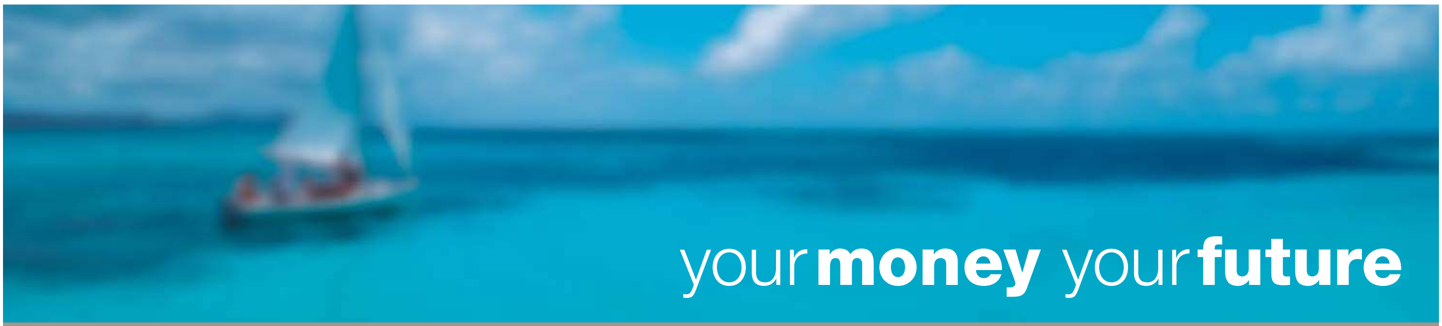

FINANCIAL PLANNING NEWSLETTER

financial **snapshot**

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How to play catch up with your super

Now you can put more into super at the concessional rate of tax, starting from the 2019-20 financial year.

Putting more money into the tax-friendly framework of superannuation to help you enjoy a fulfilling retirement…it's one of those things that seems like a no brainer, especially with the benefit of hindsight.

In a recent report Australians in retirement said that making extra super contributions was the most common change they would make if they could have their time again.

So the theory's all well and good. But back in the real world it's not always so easy.

charter financial planning

How to play catch up with your super continued

There are times in our lives when it may be hard to free up the funds for super.

- When you're taking time off work to care for a newborn baby
- When you're looking after elderly relatives
- When you're concentrating on reducing the mortgage, paying the bills and simply putting food on the table.

But there may be other times when you have more capacity to direct some money into super.

The good news is that new legislation means you may be able to put more into super at a concessional rate of tax.

But first, a reminder about the super taxation rules.

What are concessional contributions?

Concessional contributions into super get special tax treatment. For most of us, that means you'll pay less tax on your super contributions than you do on your income.

Concessional contributions can generally be made two ways.

- By you through personal deductible super contributions.
- By your employer through salary sacrifice or super guarantee (SG) payments.

There's a cap on how much can be put into your super at the concessional tax rate each year. The cap has fluctuated over the years but at the moment it's $25,000.

Until recently, your cap was reset every year – so if you didn't put the full $25,000 into super you lost your entitlement to any unused amount. But if you're eligible, you can now carry forward any unused amount for up to five years.

Who is eligible to make catch up concessional contributions?

It's a good idea to be across the rules so that you can plan ahead.

- The ability to make a catch-up concessional contribution applies to people whose total superannuation balance was less than $500,000 on 30 June of the previous financial year.
- The five-year carry-forward period started on 1 July 2018 so the 2019-20 financial year is the first one when you can actually make extra concessional contributions using any unused super contribution cap.
- Work test rules still apply for people aged 65 or over.
- The usual notice requirements continue to apply for personal deductible contributions.
- Unused amounts can be carried forward regardless of your total superannuation balance but expire after five years.

What other ways can you boost your super?

There are plenty of other ways to boost your retirement savings.

- You can make super contributions to a lower earning spouse and receive a tax offset.
- You can receive a government co-contributions if you earn below a certain amount.
- You can contribute up to $100,000 to your super as a non-concessional after-tax contribution. If you're under 65, you can bring forward two years of this cap, allowing you to contribute a total of $300,000 at a time.

How to boost your super in the lead-up to retirement – Ashlea's story

Ashlea knows she needs to save for a comfortable retirement. But right at the moment she's paying for the kids' education and then there's the mortgage to cover. It's not the right time. So Ashlea makes do with her employer's SG payments of $5,000 a year.

Fast forward three years and things have changed. Ashlea's youngest daughter has just graduated from high school, she's chipped away at the mortgage on the family home and she's secured a promotion at work so she's earning more income. It's the right time to start playing catch-up with her super.

Until recently, Ashlea would generally have been limited to the $25,000 concessional contribution cap. But now she can use her unused cap amounts from previous years to put more into her retirement savings.

She could put as much as $85,000 into her super as concessional contributions—that's her unused cap amounts from the previous three years added to the current year cap.

She decides to make a personal tax deductible super contribution of $45,000 on top of her $5,000 SG payment so this means she still has $35,000 in unused contributions that will roll over to the following year.

However, if her extra payments take her super over the $500,000 threshold, she wouldn't be able to use the unused concessional contribution amounts in future years unless her balance falls below $500,000 again. Please see the table below.

	2018-19	2019-20	2020-21	2021-22
SG payment	$5,000	$5,000	$5,000	$5,000
Extra contributions	$0	$0	$0	$45,000
Total concessional contributions	**$5,000**	**$5,000**	**$5,000**	**$50,000**

	2018-19	2019-20	2020-21	2021-22
Unused cap rolled over	**$20,000**	**$40,000**	**$60,000**	**$35,000**

The new rules could prove particularly useful for anyone who's spent time out of the workforce to catch up with their super, as well as people approaching retirement wanting to maximise their retirement savings and minimise their tax.

Take control of your finances now for the new financial year

If you set yourself money goals at the start of 2019, the upcoming new financial year is a great time to check if you're on track.

And if you didn't set any goals – or if you have strayed off track – this is the perfect time to get organised, write a checklist and stick with it!

Don't wait until 1 July to start. Kick off now with these practical tips:

1. Set some goals

Think about what you want to achieve this financial year. Is it to save for something special, to curb your spending or to reduce your debts? Once you know what you're aiming for you can set and achieve your goals.

2. Understand where your money goes

If you're running out of money before payday, or you'd just like to get a better understanding of where your money goes, it's probably a good idea to start tracking your spending.

3. Set a budget

Get serious about managing your budget.

If you don't already have a budget, now's a good time to set one. Use AMPs budget calculator to work out your expenditure and find out how much you could put aside each payday.

4. Get your super sorted

Find out if you have any lost super and how you can consolidate it to avoid paying multiple fees.

5. Consolidate your debt

Now might be the time to get rid of extra credit cards and opt for a single card with a lower interest rate and less fees. See Canstar for a comparison of credit cards.

If you have a home loan, consider increasing your loan amount and using the extra money to pay off your other debts. A home loan usually has a lower interest rate than debts such as credit cards, so this will help you to avoid paying higher interest rates.

If you don't have a home loan, consider getting a personal loan at a lower interest rate to help you pay off your debts sooner.

6. See where you can make savings on big ticket items

Take advantage of end of financial year sales to buy big ticket items, such as cars, whitegoods or furniture. And be sure to do your research on products and prices, shop around and don't be afraid to bargain.

Make sure you get the best rates available on your frequent bills such as insurance and energy. Use comparison websites, such as comparethemarket.com.au to compare product benefits and costs and check Canstar to see how your interest rates and financial products stack up.

7. Commit to better money habits

Resolve to curb any costly bad habits that can drain your finances, such as paying for things that you can do yourself. Do you really need to outsource house cleaning or washing the car?

What else should you think about?

Working on your finances can be a bit daunting at any time, not just when the new financial year is drawing close.

So if you'd like help with working out your financial goals contact us today for some help.

Ways to invest your money

If you're interested in seeing what your options are outside of investment property and super this article explores some of the different investment options available.

Cash investments

If you put your money into cash investments (including savings accounts and term deposits), the returns will often be lower in comparison to other investment products. However, these types of investment options typically provide stable, low-risk income in the form of a regular interest payment, so they may be a good option if you're risk averse or working to a short timeframe.

Fixed interest or fixed income

Fixed interest investments (also known as fixed income or bonds) usually have a set investment period (eg five years) and provide predictable income in the form of regular interest payments. They tend to be less risky when compared to other types of investments. They are issued by governments and companies in Australia and internationally.

Shares, equities or stocks

If you purchase shares in Australian or international companies, you're essentially buying a piece of that company, making you a shareholder. If the shares of the company grow in value, the value of your investment will also increase, and you may receive a portion of the company's profits in the form of dividends. However, if the share price falls, the value of your investment will also fall. It's also worth keeping in mind that you may not receive any dividends at all.

Managed funds

In a managed fund (also known as a managed portfolio), your money is pooled with other investors on your behalf by a fund manager. The amount of money you invest is equal to a set number of units and any growth or earnings is then divided between all investors depending on how many units each investor owns. Any income generated on these earnings will also be subject to tax based on the individual income tax rate of the owner. It's important to keep in mind that putting your money into a managed fund won't necessarily guarantee you a return.

Exchange Traded Funds (ETFs)

An ETF is a type of managed fund that can be bought and sold on an exchange, such as the ASX, and which tracks a particular asset or market index. ETFs are usually 'passive' investment options as the majority of these investment products track an index, and generally don't try to outperform it. This means the value of your investment in an ETF will go up and down in line with the index it is tracking.

Investment, growth or insurance bonds

Like a managed fund, your money will generally be pooled with money from other investors, with an investment manager overseeing the funds. The main point of difference is the way earnings are taxed. If you hold an investment bond for at least 10 years, you won't have to pay additional tax on any profits that you've made when you eventually sell (or redeem) your investment.

Annuities

A popular option for retirement, annuities provide a guaranteed income regardless of what's happening in financial markets.[i] These can be in the form of a series of regular payments either over a set number of years (fixed-term), or for the remainder of your life (lifetime annuity).

You can purchase an annuity through your super, through insurance, or with ordinary savings. It's important to note though, that if you're using your super money for the purchase, you won't be able to access the funds until you reach your preservation age.

Real estate investment trusts (REITs)

A REIT is a type of property fund listed on a public market, such as the ASX, in which investors can purchase units. Similar to a managed fund, your money in the fund is then pooled and invested in a range of property assets, which may include commercial, retail, industrial, or other, property sectors.

REITs can provide investors with exposure to the property market in a way that is more diversified – and potentially more cost-effective – than buying a single property.

Considerations

Before putting your money into any investment option it's important to make sure you understand, and are comfortable with, the level of risk involved, the investment timeframe, any potential costs involved, and how the product could help you reach your goals.

It's also important to look into any potential legal and tax implications, as these can vary depending on the type of investment you make.

How to get started

If you're interested in building your investment portfolio contact us today.

i ASIC's MoneySmart website, 'Annuities'