prp keeping you informed

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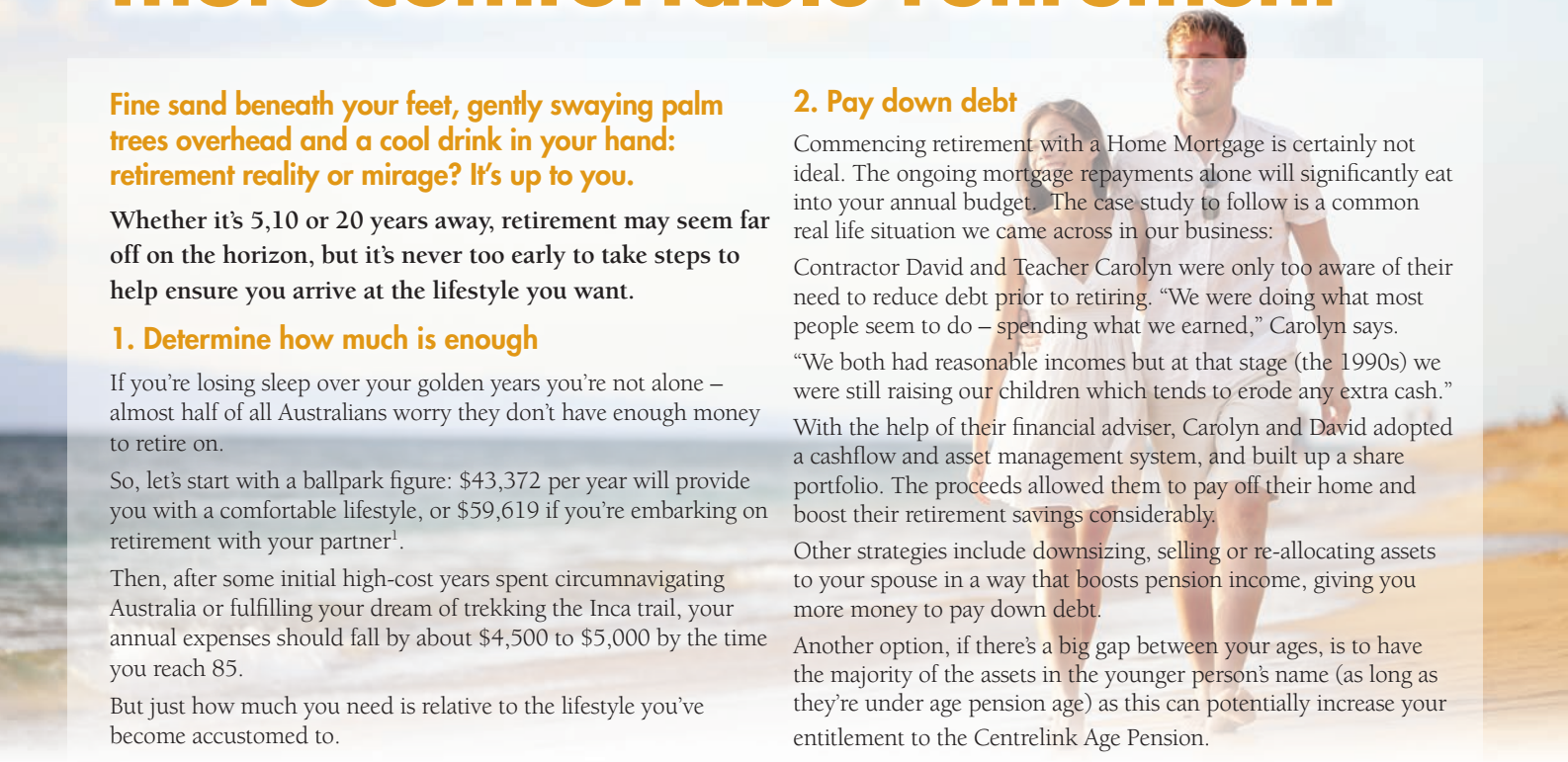
Five ways to plan now for a more comfortable retirement



Fine sand beneath your feet, gently swaying palm trees overhead and a cool drink in your hand: retirement reality or mirage? It's up to you.

Whether it's 5,10 or 20 years away, retirement may seem far off on the horizon, but it's never too early to take steps to help ensure you arrive at the lifestyle you want.

1. Determine how much is enough

If you're losing sleep over your golden years you're not alone – almost half of all Australians worry they don't have enough money to retire on.

So, let's start with a ballpark figure: $43,372 per year will provide you with a comfortable lifestyle, or $59,619 if you're embarking on retirement with your partner[1].

Then, after some initial high-cost years spent circumnavigating Australia or fulfilling your dream of trekking the Inca trail, your annual expenses should fall by about $4,500 to $5,000 by the time you reach 85.

But just how much you need is relative to the lifestyle you've become accustomed to.

For a more tailored budget estimate, use the Colonial First State retirement calculator and speak to a financial adviser. A financial planner will generally start working out exactly what you're spending now and then identify the expenses that will continue in retirement and subtract the ones that won't.

Sounds simple, right? But you'd be surprised how often people have no idea what they're spending now. Ninety per cent of the time, the first budget a client proposes isn't right so we need to review it over a period of time.

2. Pay down debt

Commencing retirement with a Home Mortgage is certainly not ideal. The ongoing mortgage repayments alone will significantly eat into your annual budget. The case study to follow is a common real life situation we came across in our business:

Contractor David and Teacher Carolyn were only too aware of their need to reduce debt prior to retiring. "We were doing what most people seem to do – spending what we earned," Carolyn says.

"We both had reasonable incomes but at that stage (the 1990s) we were still raising our children which tends to erode any extra cash."

With the help of their financial adviser, Carolyn and David adopted a cashflow and asset management system, and built up a share portfolio. The proceeds allowed them to pay off their home and boost their retirement savings considerably.

Other strategies include downsizing, selling or re-allocating assets to your spouse in a way that boosts pension income, giving you more money to pay down debt.

Another option, if there's a big gap between your ages, is to have the majority of the assets in the younger person's name (as long as they're under age pension age) as this can potentially increase your entitlement to the Centrelink Age Pension.

3. Look at your super

Your super balance may be a little underwhelming if you've been self-employed, earning a lower wage or had money sitting in a poorly-performing fund.

In most cases, but not all, the compulsory employer super contributions are unlikely to set you up for an early retirement.

But the options are there to help you achieve early retirement and these include commencing a regular salary sacrifice strategy sooner

Cont. page 2

Did you know?

We have accounting and taxation services in both Adelaide and Renmark? We would be happy for you to refer friends and family to have their tax returns completed by us!

Do you know someone who would benefit from PRP Group Services? Why not pass along this newsletter to introduce us!

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YOUR FEDERAL BUDGET GUIDE

WEALTH MANAGEMENT

Health, home and housing

This year's Federal Budget is focused on health, home and housing. Keeping healthcare available to all Australians in the long term and living the dream of owning one's home will be central issues for many Australians.

Keeping our future healthy

To ensure all Australians can continue to access timely and affordable healthcare, the Government announced that it will set up the Medicare Guarantee Fund to pay for all expenses on the Medicare Benefits Schedule and the Pharmaceutical Benefits Scheme (PBS). The revenue raised from the Medicare Levy will be credited to this fund (excluding amounts to fund the National Disability Insurance Scheme (NDIS)). To fully fund the NDIS, the Medicare levy will be increased by 0.5% to 2.5% from 1 July 2019.

There's no place like home

"If a family or an individual has a roof over their head that they can rely on, then all of life's other challenges become more manageable," Treasurer Morrison said. To help first home buyers get 'into the game', they will be able to save for a deposit by making additional voluntary contributions into their superannuation account from 1 July 2017. The First Home Super Savers Scheme will enable access to the tax advantages of superannuation with pre-tax contributions and earnings taxed at 15%, rather than marginal rates, and on withdrawal taxed at the relevant marginal rate, less 30% offset. These voluntary contributions plus their deemed earnings can be accessed from 1 July 2018. Savers will not have to set up a new account, they can just use their existing super account, with a yearly limit of $15,000 and a lifetime limit of $30,000. Any contributions made will count towards that year's relevant contributions cap.

One buyer's home is another's downsized property

To increase housing stock, the Government is encouraging older Australians, aged 65 or more, to downsize their properties by allowing them to make a non-concessional contribution of up to $300,000 into their superannuation fund from the proceeds of the sale of their principal home. Importantly, the normal super contribution rules such as 'work test' requirements that currently apply to those aged 65 or older will not apply to these contributions, and they can also be made by those with more than $1.6 million of total superannuation.

Cont. from page 1

than later and if the budget allows you to ramp up your contributions in the last five years of your working life, this will make a considerable difference in retirement.

Salary sacrificing strategies will continue to be available once superannuation changes come into effect, as will transition to retirement strategies, albeit with some changes.

With most transition to retirement strategies, you can salary sacrifice to reduce your taxable income and start a transition to retirement pension to top up your income or pay your mortgage.

But, if you've got time on your side, small changes can have a big impact on your super balance. Speak to your adviser – it might just simply be that you're contributing to super after tax and you should do it pre-tax.

4. Consider non-super strategies

Depending on your lifestyle and life stage, strategies that don't tie up your funds in super will be important. You might have a desire to help out kids with university, a car or a house deposit.

Non-super strategies can include property investments or shares, and can leverage the equity in existing assets.

You might look at investing in growth assets over a longer term to achieve a potentially stronger return and use that to pay down remaining debt closer to retirement, or build an income stream outside super.

You may also consider more tax-effective arrangements such as using a mortgage offset account, putting assets in your partner's name or establishing a family trust.

5. Just do it – take the first step

Unfortunately most people don't take that first step and many factors such as the fear of the unknown or general apathy can stop people from achieving the best outcome.

So, while your path to retirement will depend on your circumstances, one thing is certain: time is your greatest asset.

If you don't get on the planning bandwagon early, things get really difficult and you may end up with a retirement that's totally different to the one you pictured.

1.ASFA Retirement Standard September quarter 2016. ASFA's calculation assumes you own your own home.

Keeping local property for locals

Tougher rules will apply on foreign investment in residential real estate by removing the main residence capital gains tax exemption and applying a vacancy charge of at least $5,000 on all future foreign investors who fail to either occupy or lease their property for at least 6 months a year. Developers will also be prevented from selling more than 50% of new developments to foreign investors.

In other news

For those older Australians who lost their pensioner concession card by the pension assets test change introduced on 1 Jan 2017 – they will be getting them back.

Education and childcare also rated mentions; university fees will rise by 7.5% by 2021 and childcare rebates will be means tested.

ACCOUNTING

Housing affordability measures

- Deductions for travel expenses related to inspecting, maintaining or collecting rent for a residential rental property will be disallowed from 1 July 2017.
- Deductions for depreciation of plant and equipment will be limited to outlays actually incurred by investors in residential real estate properties from 1 July 2017. Grandfathering of the current rules will apply to properties "owned" prior to 7.30 pm (AEST) on 9 May 2017.
- Managed investment trusts will be able to invest in affordable housing, allowing investors to receive concessional tax treatment, provided certain conditions are met, including that the properties are let as affordable housing for at least 10 years.
- The CGT discount for Australian resident individuals investing in qualifying affordable housing will be increased from 50 per cent to 60 per cent from 1 January 2018.

Small Business

Small business CGT breaks to be tightened

Access to the small business CGT concessions will be tightened from 1 July 2017 to deny eligibility for assets which are unrelated to the small business.

Some taxpayers are able to access these concessions for assets which are unrelated to their small business, for instance through arranging their affairs so that their ownership interests in larger businesses do not count towards the tests for determining eligibility for the concessions.

The small business CGT concessions will continue to be available to small business taxpayers with aggregated turnover of less than $2 million or business assets of less than $6 million.

Instant asset write-off extended for 12 months.

The $20,000 instant asset write-off for small business will be extended by 12 months to 30 June 2018, for businesses with an aggregated annual turnover of less than $10 million.

Small businesses will be able to immediately deduct purchases of eligible depreciating assets costing less than $20,000 provided they are first used, or installed ready for use, by 30 June 2018. Only a few assets are ineligible (such as horticultural plants and in-house software).

Depreciating assets valued at $20,000 or more (which cannot be immediately deducted) can continue to be placed into the general small business pool (the pool) and depreciated at 15 per cent in the first income year, and 30 per cent for each income year thereafter. The pool can also be immediately deducted if the balance is less than $20,000 over this period (including existing pools).

GST

Purchasers of newly constructed residential properties or new subdivisions will be required to remit the GST directly to the ATO as part of settlement from 1 July 2018.

Under the current law (where the GST is included in the purchase price and the developer remits the GST to the ATO), some developers are failing to remit the GST to the ATO despite having claimed GST credits on their construction costs. The new measure is an integrity measure to strengthen compliance with the GST law.

AGED CARE: WHAT'S THE BEST OPTION?

Choosing the best aged care home for yourself or a loved one can take its toll – both emotionally and financially. But with a bit of planning, you can take control of your cash flow and make sure you find the right care facility.

Whether you're considering residential aged care for yourself, a family member or a friend, the options can seem overwhelming – and that's before you even get started on the paperwork.

You want to find the best aged care home possible, but within a realistic budget.

How much will it cost?

While aged care facilities receive support from the Australian Government, you'll still need to contribute towards the cost of care for you or your loved one. Generally speaking, there are four types of fees you may be charged: an accommodation fee, basic daily care fees, a means-tested fee and extra services fees.

When you go into care, you'll need to lodge an income and assets assessment form so Centrelink (or the DVA) can assess your financial situation. If you're seeking aged care as a couple, you'll be considered to own half of the combined income and assets of you and your partner.

Depending on the assessment, the Australian Government may cover all or part of your accommodation costs. If you're required to make an accommodation payment, you'll have 28 days after entering aged care to decide your payment method.

Accommodation fees

There's no fixed price for accommodation, as each aged care facility can set its own fee based on factors such as local property prices and room type. So, while the average accommodation costs are around $350,000 to $400,000, the facility can charge up to $540,000 (or more with government consent).

You can choose between a lump sum payment, called a Refundable Accommodation Deposit (RAD), a Daily Accommodation Payments (DAP) – or a combination of both. DAPs are essentially interest payments on any outstanding RAD, with the RAD being an interest-free loan to the aged care facility

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Cont. from page 3

AGED CARE: WHAT'S THE BEST OPTION?

which you'll get back if you leave or will become part of your estate when you pass away.

A Financial Planner can give you guidance on the best payment method for your financial situation.

Basic daily care fees

In addition to your accommodation payment, you'll need to pay ongoing fees to cover all your day-to-day living costs such as food, laundry and cleaning. Basic daily care fees are regulated by the Australian Government, and are set at 85% of the maximum single Age Pension.

Currently, this fee is $49.07 per day – or over $17,910 per year – and it increases twice a year with changes to the Age Pension.

Means-tested fees

On top of your basic daily care fees, you may be asked to make an additional contribution to the cost of your care. When you fill out your income and assets assessment form, Centrelink or the DVA will work out whether you have to pay this fee and how much it will be.

The means-tested fee is currently capped at $26,380.51 a year, or $63,313.28 over a lifetime – so once you've reached this amount, you can't be asked to pay any more in fees. Because this fee is based on your assets as well as your income, you'll need to take into account how it might be impacted before you decide to make major financial decisions such as selling the family home.

Extra services fees

Some aged cared homes have dedicated extra service places which provide a higher standard of accommodation or services.

If you choose an extra service place, you'll need to pay an extra service fee.

What's more, in standard aged care homes you may have to pay additional fees if you wish to enjoy a higher standard of accommodation, greater choice of meals or additional services such as hairdressing, podiatry, Foxtel or newspaper delivery. If your aged care facility offers these services, they can set their own fees – but you should have the choice of whether or not you wish to use, and pay for, these services.

Planning your future

Before you can choose the best quality care, you'll need to work out your finances. By factoring in your upfront and ongoing fees, as well as having something put away for extra expenses that crop up, you'll be able to figure out exactly what you can afford – and start searching for an aged care facility that meets your needs within your budget.

That's where getting financial advice can make all the difference.

Our aged care specialists, Garry Pinnington & Darron Reid, can help you work out the right financial structure and payment options for your situation and support you with the paperwork from the Government and the aged care home.

What's more, they can guide you through the bigger financial decisions you'll need to make: from selling the family home to planning your estate. They can also help you understand the longer term effects of these decisions, including their impact on your age pension and your aged care means-tested fees.

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Behind the Scenes at PRP

After toiling away at the abacus for more years than she cares to remember, our popular staff client manager Debbie Angeletti has decided to call it a day.

Deb commenced with us in 1986 and apart from a three year spell in industry, commencing 2005, has been a constant in the growth of PRP Accounting Services and a key staff member over that time.

Deb will be missed and we wish her well in retirement, which we understand will consist of walking, reading, spending more time with her grandchildren and generally smelling the roses.

Thankyou for your valued contribution Deb.

As one door closes, another opens and we take the opportunity to welcome a former employee, Sonia Adamczyk , back to the team.

Sonia who is known to many of our accounting clients, will be taking the role of client manager and assuming many of Deb's responsibilities.

MYOB Portal for Accounting Clients

Our Practice currently uses MYOB for all our computer accounting requirements. MYOB has introduced a MYOB Client Portal which is a new online collaboration tool that will allow us to:

- Transfer documents to you, the client, securely via the portal
- Accept digital approval of documents
- Documents including Tax Returns can be approved from anywhere, anytime
- Eliminate postage waiting times

Please contact us on 08 8586 6644 if you are interested in creating a Portal and we can setup and assist you with this.

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