inTouch

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Welcome to our quarterly magazine – in this edition:

- Downsizer contributions to super
- Inflation: what does it mean for me and my money?
- Three reminders for the new (FBT) year
- Pension Loan Scheme replaced by the Home Equity Scheme

Welcome to the first edition for 2022. It has been another eventful start to the year in many respects, but what continues to remain consistent is our focus on keeping our clients informed of the latest opportunities that may impact their personal financial plan. One of these is featured in this issue around the Government's downsizer contribution scheme which has proved popular with many superannuants.

As we continue to live in a vastly different environment to what we are historically familiar with, checking in with your adviser at least once a year is extremely important to you achieving your financial and lifestyle goals. In addition, you only have to look at the news and see that inflation is making headlines everywhere, but what does it mean for you and your money? Take a look at the article that explains the various impacts of rising inflation on your spending and savings. It's something you may want to discuss with your financial adviser when you next have your review meeting. So take a read, I hope you enjoy this quarter's articles.

Peter Ornsby
CEO, RI Advice Group

Downsizer contributions to super

Since July 2018 thousands of people have taken advantage of the Government's downsizer contribution scheme by selling their home and making contributions to their super.

This has allowed older Australians to have more money to fund their retirement.

Although this is good news for people who have benefited from this scheme, some people may have missed out because they didn't fully understand the eligibility rules.

Who is eligible?

Currently, you need to be **65 or over at the time of making the downsizer contribution** to your super. However, **from 1 July 2022**, the Government has proposed **lowering this age to 60**. So, if it's appropriate for you, you can downsize and contribute to your super earlier.

Here's a summary of the other rules around making downsizer contributions:

- You or your spouse need to have owned your home for **more than 10 years prior to the sale**.
- Both you and your spouse can make a downsizer contribution of $300,000 each if you both lived in the property at some point in time. The proceeds of the sale are exempt or partially **exempt from capital gains tax (CGT)** under the main residence exemption. The proceeds of a property purchased before 20 September 1985 (pre-CGT asset) also qualifies for exemption - as it would have qualified for at least a partial main residence exemption had it not been a pre-CGT asset.

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- If only you lived in the property at some point in time then only you, not your spouse, can make a downsizer contribution (as long as you meet all other conditions).
- An investment property that you haven't lived in is not eligible.
- Houseboats, caravans or mobile homes are not eligible.
- You need to make all downsizer contributions **within 90 days of receiving the proceeds of sale**, usually the date of settlement.
- You can only make a downsizer contribution from the sale of one main residence.

How do you participate?

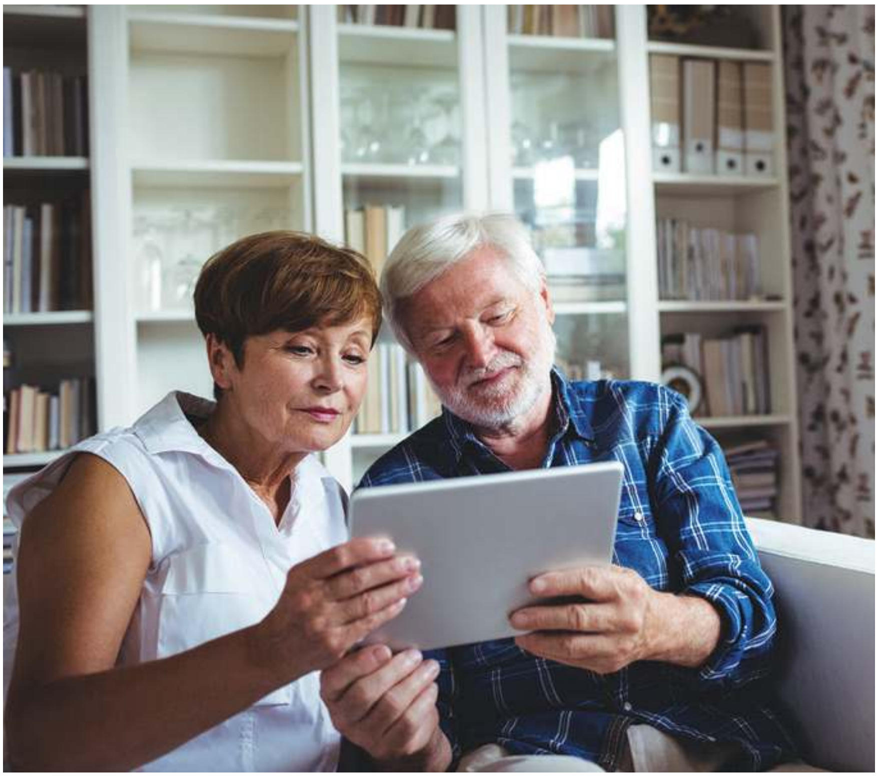
You will need to complete the Downsizer contribution into super form*. You must give this form to your super fund before or when you make the contribution.

What's not required?

- You don't need to buy another property.
- The total super balance test of $1.7 million and the $110,000 non-concessional contributions cap restrictions don't apply.
- You don't need to satisfy any 'work test'.

Federal Budget proposals to start from 1 July 2022 that may help you to boost your super

- A reduction in eligible downsizer age from 65 to 60.
- The removal of 'work test' or 'work test exemption' requirement for people who have reached age 67 to make a voluntary contribution. Unfortunately, if you're age 75 or over you can't make personal contributions to super. However, if you're making a personal contribution and intending to claim a tax deduction on it, you must meet the work test requirements.
- The extension of the age at which you can trigger the bring-forward non-concessional contribution rule if you're age 74 or younger at the start of the financial year. Again, if you're age 75 or over you can't make a non-concessional contribution to super.
- Removal of the $450 a month income threshold for superannuation guarantee eligibility.



Case study

A couple without super can still reach a comfortable retirement with the help of downsizer super contributions

Let us pretend it is now 1 July 2022 and the Federal Budget proposals are law. A couple with nothing in super and between the ages of 60 and 74 sell their home for $2 million. The couple may get up to $1,260,000 into super (combined) by taking advantage of the relaxation of the contribution rules.

How does this work?

Each member of a couple can make a downsizer contribution of up to $300,000 each (total combined $600,000). Then they may each take advantage of the bring-forward rule and contribute up to $330,000 into super ($660,000 combined). This adds to a total combined amount of $1,260,000.

The Association of Superannuation Funds of Australia (ASFA) estimates a couple needs $640,000 for a comfortable retirement.

This example places this couple in a good position for their retirement.

Don't forget preservation and Centrelink implications

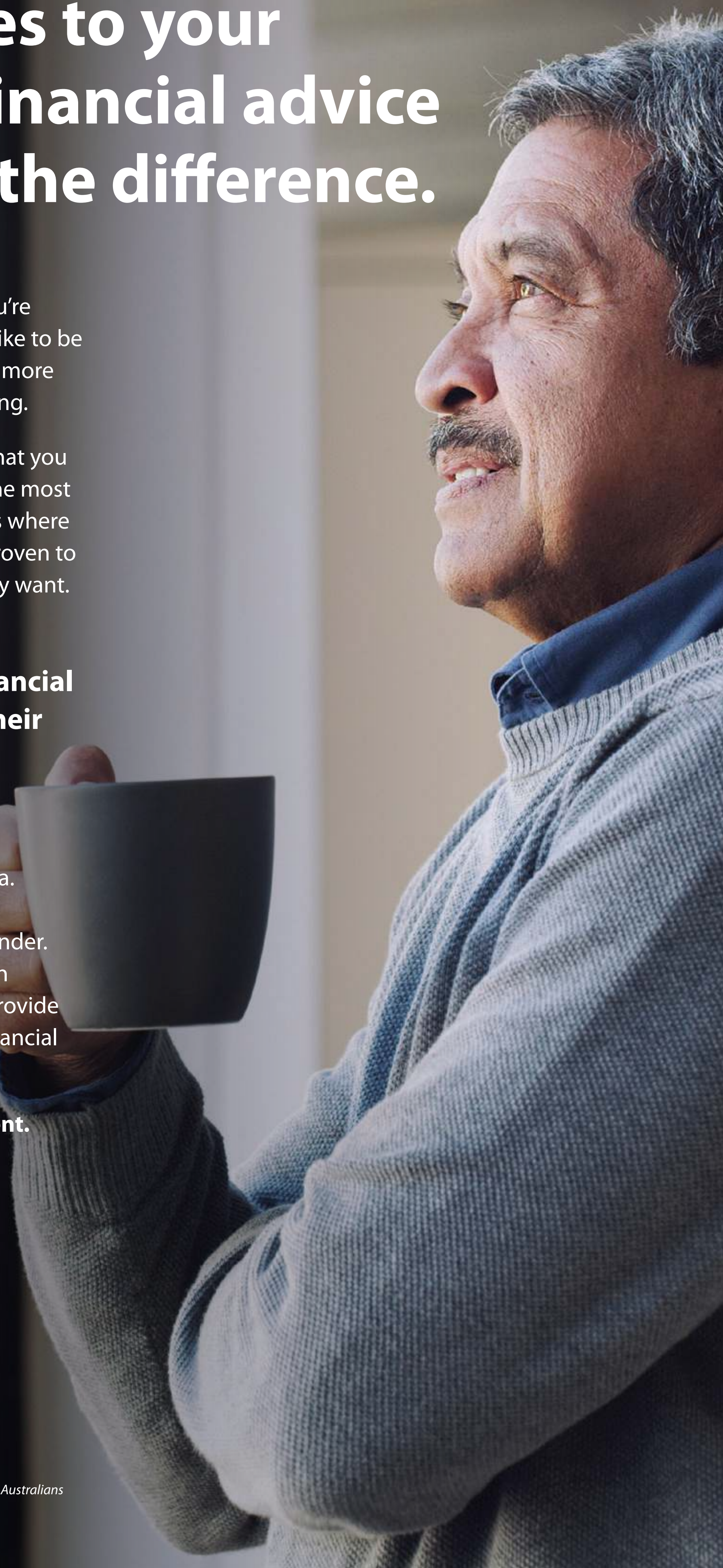
It's worth remembering that making a downsizer contribution means that if you're under 65 and have not yet retired from the workforce (or don't meet another condition of release) your money will be preserved. This means you can't access your super, including your downsizer contribution, until you are retired or meet another condition of release.

Also, if you have reached pension age and your family home is currently exempt from the Centrelink assets and income test, selling it and contributing the proceeds into super could affect your age pension entitlements.

Before making a downsizer contribution, please speak to us. We can make sure you're eligible, help you to maximise your contributions, understand other contribution rules and assess how it will affect your overall financial position.

* https://www.ato.gov.au/Forms/Downsizer-contribution-into-super-form

When it comes to your retirement, financial advice can make all the difference.



If you're getting closer to retirement, you're probably exploring all the things you'd like to be doing: spending more time on hobbies, more time travelling or simply less time working.

One thing you want to make sure of is that you have a steady income stream to make the most of what you really want to do. And that's where the value of financial advice has been proven to help those with a goal achieve what they want.

Of those who set goals with a financial adviser, 86% said financial advice helped them achieve their goals.*

This key insight came to light in a groundbreaking survey of over 12,000 Australians in conjunction with CoreData. It found the benefits of financial advice helped whatever your age, wealth or gender. So, whatever you're looking to achieve in retirement, we're here to help. We can provide you with professional advice for your financial planning needs.

Let us help you plan for your retirement. Call us today to arrange a meeting.

Source: IOOF Survey 2020: *The True Value of Advice – A study of 12,643 Australians*

Inflation: what does it mean for me and my money?

Inflation is a hot topic at the moment. But what exactly is it, and how does it affect you and your money?

Inflation is making news daily through wage inflation, energy inflation, food inflation, fuel inflation... and not just in Australia, but in many other countries too. In simple terms, inflation means that the prices of everyday things are rising.

Why does this matter? It means that unless our incomes rise in line with inflation, our money doesn't go as far, and we might find it more difficult to buy the kinds of things that we're used to having.

How high is inflation?

According to the most commonly used measure of inflation in Australia, the Consumer Price Index (CPI), inflation increased by 0.8% in the July to September 2021 quarter and rose 3% over the 12 months to September 2021.

Why does inflation happen?

There are two main causes of inflation:

1. **"Cost push inflation"** is where the costs of producing goods or services goes up, and so price rises are passed onto customers. This could be because – as now – energy prices or labour costs are rising, for example.

2. **"Demand pull inflation"** is when something is so popular that the supplier can't meet the demand. Prices go up to reflect the lack of supply.

How is inflation measured?

The official Australian inflation measures come from the Australian Bureau of Statistics (ABS), which tracks prices of a 'basket' of commonly purchased goods and services.

This is supposed to represent the spending of the average Australian household. As people's buying habits change, so do the goods and services that the ABS tracks.

For example, in recent years, the ABS has added streaming services, ride sharing and smart phones to the CPI basket and removed items such as DVD hiring, cassette tapes and VCRs from the basket to more adequately represent the average household expenditure.

How is inflation controlled?

The Reserve Bank of Australia has a specific responsibility for low and stable inflation, full employment, and promoting the general welfare of the Australian people. The government has set a target of 2-3% for inflation, on average over time.

What does rising or high inflation mean for...

...your spending

- Rising prices of goods and services will mean that unless your income rises too, you will find it more difficult to afford the things you normally buy.

  Sharp movements in the rate of inflation are not helpful either, because they make it difficult for people to plan their spending. For example, rising inflation can trigger "buy now while stocks last" behaviour.

...your savings

- If your savings don't grow at a rate at least equal to inflation your wealth is shrinking. For example, inflation is now running at 3%, but cash in a current account is likely to earn less than 0.10% interest.

  Its value is being quietly eroded with every day that passes. This effect of inflation is easier to see by looking back in history.

The following table shows how much you would need to spend today to equal $10 spent in each of the following years:

Goods and services costing $10 in...	Would now cost in September 2021...
1950	$290.90 (from 31/12/1949 – 30/09/2021)
1970	$126.12
1990	$21.65
2010	$12.71

ABS CPI as at 30 September 2021

...your loans

- The Reserve Bank tends to use interest rates as its primary tool to control inflation. As inflation rises, the Reserve Bank tends to be more willing to raise interest rates – meaning mortgages, loans and credit cards can become more expensive.

...your investing

- When inflation is rising, or already high, holding assets such as shares, property and bonds (or even foreign currency) can be more attractive than keeping your cash in a bank account (because, as inflation rises, the value of cash tends to fall relative to other types of assets) – but shifts in inflation and interest rate expectations can also spook investors, creating volatility and unpredictability in asset prices.

If you have any questions, please speak to your financial adviser.

Source: Schroders

Three reminders for the new (FBT) year

Salary packaging is an arrangement between an employer and employee for the employer to provide certain benefits to the employee or associate of the employee in lieu of cash.

A typical example includes salary sacrificing into super. Employees might also package their salary for other non-cash benefits, which unlike super, may be subject to Fringe Benefits Tax (FBT).

Concessional employers

Employers are liable for FBT not the employee. Employers will ordinarily pass on any FBT to the employee by way of a reduced salary package. However, some employers receive concessional FBT treatment which can benefit their employees.

Fringe benefits provided by certain employers receive concessional treatment subject to a cap. The following organisations are exempt from paying FBT where the grossed-up taxable value of fringe benefits provided to each employee is less than or equal to the capping threshold:

- Public benevolent institutions
- Charitable institutions
- Public and non-profit hospitals

Tip: If you have multiple employers, for example Medical Doctors working for multiple hospitals, you may benefit from multiple threshold caps.

Note the value of the non-cash benefit is 'grossed-up' to reflect how much someone on the top marginal tax bracket (including Medicare levy) would need to earn to purchase the same benefit after tax.

Type of organisation	Capping threshold	Actual taxable fringe benefits which are exempt	
		No GST input credit claimed	GST input credit claimed
Public benevolent institutions	$30,000	$15,900	$14,422
Charitable institutions	$30,000	$15,900	$14,422
Public and non-profit hospitals	$17,000	$9,010	$8,172

Employees of these organisations who salary package up to their relevant cap can effectively increase their tax-free threshold.

Salary packaging non-cash items such as a car and salary sacrificing to super

A question that often arises is whether someone's concessional super contribution cap is impacted if they salary package into a non-cash benefit like their mortgage or novated car lease. Salary packaging income for non-super benefits does not reduce your concessional super contribution cap. This means if you are currently salary packaging you may also benefit by salary sacrificing part of your salary to super.

Timing

Arrangements must be made before remuneration is earned. This is particularly important to remember when expecting a future 'bonus'. If it is intended for part of a future bonus to be salary packaged it is important that the arrangement be entered before it is accrued.

For more information please discuss with your financial adviser and your payroll office who may assist you with exploring your salary packaging options.

Pension Loan Scheme replaced by the Home Equity Access Scheme

Since 1 January 2022, the Government's Pension loan scheme has been rebranded as the 'Home Equity Access Scheme'.

This scheme allows senior Australians to access the equity in their real property by borrowing from the government, against the value of their property to supplement their retirement income. And they don't have to be receiving income support from the government to qualify. But they do need to have appropriate and adequate insurance covering their secured real asset/s.

The feature of this scheme is that borrowers can remain living in their family home without having to sell their property and they do not have to repay the loan during its term.

Retaining their home may carry Centrelink concessions such as main residence exemption and may have sentimental and estate planning advantages.

This scheme provides a cashflow solution for many cash strapped retirees. However, this does mean the loan amount will increase over time and will need to be repaid when the property secured by the loan is sold or from the person's estate after they have passed away.

Since 1 January 2022, the interest rate on this loan has dropped from 4.5% to 3.95% and is compounded on the outstanding loan balance each fortnight.

Proposed changes to the scheme from 1 July 2022

A Bill has been introduced into Parliament (which hasn't yet passed), that proposes to increase the flexibility of this scheme with the following changes:

No negative equity guarantee

The introduction of a no negative equity guarantee will mean that those participating in the scheme with an outstanding loan balance on or after 1 July 2022 will not have to repay more than the equity they have in the property used to secure the loan. This will protect the borrower in case the value of their property falls. The guarantee will extend to both existing and new Scheme participants.

Pension Loans Scheme advance payments

Currently, the scheme doesn't allow access to lump sums, and only allows for fortnightly amounts of the combined pension and loan payments of up to 1.5 times the maximum pension rate.

It is proposed that from 1 July 2022, borrowers will be able to access lump sum advance payments up to 50% of the maximum annual rate of Age Pension either as a single lump sum or two instalments within a year. This will provide flexibility for borrowers, which may be used where a large one-off expenditure is required.

Case study

Mandy is 70-years old and qualifies for the Age pension, but due to her level of assets is not entitled to receive an age pension.

Despite not receiving a pension, as she has a securable property, being her home with sufficient equity and adequate and sufficient insurance on it, she is able to borrow under the Home Equity Access Scheme.

- The maximum single Age pension is currently $967.50 per fortnight ($25,155 per year – as at 1 January 2022).
- Mandy accesses the scheme, using her property as security, and can nominate to receive a loan of up to 150% of the Age pension limit, being $1,451.25 per fortnight ($37,732 per annum).
- Alternatively, if she wants to access the loan as a lump sum, the maximum advance available to her is:

$967.50 x 50% x 26 (fortnights) = $12,577.50.

Under the proposal, she is able to access up to 2 advances in any 26 fortnight period, however the amount available as a second advance will be reduced by the value of the first advance. This ensures no more than the capped 50% amount can be taken as advance payments.

There is age-based loan-to-value ratios which will continue to apply when determining the maximum advance amount available to a participant. This means the actual advance a borrower is eligible to receive may be less than the maximum allowable advance described above.

For further details on the Home Equity Access Scheme please contact the Department of Services Australia.

Please feel free to pass our contact details to your friend or colleague who can contact us to be added to our mailing list for a free copy of our quarterly inTouch magazine.