Wisdom Financial Services Pty Ltd

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From the desk of Rod Booker

The aftermath of the Royal Commission into Banking, Superannuation and Financial Planning has left the industry reeling after many financial institutions were found to be acting inappropriately. A line has clearly been drawn in the sand and the industry at large have been assigned the task of getting their house in order and regain the trust of the investor and wider community which is sadly waning. Closer to home, it has been well documented that AMP failed to meet industry standards on a number of occasions. The negative publicity AMP have received over the last 12 months has left many clients feeling nervous about the security of their investments but be rest assured, while this constant noise has had a negative impact on the AMP share price, it has absolutely no impact on the security or performance of your investment.

It should come as no surprise that domestic and global events throughout 2019 around Brexit, the impeachment of Trump, the trade war between the US and China, increased tension in the Middle East, a slow down in global growth, the re-election of the Coalition Government etc continue to drive financial markets. Whilst the Global Financial Crisis is somewhat of a distant memory, it is important to remember that financial markets go up and financial markets go down. We have enjoyed an extended period of positive returns year on year but as day falls into night, a period of decline will appear when we least expect it. For this reason, it is important that we stay vigilant, ensuring that our asset allocation reflects our investor profile, we have adequate funds set aside for emergency purposes and we are reducing our debt, particularly during this low interest rate environment.

On a personal note, there has been plenty happening on the home front. We sold the office at Liverpool in June to work from home. No sooner had we relocated the office, we found a residential unit at Cronulla which we fell in love with. We subsequently sold our family home of 26 years at Prairiewood in October and moved to Cronulla to be closer to our daughter Holly. No sooner had we settled in when Holly informed us that she is pregnant and expecting our first grandchild in June, making the timing of our move spot on. We cannot wait to have little "tigger" running around!!!

On behalf of Kim, Jackie and I, I would like to take this opportunity to wish you and your family a very Merry Christmas and a healthy 2020.

Asset and Income test effective strategies

	Asset test effective	Income test effective
Valuing personal assets correctly	✔	✖
Updating the value of market linked managed funds and listed securities	✔	✔
Loans against assessable assets	✔	✖
Superannuation when underage pension age	✔	✔
Gifts within allowable limits	✔	✔
Funeral expenses	✔	✔
Home renovations	✔	✔
Work bonus	✖	✔
Lifetime income streams	✔	✔
Rollover a grandfathered ABP	✖	✔
Creating a granny flat interest	✔	✔
Insurance bond held in a discretionary trust	✖	✔
Holding assets in the right proportions for couples receiving allowances	✖	✔
Special disability trusts	✔	✔
Gifting through the estate	✔	✔
Making a payment towards a Refundable Accommodation Deposit for Aged Care	✔	✔

Catch-up concessional contributions

Since 1 July 2018, individuals who do not use all their CCs cap during a financial year can now carry-forward these unused amounts for up to five years to effectively increase, if they are subsequently eligible, their CCs cap in later years.

The measure is intended to allow those with broken work patterns to make catch-up CCs. This could include people caring for a new young family or for aged relatives, or those who have otherwise had time out from paid employment.

Amounts of unused CCs cap automatically arise when a client has not fully used their CCs cap in a year commencing 1 July 2018 (and future years).

As the five-year carry-forward period commenced from 1 July 2018, this means the first year in which an eligible individual can make additional CCs from their unused CCs cap is the 2019-20 financial year.

As a result, if a client makes CCs in 2019-20 (or future years) which exceed their CCs cap in that year, they are (if eligible) able to utilise amounts of unused CCs cap accrued in previous year(s).

Eligibility

Once amounts have been accrued as described above, in order to physically make catch-up concessional contributions, effectively increasing the CCs cap in that year, an individual must have both:

- a **total superannuation balance** of less than $500,000 (unindexed) on 30 June of the previous financial year; and
- **unused CCs cap amounts** from one or more of the previous five financial years commencing in the 2018-19 year.

CERTIFIED QUALITY ADVICE PRACTICE

When seeking financial advice, it makes sense to choose a practice that you can trust to deliver the highest quality advice, service and support. Charter Financial Planning Ltd. has awarded our office with the "tick of approval". After an extensive application process, Charter Financial Planning Ltd. have acknowledged that Wisdom Financial Services is well equipped to provide you with a quality financial planning package through it's knowledge, experience and systems capabilities. As a group, we are proud to have achieved this status for the past 10 years.

Office times December to January – *We intend to keep the office opened on a part time basis between Tuesday 23rd December to Monday 6th January. For any urgent enquiries during this time, simply call Rod on his mobile or send us an email to wisdom@4advice.com.au*

Work test changes for voluntary super contributions

Currently, people aged 65 to 74 must be in paid work for a minimum of 40 hours in any consecutive 30-day period in the financial year to make voluntary super contributions. This work test requirement does not apply to super contributions made before age 65.

The government is proposing to change the application of this work test, so that from 1 July 2020, the work test will only be necessary where contributions are made by clients aged 67 to 74.

The government has said that this is to align the work test requirement with the eligibility age for the Age Pension, which is scheduled to reach 67 from 1 July 2023.

This proposed change means that people aged 65 or 66 who, for example, only work one day a week or do volunteer work, don't meet the work test because they will be allowed to make voluntary super contributions.

This change will enable clients to make both concessional and non-concessional contributions within the standard superannuation contribution caps.

Triggering non-concessional contribution cap bring forward to age 67

The government is proposing to also extend the non-concessional contribution bring-forward rules.

These bring-forward rules currently allow people aged less than 65 at the start of the financial year to make up to three years' worth of non-concessional contributions to their super in a single financial year.

From 1 July 2020, the bring-forward rules would be extended so they also apply to people aged 65 and 66 at the start of the financial year.

Spouse super contributions - Increased age limit

Currently, people aged 70 years and over cannot receive contributions made by their spouse on their behalf. From 1 July 2020, the government is proposing to increase the age limit for spouse super contributions from 69 to 74 years.

It is expected that the receiving spouse will be required to continue to meet the work test from the work test age (see above). Spouse super contributions are counted towards the receiving spouse's non-concessional contribution cap.

Don't be complacent about your Super savings

Following the Federal Government's review of the retirement income policy, Federal Treasurer Josh Frydenberg said that the country's aging population will place new demands on health, age care and the pension system. He went on to say that there will be fewer working taxpayers as a share of the population to support retirees, who are living longer. Further, as more Australian's live longer, the number of working age Australian's for every person aged over 65 diminishes, whereas in 1974-75 it was 7.4 to 1, it is closer to 4.5 to 1 and the gap is closing.

It is as clear as the nose on our face that the Government at the time will need to make some significant decisions in this area. These decisions around the age pension, retirement age, the superannuation tax system and the like, will not be favourable for a good portion of the population and for this reason, it is critical that you take an active interest in your long-term wealth accumulation plans. Failure to do so could leave you in a vunerable position in years to come.

ATO superannuation statistics

At a recent industry forum, a speaker from the ATO gave an update on certain aspects of the superannuation system and recent developments.

These statistics are from the 2018-19 year and include:

- The ATO processed 53,000 applications for release of super under compassionate grounds and released a total of $456 million to members. Release of preserved super under compassionate grounds includes to provide necessary medical or palliative care for a member or their dependant, or funeral expenses for a dependant or to prevent foreclosure on a member's home loan.
- Down sizer contributions were made by 4,900 individuals totalling $1.1 billion {this was the first year of operation of the scheme).
- Under the First Home Super Saver Scheme, 3,300 people accessed their super savings to the value of $39.4 million to assist with their first home purchase.

Important dates

Date	Impact	Issue
1 July 2019	Superannuation	Preservation age increase to 58 (from 57) Clients turning age 57 between 1 July 2019 and 30 June 2020 will not reach their preservation age in 2019-20, and must now wait until age 58 (from 1 July 2020) to effect strategies such as: - commencing a TTR pension - satisfying the retirement condition of release - accessing certain tax concessions available from preservation age.
1 July 2019	Centrelink	Age pension age increase to 66 (from 65.5). Clients turning age 65.5 between 1 July 2019 and 31 December 2019 will not have reached pension age and must wait until age 66 (from 1 January 2020) to qualify. Delay in qualification may impact: - retirement planning - cashflow modelling - extension of super sheltering strategy.

Who manages the deceased estate?

The Legal Personal Representative (LPR) is tasked with gathering the estate assets and distributing them to the beneficiaries.

Where there is a valid will, the LPR is called the executor and is named in the will. The executor will generally need to obtain Grant of Probate to prove that:

- the will-maker has died;
- it is the last will and testament of the deceased; and
- the executor is authorised to distribute the estate assets in accordance with the will.

If a client dies without a will, an administrator (often the next-of-kin) will need to obtain a Grant of Letters of Administration to administer the estate. All the estate assets will be distributed according to a state-based formula, known as 'intestacy rules'.

The duties of the LPR generally include:

- lodging the deceased's last tax return (ie for the period from 1 July to the date of death) as well as other outstanding tax returns;
- lodging a tax return for the deceased estate;
- administration of the estate;
- collecting and taking possession of all estate assets;
- managing any property or business during the administration of the estate;
- selling assets to the extent that it is necessary to meet debts, liabilities, and obligations, or directives which may be applicable;
- paying debts and liabilities; and
- distributing any surplus to those entitled under the will or intestacy rules.