Insight

INNOVATIVE
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(QLD) PTY LTD

SPRING 2016 NEWSLETTER

Superannuation reform: What you need to know

Find out how the Budget 2016 changes to the annual non-concessional contributions cap may effect you.

See our Superannuation Budget Update on page 4

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INNOVATIVE FINANCIAL SOLUTIONS

Helping you achieve financial success and peace of mind by providing you with a personalised financial strategy

Welcome to our latest edition of Insight

Welcome to the Spring edition of **Insight**, through this newsletter we hope to provide you with relevant insight into the areas which affect you and those around you.

As I mentioned in our previous edition we were watching closely as the government announced its proposed budget early this year. Well it's been quite the ride since then. The government announced some considerable changes to superannuation, one of which had retrospective considerations. Then they called an election which left all these changes up in the air until finally parliament meet again in September. Since then the dust has settled and the government is now starting to give some clarity on what these changes may look like.

We appreciate for some of you this has been a frustrating and uncertain time In some cases interrupted your ongoing strategies. As we have over this period we will continue to work with you to cut through the noise and guide you through the confusion that is superannuation. Look at how these changes might personally affect you and how we can continue to maximise the tax effective environment of superannuation were appropriate to you.

To continue on with the theme of change we also have coming up on January 1st 2017 changes to the way Centrelink age pension is assessed and this may affect some of you.

So with all these changes to take affect over the next 12 months if you have any concerns about your strategy please contact us and we will go through these with you.

Please also take the time to read through this newsletter, our blog www.infinancial.com.au and our Facebook page where we will continue to provide up to date relevant information

Thank you for your continued support and we look forward to assisting you in the future

Kind Regards
Chris Hockey
Director
Innovative Financial Solutions (QLD) Pty Ltd

What happens if I die without a Will?

If you have children, if you have any assets at all, you really should have a will. That's first and foremost.

If you're like most Australians, you've spent your life working hard, raising a family, and accumulating assets, but surprisingly many of us are nonchalant about what happens to those assets when we die (yes, that's right when we die not 'if'). We also seem to be equally unconcerned about the importance of having a properly prepared, and legally valid will.

A will is arguably one of the most important documents you can have to protect your hard earned assets for your family.

At a very basic level having a will ensures that you are the one to decide:

1. **How your estate assets are distributed to your beneficiaries;**
2. **Who handles the distribution of your estate and has the ongoing role of looking after the inheritance for those beneficiaries that need guidance and protection (your executors and trustees);**
3. **Who are appointed the guardians of your minor children;**
4. **Your burial/cremation wishes**

If you die without leaving a will then you die intestate. If you die intestate, statutory rules stipulate the distribution of your estate and to whom, with no input from you. Those rules, which differ between each State and Territory, determine the distribution of your estate in accordance with a pre-determined formula. Today's modern blended families add a dimension of complexity to this stock-standard formula which often results in unintended beneficiaries inheriting from your estate or beneficiaries receiving an inheritance at a time in their life where they may need protection and it is more appropriate for a trust to be set up to protect their entitlements.

Often the formula results in a scenario so inappropriate that litigation involving a contested estate ensues, costing your estate (and your loved ones) tens (and sometime hundreds) of thousands of dollars.

Generally those who are first entitled under the laws of intestacy are your spouse and children (but how this distribution is made will vary between each State and Territory) and thereafter in can fall down the line to your parents, siblings, aunts, uncles, first cousins, grandparents...

If you die without leaving any next of kin your estate is bona vacantia which simply means "ownerless goods" and then the Crown (i.e. the government) is entitled to your estate. Whilst this is an uncommon scenario it is certainly possible.

Many people go through life without realising the ramifications of not having a valid will in place. Unfortunately it is the loved ones who are left behind who are left to suffer the unnecessary legal costs and grief that can arise in the absence of a will FOR THEIR LOVED ONE.

The moral of this story is: Get your will done before it's too late! Make an effort and look after your family – it is only an appointment away from getting this sorted out.

Contact us now to arrange a free initial appointment with Attwood Marshall Lawyers at one of their four conveniently situated offices or here at our Robina office.

What have you got to lose?

Article by Attwood Marshall Lawyers, Wills & Estates Partner, Angela Harry

Superannuation reform: What you need to know

Changes to the annual non-concessional contributions cap

From 1 July 2017, the Government will lower the annual non-concessional (post-tax) contributions cap to $100,000 and will introduce a new constraint such that individuals with a balance of more than $1.6 million will no longer be eligible to make non-concessional contributions. As is currently the case, individuals under age 65 will be eligible to bring forward 3 years of non-concessional contributions. The new annual cap with the eligibility threshold replaces the lifetime $500,000 non-concessional contributions cap announced in the 2016-17 Budget.

This will better target tax concessions to ensure that the superannuation system is equitable and sustainable, ensuring those who have saved well in excess of what is required to be self-sufficient in retirement are not able to continue to access further concessional tax treatment. It will also provide flexibility recognising that non-concessional contributions are often made in large lump sums.

The issue

Individuals can currently make non-concessional contributions of $180,000 per year, or $540,000 every three years for individuals under 65. These non-concessional contributions are generally voluntary contributions into superannuation made out of an individual's post-tax income. Earnings on these contributions are taxed at a flat rate of 15 per cent in accumulation accounts and then are tax free when transferred into a retirement account. In both cases, the tax treatment of earnings on these non-concessional contributions is highly concessional.

The details

From 1 July 2017, the Government will lower the annual non-concessional contributions cap to $100,000, which is four times the annual concessional contribution cap, with a three year bring forward ($300,000) for those aged under 65. Where an individual's total superannuation balance is above $1.6 million they will no longer be eligible to make non-concessional contributions.

The $1.6 million eligibility threshold will be based on an individual's balance as at 30 June the previous year. This means if the individual's balance at the start of the financial year (the contribution year) is more than $1.6 million they will not be able to make any further non-concessional contributions. Individuals with balances close to $1.6 million will only be able to bring forward the annual cap amount for the number of years that would take their balance to $1.6 million.

Transitional arrangements will apply. If an individual has not fully used their non-concessional bring forward before 1 July 2017, the remaining bring forward amount will be reassessed on 1 July 2017 to reflect the new annual caps.

As is currently the case, individuals aged between 65 and 74 will be eligible to make annual non-concessional contributions of $100,000 if they meet the work test (that is they work 40 hours within a 30 day period each income year), but will not be able to access the bring forward of contributions.

The annual cap will be linked to indexation of the concessional contributions caps. The $1.6 million eligibility threshold will be indexed as per the transfer balance cap.

Non-concessional contributions to defined benefit schemes and constitutionally protected funds will be subject to the revised caps. However, defined benefit members may not have the same flexibility as accumulation members to avoid making non-concessional contributions or to withdraw excess contributions from the fund. As is the case with all other Budget superannuation measures, broadly commensurate treatment will apply to members of defined benefit schemes.

Budget Impact

The measure is estimated to have a fiscal cost to revenue of $400 million over the forward estimates, relative to the $500,000 lifetime non-concessional contributions cap (announced in the 2016-17 Budget) which it replaces. Introducing eligibility for non-concessional contributions to those with less than $1.6 million in superannuation will limit the cost of the new annual caps over the medium term.

Eligibility threshold

Individuals are eligible to make non-concessional contributions where their total superannuation balance is less than $1.6 million. Where their balance is close to $1.6 million, they will only be able to make a contribution in that year and access the bring forward of future years contributions that would take their balance to $1.6 million.

Transitional arrangements

Where an individual has made a non-concessional contribution in 2015-16 or 2016-17 and that triggers the bring forward, but has not fully used their bring forward before 1 July 2017, transitional arrangements will apply so that the amount of bring forward available will reflect the reduced annual contribution caps. Where the non-concessional contribution bring forward was triggered in 2015-16, the transitional cap will be $460,000 (the annual cap of $180,000 from 2015-16 and 2016-17 and the $100,000 cap in 2017-18). If the bring forward was triggered in 2016-17, the transitional cap will $380,000 (the annual cap of $180,000 in 2016-17 and $100,000 cap in 2017-18 and 2018-19).

<table>
<tr><th>2015 to 2016</th><th>2016 to 2017</th><th>2017 to 2018</th><th>2018 to 2019</th><th>2019 to 2020</th></tr>
<tr><td colspan="2">More than $460,000</td><td>Nil</td><td>End of transition period $100,000 or 3 year bring forward</td><td>-</td></tr>
<tr><td>More than $180,000 but less than $460,000</td><td colspan="2">Cannot exceed $460,000 from 2016-17 to 2017-18</td><td>End of transition period $100,000 or 3 year bring forward</td><td>-</td></tr>
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For example, if you make a contribution to access the bring forward in 2016-17, the bring forward amount available in later years is $380,000 (see example 1 and 2). If you made a contribution in 2015-16, the bring forward amount will be $460,000 (see example 3).

	2015 to 2016	2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020
1		$200,000	$180,000	Nil	$100,000
2		$200,000	$90,000	$90,000	$100,000
3	$200,000	$200,000	$60,000	$100,000	Nil

CASE STUDY ONE: EAMON

Eamon has a total superannuation balance of $1.45 million. He can make a non-concessional contribution in 2017-18 of $200,000.

He cannot access the full three year bring forward as this would take his balance over $1.6 million. Eamon would also not be able to make any further non-concessional contributions.

CASE STUDY TWO: KYLIE

Kylie's superannuation balance is $500,000. She sells an investment property and makes a non-concessional contribution to her superannuation of $200,000 in October 2017.

As Kylie has triggered her bring forward, she would be able to make a further non-concessional contribution of $100,000 in 2018-19. In 2020-21 her non-concessional contribution caps would reset and she could make further contributions from then.

CASE STUDY THREE: MOLLY

Molly is 40 and has a superannuation balance of $200,000. In September 2016, she receives an inheritance of $250,000, which she puts into her superannuation. This triggers her three year bring forward.

From 1 July 2017, as the cap has been lowered, Molly would be able to make further non-concessional contributions of up to $130,000, taking her to the new bring forward amount of $380,000. Molly makes a non-concessional contribution of $110,000 in 2017-18 and $20,000 in 2018-19. She can then access the new bring forward from 2019-20 and contribute up to $300,000 in non-concessional contributions.

CASE STUDY FOUR: GARY

Gary is a 72 year old retiree who works around 40 hours in September every year and has a superannuation balance of $450,000.

As Gary meets the work test, he can make a non-concessional contribution of $100,000 in 2017-18. However, as Gary is aged over 65 he cannot access the three year bring forward.

It's kid stuff: we need to talk about money at home

Pocket money is a good start but there's more to teaching kids about finance.

Parents spend years preparing their children for the world but, with so much knowledge to pass on, teaching good money habits may take a back seat.

Yet teaching kids how to build wealth, manage debt and avoid financial pitfalls is one of the best gifts you can give them. And the task has taken on a new global urgency.

Policymakers around the world are now working on improving our low levels of financial literacy, which is seen as one of the contributing factors to the global financial crisis[1]. Governments are introducing programs to educate both young and old on better ways to manage money, provide for their retirement and negotiate the increasingly complex financial products and services available.

In Australia, educating the next generation is one of the main goals of the National Financial Literacy Strategy[2].

The strategy, led by the Australian Securities and Investments Commission (ASIC), promotes the value of teaching financial literacy in schools. But it's not just about formal education. Parents, families and peers also have a big role in shaping young people's approach to money.

Our money habits are largely formed by the time we are seven years old, according to UK research[3], so parents have an important role in influencing their children's financial future.

Talking about money

Everyday family life presents many opportunities to talk to children about money, involve them in budgeting and planning and learn valuable skills, says ASIC[4].

Sadly though, ASIC's research shows that only around one in six families discuss household finances with their children[5].

Nonetheless, primary school students have a good knowledge of earning money, a national study has found, although they're less competent at budgeting. The study, published in the CommBank Common Cents Report[6], found:

- **68%** of children liked saving their money more than spending it
- **77%** understand that they can earn extra money by doing chores around the house.
- **50%** know what a budget is
- **68%** receive pocket money and **82%** are expected to complete tasks to earn it

Given the choice of taking $5 now or waiting longer for a larger amount, more than half of the children surveyed said they'd rather take the $5 immediately.

To develop the report, CommBank determined five core competencies that make up a strong financial acumen: spending, saving, earning, budgeting and investing. You can test your child's financial literacy here.

As technology increasingly plays a part in financial transactions, meaning that cash is often not used, children need help to interpret what they see around them and to alert them to risks.

For example, children watch their parents hand over a plastic card at the supermarket to pay and then often receive cash back, says mother of two Nicole Jamieson*.

There's also the often bewildering array of mobile phone plans to come to terms with. For a tool (or toy) that's now owned by many children, understanding the benefits and risks of mobile phone plans is a crucial skill.

A part-time job is a great teacher

While younger children may struggle with the concepts of earning and saving, despite a system of pocket money, their first job can bring the lightbulb moment.

Jamieson, whose daughters are now 17 and 21, struggled through the pocket money years. "It's fraught because you want them to earn money but you feel you shouldn't pay them to do all the chores."

When the children were in their early teens, Jamieson and her husband believed that pocket money was to cover any discretionary spending.

"But the challenge here was that things cost so much more now and if, say, kids go to the movies, it's quite expensive. So the difficulty was in expecting them to pay for all their discretionary spending."

Now that the girls are older, with one at university and the other in her last year at school, both have part-time jobs and they've rapidly become more financially literate.

"Parents can talk on and on about money but it all clicks into place when kids experience earning and saving in the real world," says Jamieson.

"Our younger daughter has had a job for a year and a half now and she's saving up for her gap year. She's quickly learned all the things we'd hoped she'd learn, which is how hard money is to earn and how it is easy to spend. Working has really cemented her understanding of money."

Nonetheless Jamieson finds her daughters and their friends are worried about their financial futures. "They hear murmurs from older relatives that buying a house is never going to happen and then there's the job market – some kids are quite anxious about it," she says.

"So it's a tough time for kids and we want to build their skills without giving them more anxiety than they might pick up. But we hold to the old principles, spend less than you earn and a part-time job teaches more than you can ever say."

6 TIPS FOR TEACHING KIDS ABOUT MONEY

ASIC's MoneySmart[7] has some ideas for parents. For more advice on how best to teach your kids about saving for their future, talk to your financial adviser.

1. Pocket money or income from a part-time job present opportunities to discuss setting financial goals and saving.
2. Discuss options for mobile phone plans, and checking and managing data usage.
3. Use cash to show your children the real value of money. In a time of credit cards and online shopping, children don't often see physical money being used.
4. At the ATM, explain where the money's from and how you've earned it.
5. Involve the kids in discussions about family budgeting can help them learn to differentiate between needs and wants, costs and spending.
6. For groceries or other household purchases, prepare a list, research prices and discuss how you can save money if you shop around.

*Real names not used. **1.** Financial Education and the Crisis, OECD, 2009 https://www.oecd.org/finance/financial-education/50264221.pdf **2.** National Financial Literacy Strategy http://www.financialliteracy.gov.au/ **3.** Money Advice Service (UK), Habit formation and learning in young children, 2013 https://www.moneyadviceservice.org.uk/en/corporate/habit-formation-and-learning-in-young-children **4.** ASIC media release, March 2016 https://www.asic.gov.au/about-asic/media-centre/find-a-media-release/2016-releases/16-071-global-money-week-asic-releases-practical-tips-and-resources-to-teach-kids-about-money/ **5.** ASIC Australian Financial Attitudes and Behaviour Tracker http://www.financialliteracy.gov.au/media/559536/australian-financial-attitudes-and-behaviour-tracker_wave-4.pdf **6.** Learning more about your child's common cents, Commonwealth Bank money management blog https://www.commbank.com.au/blog/learning-more-about-your-childs-common-cents.html **7.** ASIC MoneySmart https://www.moneysmart.gov.au/

At Innovative Financial Solutions (QLD), our aim is to help you achieve financial success and peace of mind by providing you with a personalised financial strategy.

About us

We are a boutique financial planning practice providing strategic financial advice solutions for clients in areas such as wealth creation, superannuation, risk management and retirement. We strive to provide you with a plan that will create and protect your wealth over the long term, while dealing with your day to day financial needs.

We are committed to service excellence and ongoing adviser education. All of our advisers are qualified, financial experts with the experience to ensure the best financial out come for you. Our quality financial advice puts you in control.

Our advisers

Our highly accessible and expert professional advisers are the key to our first-class client service. They will provide clearly communicated, tailored solutions and practical recommendations to ensure you grow and succeed in today's challenging environment.

Their capability is constantly improved through training, professional development and workplace programs.

The value of advice

Making the right decisions about your finances has never been so important. A financial planner can help you do this by understanding your financial situation and helping you develop a financial plan to meet short and long-term goals.

The right financial planner has the potential to provide outstanding value for money - creating a benefit that reaps rewards far in excess of the cost involved.

Of course, 'value' often goes beyond dollars and cents. It can be the peace of mind and security that comes with being prepared for the future. Or it may be the helping hand that arrives at a time of personal upheaval. Sometimes it's the clear sense of direction an expert can provide when we arrive at one of life's crossroads.

Whether you have definite personal goals, like saving for retirement or funding your children's education, or you're facing a raft of financial challenges, a financial planner can make a difference. Put one of our financial planners to the test and you will be offered sensible, achievable solutions that identify opportunities and help you avoid costly mistakes that could derail your future plans.

Our Services

Personal insurance
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Investment Strategies

Small Business Planning
Estate Planning

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For more information on this newsletter or the products and services provided by Innovative Financial Solutions (QLD) Pty Ltd please contact us:

Brisbane office
2/35 Woodstock Road
Toowong QLD 4066

P: 07 3371 2312
F: 07 3371 5224
E: enquiries@infinancial.com.au

Gold Coast office
57/1 Arbour Avenue
Robina QLD 4226

P: 07 5562 2200
F: 07 5593 0555
E: enquiries@infinancial.com.au

www.infinancial.com.au

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