HANMOORE
FINANCIAL SOLUTIONS

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Welcome to the latest edition of our client 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

* 6 tips to reduce your debts before you retire
* How catch-up concessional contributions work
* 9 tips for first home buyers

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.
In the meantime we hope you enjoy the read.

All the best,

The team at Hanmoore

Hanmoore Financial Solutions
10-12 Chapel Street Blackburn VIC 3130
P 03 9878 4444
E info@hanmoore.com.au
W www.hanmoore.com.au
Facebook hanmoorefinancialsolutions

58-60 Napier Street Essendon Vic 3040
P 03 9370 4088

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6 tips to reduce your debts before you retire

Ahh retirement! You may have been dreaming about it for decades. You visualise yourself putting away your uniform, high-vis or corporate gear, farewelling that lovely boss of yours and spending the rest of your days swinging in a hammock by the ocean somewhere.

As the dream teeters on reality, you can't help but contemplate the debt you're yet to pay off and how it might create roadblocks for the things you may still want to do – the family barbecues, the weekend getaways, possibly even helping the kids out.

While many Aussies will carry some debt into retirement, the good news is, there are many things you could do now while you've still got time on your side and are earning an income.

1. Crunch the numbers and get organised

- Work out what debts you have and what they total
- Compare what you earn, owe and spend and consider where you might be able to cut back
- Look into whether you could benefit from rolling your debts into one loan
- Pay your debts on time to avoid additional charges
- Consider paying the full amount outstanding on your credit card(s), rather than the minimum owing
- Look at whether you could afford to make extra repayments
- Shop around for providers with lower interest rates and no annual fees
- If you're experiencing financial hardship, talk to your providers, as most can assess your situation and help you find alternative payment plans.

2. Get serious about having a budget

If you're approaching retirement, you may be prioritising things such as living costs, day-to-day bills, health care and helping the kids, if you have them. With many Aussies looking at a retirement (which in reality, could span a few decades), another thing to give some thought to is recreation and your social life.

A good starting point when it comes to setting up a workable budget (so you can manage the things mentioned above) is figuring out what money you have coming in, what expenses you've got and what you might be able to put aside.

Perhaps you're wondering how much money you'll need to retire on?

According to ASFA's March 2022 figures, individuals and couples around age 65 who are looking to retire today would need an annual budget of around $46,494 or $65,445 respectively to fund a 'comfortable' lifestyle.[i]

To live a 'modest' lifestyle, which is considered slightly better than living on the age pension alone, individuals and couples would need an annual budget of around $29,632 or $42,621 respectively.[ii]

3. Consider what money you might have access to when you stop work

The money you use to fund your life in retirement will likely come from a range of different sources, including the following:

Super – Generally you can start accessing super when you reach your preservation age, which will be between 55 and 60, depending on when you were born. Knowing your super balance is a crucial part of planning for retirement, as it's likely to form a substantial part of your savings.

If you've got more than one super account, there may also be advantages to rolling your accounts into one, such as paying one set of fees. However, there could be certain features lost in the process, such as insurance, so make sure you're across everything before you consolidate.

Investments, savings, inheritance – You may be planning to sell or use income you're generating from shares or an investment property or use money you've saved in a savings account or term deposit to contribute to your retirement. An inheritance or proceeds from your family's estate may also help in your later years.

The government's Age Pension – Depending on your circumstances, as well as your level of income and assets, you could be eligible for a full or part age pension from age 65 to 67 onwards (depending on when you were born), or you may not be eligible for assistance at all.

4. Know where your money is sitting and what it's doing

Having spare money sitting in the one place might not be the best thing. For instance, if you've got cash in a transaction account, could you be earning more if it was invested elsewhere, or even placed in an offset account linked to your home loan (if you have one) to reduce what you pay in interest?

Looking at different investment options inside your super could also potentially generate better returns. Do keep in mind though, that a more conservative approach may be a better option as you get older, as when you're younger, you generally have more time to ride out market highs and lows.

5. Think about downsizing your home or refinancing

You might also be interested to know that when you reach age 60, you can make a tax-free contribution to your super of up to $300,000 using the proceeds from the sale of your home (if you've owned it for 10 years and it's your main residence). There will be potential advantages and rules however that you'll need to be across.

Refinancing, whereby you replace your existing home loan with a new one, could also create cost benefits and more financial flexibility.

Remember, your living arrangements in retirement should be based on more than just your finances. Your health, partner, family and what activities you want to pursue once you stop work will play a part.

6. Contemplate working a bit longer

This could help you to boost your savings as well as your super balance, so that you have a more comfortable lifestyle in retirement. In fact, the main reason most older Aussies say they want to stay in the workforce is financial security[iii].

It's also interesting to note, retirement isn't necessarily a one-time event, particularly when it comes to the 45 to 54 and 55 to 59 age groups, with as many as 26.7% returning to employment annually[iv].

Meanwhile, regardless of whether you're still working full-time, part-time or casually, if you do plan on working for longer, a transition to retirement strategy (whereby you may be eligible to access a portion of your super ahead of retirement) could potentially help you to pay off debt, without reducing your take home pay, or help you to improve your super savings.

If you need help managing financially, we're here to help.

i, ii ASFA Retirement Standard – March 2022 figures

iii Australian Bureau of Statistics - Retirement and Retirement Intentions

iv The Household, Income and Labour Dynamics in Australia (HILDA) Survey pages 65, 67

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How catch-up concessional contributions work

If you've had interrupted income, or just haven't been in a position to put as much into super as you'd like, catch-up concessional contributions may provide an opportunity to top up at a more convenient time.

You won't always be in a position to put money into your super. You might be taking time off work to study or care for children, or you might have other financial commitments you're prioritising such as paying the mortgage.

However, should the time arise when you can, and want to contribute more to your retirement savings, you may be eligible to make catch-up concessional contributions.

This is where, if you make or receive concessional super contributions that are less than the annual concessional contributions cap (currently $27,500), you could accrue unused cap amounts for up to five years.

What are concessional contributions?

Concessional contributions (which count toward your concessional contributions cap) include:

- Compulsory SG contributions, which are the before-tax contributions your employer is required to make into your super fund under the super guarantee, if you're eligible.
- Voluntary salary sacrifice contributions, which are additional contributions you can get your employer to make into your super fund out of your before-tax income, if you choose to.
- Voluntary tax-deductible contributions, which are contributions you can make (such as when you transfer funds from your bank account into your super) that you then claim a tax deduction for.

Note, concessional contributions get special tax treatment, which for most people means you'll generally pay less tax on your super contributions than you do on any income you receive.

What are the rules around catch-up concessional contributions?

To be eligible to make catch-up concessional contributions the following must apply, noting that catch-up concessional contributions can be made on top of the annual concessional contributions cap ($27,500).

- Your total super balance needs to be less than $500,000 on 30 June of the previous financial year. Note, your total super balance is broadly the sum of all your super accounts including pensions.
- You can only carry forward unused concessional contribution cap amounts from 1 July 2018.
- Unused cap amounts can only be carried forward for five years until they expire.

The below scenario shows what Bob could carry forward over one year

Annual concessional super contributions cap	$27,500
Concessional contributions made this financial year	$10,000
Unused concessional contributions that could be carried forward for up to five years	$17,500

What this means is, any time over the next five years, Bob could contribute up to the annual concessional contributions cap of $27,500 + the unused cap amount of $17,500, which would mean Bob could contribute up to $45,000 in concessional contributions in one financial year, if his total super balance is less than $500,000 on 30 June of the previous financial year.

If in this scenario, Bob also carried forward unused cap amounts from the four years following, he would also be able to contribute any additional unused amounts on top of that, noting his total super balance would need to still be under $500,000 on 30 June of the previous financial year to do so.

This example is illustrative only and isn't an estimate of the investment returns you'll receive, or fees and costs you'll incur.

How could catch-up concessional contributions benefit me?

If you've spent time out of the workforce, or haven't had the money to contribute as much as you'd like to, the rules may give you the ability to make larger, and or additional, concessional contributions than you'd otherwise be able to make, and at a time that's more convenient for you.

If you're approaching retirement and are looking at ways to potentially maximise your retirement savings while minimising tax through the system, catch-up contributions could also give you some flexibility.

How do super bring-forward rules differ?

If you're under age 75 at the start of the tax year, you might also be able to make up to three years' worth of non-concessional super contributions in a single income year, if you're eligible.

This means you may be able to put in up to three times the non-concessional annual cap of $110,000, which means you may be able to top up your super by $330,000 within the same financial year.

Note, non-concessional contributions are different to concessional contributions and there are rules you'll want to be across.

What other things should you know

- If you exceed concessional and non-concessional super contribution caps, additional tax and penalties may apply.
- The value of your investment in super can go up and down, so before making extra contributions, make sure you understand, and are comfortable with, any potential risks.
- The government sets general rules around when you can access your super, which typically won't be until you reach your preservation age (which will be between 55 and 60, depending on when you were born) and meet a condition of release, such as retirement.

Give us a call today if you'd like to discuss how to effectively top up your superannuation

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9 tips for first home buyers

Buying a home could be one of the biggest purchases you ever make. With that in mind, here are nine helpful hints if you're considering getting into the property market.

1. Investigate the upfront costs

- **The purchase price –** If you're not paying for the property outright (which many don't), you'll generally need to take out a loan, with lenders often asking for a minimum 10% to 20% deposit.
- **Loan application fee –** This generally covers credit checks, property appraisals and other admin done by your lender.
- **Lender's mortgage insurance (LMI) –** If your deposit's less than 20%, you may need to make this one-off payment to your lender, which covers them in the instance you can't repay your loan. Note, if you do need to pay LMI, some lenders may also allow you to add the amount owing to your home loan balance.
- **Government charges –** These include things like stamp duty and mortgage registration and transfer fees, which can vary, depending on where you live and where your property is located.
- **Legal and conveyancing costs –** This covers your real estate conveyancer or solicitor, who'll prepare the necessary paperwork and conduct the settlement process.
- **Building, pest and strata inspections –** Paying for these services, before you buy, could alert you to potential structural concerns, while a strata report could also identify financial and building maintenance issues.
- **Moving expenses –** This may include renting a truck or hiring professionals to help you move.

2. Understand the ongoing costs

- **Loan repayments –** These might be monthly or fortnightly over a projected loan term of 25 to 30 years and will usually cover part of the principal amount borrowed, as well as interest.
- **Interest charges –** This is what you'll pay your lender on top of the principal amount borrowed, noting you'll generally be able to choose between a fixed or variable rate, or a combination of the two.
- **Other ongoing expenses –** These could include council rates, utility costs, building and contents insurance, strata fees and home improvements.

3. Check whether there are black marks on your credit report

A credit report details your other credit arrangements and repayment history and could affect your ability to get approval on a loan, especially if it highlights missed repayments and other past financial issues.

Each lender will assess your credit file against their own policies and there may be instances where some approve your application, while others reject it, or delay the process to investigate further.

4. Know how much you can spend

It's important to figure out what money you'll have access to (savings or other financial assistance) to cover the upfront and ongoing costs, in addition to any other financial commitments you may need to prioritise.

There will be things to think about if you're buying a property with your partner as well, or if you have a family member helping you, signing as a guarantor, or going in as a co-borrower.

A big part of knowing how much you can spend will also come down to how much you can borrow and under what terms.

5. Consider getting pre-approval on your loan

It's worth having your loan pre-approved so you know how much you can borrow. However, it's not a guarantee and you'll also need formal approval closer to purchasing and to have your deposit ready, or you may miss out.

This might mean having a bank cheque ready if you're buying your first home at auction. Your lender will also advise you if lender's mortgage insurance is required.

6. Research property locations

Some things worth giving some thought to include:

- Property prices in the suburbs you're looking at
- Distance from family, friends and work
- Off-street parking, local schools, shops and transport
- Whether you'll need to renovate and if you have the extra funds to do so
- The price growth potential in your chosen suburbs
- Proposed developments in the area that could impact the value of your property
- The local job market
- Neighbourhood crime rates.

For a bit of help, speak to local real estate agents or look at real-estate companies online.

7. See what financial assistance may be available

Below are some financial assistance options that may be worth investigating.

First Home Owner Grant

State governments may offer a one-off grant to eligible first home owners. Contact your state revenue office to check what you might be entitled to.

Stamp duty concessions

Certain state and territory governments offer additional incentives to first home buyers, some of which involve stamp duty concessions. Research what's available in the area you're buying.

New Home Guarantee

The New Home Guarantee is an Australian government program, which replaces the need for Lenders' Mortgage Insurance for someone who's building or purchasing a newly-constructed property. Application for the guarantee is made by participating lenders only when you make your loan application. Note, guarantee places are limited.

First Home Super Saver Scheme

Under the First Home Super Saver Scheme (FHSSS), eligible first home buyers can withdraw voluntary super contributions (made since 1 July 2017), of up to $50,000 for individuals or $100,000 for couples (plus associated earnings/less tax), to put towards a home deposit. Find out more about whether you may be able to withdraw under the FHSSS.

8. Educate yourself on different loan types

Depending on whether you're after a basic package or one with extra features, home loans can vary greatly when it comes to interest rates and fees.

To get a better idea of costs, when you see a home loan advertised, you'll notice two rates displayed - the interest rate and the comparison rate.

The home loan comparison rate will include the annual interest rate, as well as most upfront and ongoing fees. Some home loans with lower interest rates are laden with fees, so while they appear cheap, they could end up being more expensive. The comparison rate can help you identify this and compare loans more accurately.

Be sure to look into the potential advantages and disadvantages of various features of the loans you're considering as well. For example, some loans may allow you to make extra repayments, redraw funds, or use an offset account, which could reduce the interest you pay over time.

9. Weigh up the value of a home inspection

Home inspections could alert you to serious issues that may not be visible, such as asbestos or termites, or electrical, ventilation and serious plumbing faults. These problems could cost you a whole lot more than the inspection itself.

Meanwhile, if you're buying a townhouse or apartment, strata reports can tell you whether the property is well run, maintained to a decent standard and adequately financed.

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