn3hph.html

ii http://www.allianzusa.com/lovefamilymoney/insights/common-traits-for-workers-that-retire-early/