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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 what we all want to do, retire early and provide you with information on playing catch up with your super and also other ways to invest your money besides super.

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,
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How to retire early

Whether you choose or need early retirement, having a plan can give your money the best chance of lasting the distance.

Whether lifestyle preferences or circumstances beyond your control are behind your decision to retire early, you'll need to make a plan to help your retirement savings last, while still enjoying a few of your favourite comforts in life.

Here are some retirement planning tips to consider when thinking about retiring early in Australia.

Understand how much money you may need in retirement

Assuming you own your home outright and are relatively healthy, the Association of Superannuation Funds of Australia (ASFA) estimates that single Australians will need \$43,317 a year, while couples will need a combined \$60,977 a year for a comfortable retirement. A comfortable retirement is defined as being involved in a broad range of leisure and recreational activities and having a good standard of living.ⁱ

That said, the question of how much money you'll need in retirement really is an individual one. It largely depends on your current lifestyle and how you want to live when you're retired. Consider trying a retirement calculator to determine how much you're likely to have if you continue saving at your current rate, and compare that to how much ASFA indicates you might need.

When can you withdraw your super?

You can access your super once you reach your preservation age, which ranges from age 55 to 60, depending on when you were born.

But sometimes life forces events upon us, such as sickness, injury or redundancy, which could lead to an early retirement. If this applies to you, there are some circumstances when you may be able to have early access to super.

You would need to contact your super fund provider to see if you qualify for accessing super early.

8 tips for an early retirement

If you're dreaming of an early retirement, the following financial tips might help your dream become a reality.

1. Have a financial plan

It's a good idea to have a financial roadmap that spells out things like your financial goals, expenses and debts so you always know where you are. A detailed plan can also help you stay on track with your goals, as you can check in regularly to see how your savings are going, and how any big expenses can set you back.

2. Set up your savings goal and reduce your expenses

You could consider spending less and saving more by embracing the FIRE (Financial Independence, Retire Early) philosophy of living frugally, saving hard and investing wisely. This means spending less now in order to put more aside for your retirement, so you may be able to better enjoy those work-free years.

3. Pay off your home loan

A mortgage is probably something you don't want to take with you into retirement, so prioritise paying it off to give yourself greater financial freedom. If you can do this, then when you retire you won't have to spend a portion of your savings on continued mortgage repayments. Plus, paying off your mortgage early (without incurring fees from your provider) could mean you pay less interest overall. Be sure to speak with your provider about maximum early repayments before making any changes.

4. Boost your super

While you may not be able to access it straightaway, your super will most likely make up a major portion of your retirement

savings, so increasing it while you're still working is like making a payment to your future self. You could try adding lump-sum payments into your super whenever you can manage putting more money aside.

5. Create a retirement budget

Calculate how much you may need in retirement. You may not have as many expenses but you wouldn't want your standard of living to drop substantially. Think about dividing your outgoings into essentials, like groceries and utility bills, and discretionary, like overseas trips and a new car. And consider how you'll cover expenses like home repairs and renovations.

6. Increase your income

Are there ways you could increase your income in the lead-up to retirement? Could you increase your hours at your current role or take on more work? You could try anything from talking to your boss about a pay rise to putting a few hours of overtime occasionally.

7. Build the right investment portfolio

Make sure you're investing in the right mix of assets to achieve your investment goals and build your wealth for retirement. You could consider talking to an adviser about developing an investment strategy that's right for your particular circumstances.

8. Plan to cover healthcare costs

As you get older you could be faced with increased healthcare costs so it's important to factor these into your long-term retirement budget.

Whether you are inspired by the idea of leaving the workforce early or just want to make sure you are prepared for an unexpected retirement, starting to plan now can help you live the retirement you deserve.

ⁱ Association of Superannuation Funds of Australia (ASFA) Retirement Standard December 2018.



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.

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.

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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.



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.¹ 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.

¹ ASIC's MoneySmart website, 'Annuities'
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