June 2017

Welcome to the latest newsletter,

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition we discuss the following topics

* It pays to contribute to your partner's super
* What's your debt age
* Safeguard your ability to pay off your home loan

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.

In the meantime stay warm and we hope you enjoy the read.

All the best,

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It pays to contribute to your partner's super

If your spouse is a stay-at-home parent, working part-time or out of work, adding to their super could benefit you both financially.

If your spouse (husband, wife, de facto or same-sex partner) is a low-income earner or not working at the moment, chances are they're accumulating little or no super at all to fund their retirement.

The good news is, if you help by contributing some of your own money to their super, you could be eligible to receive a tax rebate. And, with super rules set to change from 1 June 2017, this tax advantage will be accessible to even more people.

How do I know if I'm eligible?

To be entitled to the spouse contributions tax offset:

- You need to make an after-tax contribution to your spouse's super account
- You must be married or in a de facto relationship. This includes same-sex couples, however if you are a married couple that isn't living together, you won't be eligible
- You must both be Australian residents
- The receiving spouse has to be under the age of 65, or if they are between 65 and 69 they must meet work test requirements
- Before 1 July 2017, the receiving spouse's income must be $10,800 or less for you to qualify for the full tax offset and less than $13,800 for you to receive a partial tax offset
- After 1 July 2017, the receiving spouse's income must be $37,000 or less for you to qualify for the full tax offset and less than $40,000 for you to receive a partial tax offset.

What are the tax benefits?

Currently

If your partner has no source of income or is a low-income earner, you can make after-tax contributions to their super fund and claim an 18% tax offset on up to $3,000.

To be eligible for the maximum tax rebate, which works out to be $540, you need to contribute a minimum of $3,000 and your partner's annual income needs to be $10,800 or less.

If their income exceeds $10,800, you're still eligible for a partial tax offset. However, once their income reaches $13,800, you'll no longer be eligible, but can still make contributions on their behalf.

Also note, what you contribute will count towards your partner's non-concessional contributions cap (the maximum amount that can be put into super after tax). The current limit is $180,000 per year.

From 1 July 2017

The government will increase access to the spouse contributions tax offset from 1 July 2017 by raising the lower income threshold from $10,800 ($13,800 cut off) to $37,000 ($40,000 cut off).

Another thing to be aware of is the after-tax (non-concessional) contributions cap will be reduced from $180,000 to $100,000 per year.

Are there other things I can do?

Another way you can contribute to your partner's super is by splitting up to 85% of your before-tax super contributions, such as employer and or salary sacrifice contributions, as well as personal tax deductible contributions, which you received in the previous financial year.

To be eligible for before-tax 'contributions splitting', your partner must be under 65 and still working.

Amounts that you split between your and your partner's super will also be counted against your before-tax (concessional) contributions cap.

Currently this cap is $30,000 per year, or $35,000 for people age 50 and over. After 1 July 2017, the before-tax contributions cap will be reduced to $25,000 per year, for everyone, irrespective of age.

What my partner and I should know

- If either of you exceed the super cap limits, additional tax and penalties may apply.
- The value of your partner's investment in super, like yours, can go up and down. Before making contributions, make sure you both understand risks tied to your investment options.
- The government sets general rules about when people can access their super. This means if either of you want access to your super, typically you'll need to have reached your preservation age, which will be between 55 and 60, depending on when you were born.

We're here to help

Talk to us about how upcoming super changes could impact you and what opportunities you may be able to take advantage of if you act before 1 July 2017.

Meanwhile, your circumstances and retirement goals will play a big part in the strategy you opt for. And, as the rules around spouse contributions and contributions splitting can be complex, it's a good idea to chat to us to ensure the approach you and your partner take is the right one.

What's your debt age?

The types of debt we have largely depends on our age and stage in life.

For most of us, having debt in some form or another is an inescapable fact of life. And despite its reputation, debt is not necessarily a dirty word.

If managed well, it can be a powerful tool to build wealth, and good debts, such as those used to invest in an asset which increases in value – like property or shares – can do just that.

Borrowing to fund a lifestyle you can't really afford, for big ticket items such as new cars and holidays, is an example of bad debt. It's not always possible to avoid bad debt, but you should try to minimise it.

Often the types of debt we have at 20 are very different to those we have at 50.

Read on to discover the most common types of debt held by your peers, from the AMP.NATSEM report – Buy Now, Pay Later: Household Debt in Australia,[i] and see if your financial circumstances match your debt age.

Starting out – under 30s

Younger people have the highest proportion of student debt as a percentage of their total household debt – at 8.3%.

This is because many students defer the cost of uni fees by accessing the HECS-HELP or FEE-HELP loan schemes, which they only need to begin to repay when their earnings meet the minimum repayment threshold.

This age group also has the highest proportion of personal loan debt – representing 5.4% of their household debt – with these higher interest, short-term loans used to fund purchases such as cars, holidays and other consumer products.

Perhaps surprising is that home loan debt is the largest contributor to household debt in this age group, at 58.3%, signalling that many young people are making it onto the property ladder.

Accumulators – 30 to 50 year olds

Home loans dominate household debt amongst this group, accounting for 62.8%.

Investor debt also begins to increase among accumulators as a way to build wealth through taking out a loan to invest in shares or property, representing 31.7% of all household debt; while student loans, credit cards and personal loans barely rate, all at less than 3%.

Pre-retirees – 50 to 65 year olds

Investor debt (46.3%) overtakes home loan debt (45.9%) as the biggest contributor to household debt in the pre-retiree group, who are paying down their home loans and looking to grow their wealth as they approach retirement, through investments in property or in shares.

Retirees – over 65s

Many retirees own their own home outright, reflected in the fact that home loan debt comprises only 28.2% of total household debt for this age group.

Compared to the other age groups, retirees have had a longer time to pay off their home loans, while some may have also used their super to pay it off completely. But compared to the past, more retirees are carrying more home loan debt over into retirement, with this figure up from 19.6% in 2004.

Investor debt represents 59.7% of household debt for people aged over 65, while retirees are also among the biggest carriers of credit card and personal loan debt, at 5% and 5.1%, respectively, perhaps reflecting their propensity to travel – or a need for additional cash to fund their retirement.

Tools and resources to help you manage your debts

Regardless of what type of debt you have – or its size – managing it effectively is crucial. As a first step, it's a good idea to have a budget to get a clear picture of your financial situation.

Once your budget is in place, you can consider your financial goals.

If reducing your debts is one of these, we can help you to devise a strategy to keep your repayments on track so you can be debt-free.

i http://www.natsem.canberra.edu.au/storage/AMP.NATSEM Report_Buy now pay later_Household debt in Australia_FINAL.pdf

Safeguard your ability to pay off your home loan

It's not unusual that life can be smooth sailing one minute and throw you a curveball the next.

You might be hit with an injury or illness, a reduction in income or redundancy, a separation from your partner, or even a death in the family—all of which can be difficult, emotionally as well as financially.

If you happen to owe money on your home loan, having a financial backup plan, should such a situation arise, could go a long way.

What you can do today

Set up an emergency fund

An emergency fund can give you peace of mind by creating a pool of rainy-day savings that can be used to pay unexpected bills in the event of a financial dilemma.

It also reduces the need to rely on high interest borrowing options, such as credit cards or applying for payday loans, which can often be an expensive form of finance and create unwanted debt.

A decent-sized emergency savings pot won't be built overnight, but the good news is putting aside a little money on an ongoing basis could really come in handy down the track.

Maintain your insurance

Depending on what life throws at you, having personal insurance may help you to still meet your financial commitments, which could include making your home loan repayments.

After all, at least one in five Australians will be unable to work due to an unexpected accident, injury or illness at some point in their life.[i]

For this reason, checking you have the right type of cover and enough of it, particularly when your circumstances change, is important.

If you don't have insurance, now might be a good time to learn about the types of cover available, and whether you take it out through super or via an insurance company, broker or adviser.

If things take a turn for the worse

Talk to your lender

If you run into tough times and you don't have an emergency fund, renegotiating your home loan might allow you to reduce your repayments by switching to a different type of home loan or moving to interest-only payments.

You may also be able to seek assistance from your lender by claiming financial hardship.

All lenders must consider reasonable requests to alter the terms of a home loan in instances where someone suffers genuine financial hardship and feels a change would enable them to meet ongoing repayments.

If you're not happy with your lender's response you can also contact the Financial Ombudsman Service[ii] or Credit and Investments Ombudsman,[iii] both of which are free external dispute resolution schemes.

Sell your home and buy a cheaper property

It may not be ideal, but if you don't have other options, selling your home might be worth exploring to avoid having your property repossessed and facing what could be an even bigger financial fallout.

It will take time to arrange things, whether selling your home outright or buying a property that's cheaper to maintain. So, speak to your lender about how you can go about it and consider seeking advice as to whether this is the best path to take before making a decision.

Access your super to make your repayments

In some cases of severe hardship you may be granted early access to your retirement nest egg under strict conditions. However, this should be a last resort.

If you want to know more about how you can access your super in special circumstances check out the early release of superannuation section on the Centrelink website.[iv]

Being prepared

Life has its ups and downs so it's best to be prepared. Remember, if you do run into tough times we are here for you. It's also a good idea to speak to your lender as soon as possible to see what your options are.

i www.lifeinsurancefinder.com.au/post/compare-life-insurance-australia/the-impacts-of-underinsurance-in-australia/
ii https://www.fos.org.au/
iii http://www.cio.org.au/
iv https://www.humanservices.gov.au/customer/services/centrelink/early-release-superannuation