Newsletter - September 2022

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 "FHSSS Scheme" and provide you with information on "Ways to reduce Debt" and "Ways to review personal insurance".

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,
Planet Wealth

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How does the First Home Super Saver Scheme (FHSSS) work?

Through the First Home Super Saver Scheme (FHSSS), first-home buyers may be able to use Australia's superannuation system as a tax-effective way to save for part of their home deposit.

How does it work?

If you're aged 18 or over and are an eligible first home buyer (which broadly means that you've never owned any Australian property before), you can withdraw voluntary super contributions which you've made since 1 July 2017, to put towards a home deposit.

Under the FHSSS, first home buyers, who have made voluntary super contributions of up to $15,000 per financial year into their super, can withdraw these amounts (plus associated earnings/less tax) from their super fund to help with a deposit on their first home.

If you're eligible, the maximum amount of contributions that can be withdrawn under the scheme is broadly $50,000 for individuals.

What counts as a voluntary super contribution?

Voluntary super contributions don't include the compulsory super guarantee contributions your employer is required to make into your super fund, if you're eligible. Spouse contributions (which are those that your partner may choose to put into your super fund) also can't be withdrawn under the scheme.

Voluntary contributions that can be withdrawn include:

Salary sacrifice contributions

These are contributions you can get your employer to pay you out of your before-tax income if you choose to, which are on top of what your employer might pay you under the super guarantee, if you're eligible.

Tax-deductible super contributions

These are contributions you can make (such as when you transfer funds from your bank account into your super) that you then claim a tax deduction for.

Personal super contributions

These are contributions which you can also make by transferring funds from your bank account into super, but which you don't claim a tax deduction for.

How does the scheme benefit first home buyers?

Due to the favourable tax treatment, generally available through super, the FHSSS intends to help first home buyers to grow their deposit more quickly.

When money is withdrawn under the FHSSS, amounts that were contributed as before-tax or tax-deductible contributions are taxed at your marginal tax rate, less a 30% tax offset, while amounts that are contributed as after-tax contributions aren't subject to additional tax.

Note, tax will also apply to the associated earnings.

Meanwhile, it's important to understand that the money you save through the scheme mightn't be enough for a full deposit to buy your first home, but you could combine it with other methods of saving to potentially help you get there faster.

How do I withdraw contributions under the scheme?

To make a withdrawal under the scheme, an application to the Australian Taxation Office (ATO) will be required, and an eligible person is only allowed one FHSSS withdrawal in their lifetime.

What else should I be aware of?

1. Before you can request a withdrawal, you must first get a 'determination' from the ATO using your myGov account. The determination tells you how much you can withdraw under the scheme. You can ask for as many determinations as you like but can make only one withdrawal request.

2. You may only buy residential premises. This includes vacant land (if you're planning to build), but not any premises that can't be occupied as a residence, and not a houseboat or motor home.

3. You'll need to buy a home or land to build on within 12 months of withdrawal. If required, you can ask the ATO to extend this to 24 months.

4. FHSSS amounts that are withdrawn and not subsequently used for a property purchase, must be put back into super as after-tax contributions, or penalties will apply.

5. The first-home buyer must live at the property for at least six months in the first 12-month period from when it can be occupied.

6. The maximum amount you can withdraw under the scheme is $50,000 (plus earnings). There are also annual contributions caps in place you should be aware of.

7. Additional rules may apply to your situation, so make sure you do your research before making any decisions.

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6 tips to reduce your debts before you retire

Ahh retirement! You may have been dreaming about it for decades. You visualise yourself putting away your uniform, high-vis or corporate gear, farewelling that lovely boss of yours and spending the rest of your days swinging in a hammock by the ocean somewhere.

As the dream teeters on reality, you can't help but contemplate the debt you're yet to pay off and how it might create roadblocks for the things you may still want to do – the family barbecues, the weekend getaways, possibly even helping the kids out.

While many Aussies will carry some debt into retirement, the good news is, there are many things you could do now while you've still got time on your side and are earning an income.

1. Crunch the numbers and get organised

- Work out what debts you have and what they total
- Compare what you earn, owe and spend and consider where you might be able to cut back
- Look into whether you could benefit from rolling your debts into one loan
- Pay your debts on time to avoid additional charges
- Consider paying the full amount outstanding on your credit card(s), rather than the minimum owing
- Look at whether you could afford to make extra repayments
- Shop around for providers with lower interest rates and no annual fees
- If you're experiencing financial hardship, talk to your providers, as most can assess your situation and help you find alternative payment plans.

2. Get serious about having a budget

If you're approaching retirement, you may be prioritising things such as living costs, day-to-day bills, health care and helping the kids, if you have them. With many Aussies looking at a retirement (which in reality, could span a few decades), another thing to give some thought to is recreation and your social life.

A good starting point when it comes to setting up a workable budget (so you can manage the things mentioned above) is figuring out what money you have coming in, what expenses you've got and what you might be able to put aside.

Perhaps you're wondering how much money you'll need to retire on?

According to ASFA's March 2022 figures, individuals and couples around age 65 who are looking to retire today would need an annual budget of around $46,494 or $65,445 respectively to fund a 'comfortable' lifestyle.[i]

To live a 'modest' lifestyle, which is considered slightly better than living on the age pension alone, individuals and couples would need an annual budget of around $29,632 or $42,621 respectively.[ii]

3. Consider what money you might have access to when you stop work

The money you use to fund your life in retirement will likely come from a range of different sources, including the following:

Super – Generally you can start accessing super when you reach your preservation age, which will be between 55 and 60, depending on when you were born. Knowing your super balance is a crucial part of planning for retirement, as it's likely to form a substantial part of your savings.

If you've got more than one super account, there may also be advantages to rolling your accounts into one, such as paying one set of fees. However, there could be certain features lost in the process, such as insurance, so make sure you're across everything before you consolidate.

Investments, savings, inheritance – You may be planning to sell or use income you're generating from shares or an investment property or use money you've saved in a savings account or term deposit to contribute to your retirement. An inheritance or proceeds from your family's estate may also help in your later years.

The government's Age Pension – Depending on your circumstances, as well as your level of income and assets, you could be eligible for a full or part age pension from age 65 to 67 onwards (depending on when you were born), or you may not be eligible for assistance at all.

4. Know where your money is sitting and what it's doing

Having spare money sitting in the one place might not be the best thing. For instance, if you've got cash in a transaction account, could you be earning more if it was invested elsewhere, or even placed in an offset account linked to your home loan (if you have one) to reduce what you pay in interest?

Looking at different investment options inside your super could also potentially generate better returns. Do keep in mind though, that a more conservative approach may be a better option as you get older, as when you're younger, you generally have more time to ride out market highs and lows.

5. Think about downsizing your home or refinancing

You might also be interested to know that when you reach age 60, you can make a tax-free contribution to your super of up to $300,000 using the proceeds from the sale of your home (if you've owned it for 10 years and it's your main residence). There will be potential advantages and rules however that you'll need to be across.

Refinancing, whereby you replace your existing home loan with a new one, could also create cost benefits and more financial flexibility.

Remember, your living arrangements in retirement should be based on more than just your finances. Your health, partner, family and what activities you want to pursue once you stop work will play a part.

6. Contemplate working a bit longer

This could help you to boost your savings as well as your super balance, so that you have a more comfortable lifestyle in retirement. In fact, the main reason most older Aussies say they want to stay in the workforce is financial security[iii].

It's also interesting to note, retirement isn't necessarily a one-time event, particularly when it comes to the 45 to 54 and 55 to 59 age groups, with as many as 26.7% returning to employment annually[iv].

Meanwhile, regardless of whether you're still working full-time, part-time or casually, if you do plan on working for longer, a transition to retirement strategy (whereby you may be eligible to access a portion of your super ahead of retirement) could potentially help you to pay off debt, without reducing your take home pay, or help you to improve your super savings.

If you need help managing financially, we're here to help.

i, ii ASFA Retirement Standard – March 2022 figures

iii Australian Bureau of Statistics - Retirement and Retirement Intentions

iv The Household, Income and Labour Dynamics in Australia (HILDA) Survey pages 65, 67

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Reviewing your personal insurance policy

Whatever your mix of cover - life, total and permanent disability (TPD), income protection and trauma - insurance can be an important part of protecting yourself and your family, now and into the future.

Thanks to the ability to pay for insurance through super, an estimated 94 per cent of working Australians have some level of life cover[i]. So, it's a good idea to review your insurance regularly to make sure you have the right type of cover-and enough of it.

You probably don't think about your insurance regularly, but there are certain times when you should consider updating your policies to make sure they still reflect your lifestyle and insurance needs.

When and why you should review your insurance

Insurance works best when you have the right level of protection for your situation. As your life changes, so might your insurance needs. You should consider reviewing your cover whenever your situation changes, like:

- taking on a mortgage to buy a property
- having children
- getting married
- upsizing or downsizing your home
- getting a pay rise or a pay cut
- starting a business
- experiencing a change in your health or lifestyle
- paying off your mortgage
- stopping supporting financially dependent children
- joining a new super fund that may provide automatic insurance cover
- retiring.

These milestones mark important times to review your insurance, including the amount of cover you have and whether your beneficiaries (those who will receive your insurance in the event of your death) are up to date.

How to review your insurance

Insurance is flexible and can be changed to align to your needs. Below is a step-by-step guide to reviewing what you have.

Step 1: Read your insurance contract

Refer to your product disclosure statement (PDS) and read it to fully understand what you're covered for (death, disability or injury for instance) and compare this against what you'd ideally like to be covered for.

Step 2: Check the insurance policy expiry date

Check if your insurance policy has an expiry date, and if so, make note of when it is so you're not caught off guard. It can be a good idea to set yourself a reminder a month or two before it's due so you can contact your insurance provider ahead of time.

Step 3: Know your beneficiaries

An insurance beneficiary is the person, or people, who will receive your insurance payout in the event of your death. It's important to make sure your beneficiaries are up to date, so your money ends up in the right hands.

Step 4: Check if you have enough insurance

To help you work out the right level of insurance cover consider the following questions.

How much money would your family have if you were to pass away or become disabled? Consider the amount of money you have in super, savings, shares and other assets, and existing insurance policies as a starting point.

How much money would your family need if you were to pass away or become disabled? Consider the size of your mortgage and any other debts you have, as well as other costs such as childcare, education and day-to-day expenses you may be covering.

The difference between these figures should provide some guidance on the amount of insurance cover you may want to have. However, you might need to compromise between what you'd like and can afford. The handy AMP Insurance needs calculator can help you crunch the numbers, and you can always ask an expert for further insurance advice.

Step 5: See if you have any other insurance policies

Like many Australians, you may have insurance through super. So, it's a good idea to check this against other policies you might have outside super.

Then compare your cover, check whether you have any insurance double ups - if you have more than one super account with the same type of insurance, you may be paying for more insurance than you need.

Something to note on your TSC insurance, you'll most likely only be able to claim up to 75% of your pre-disability income, regardless of whether you have TSC cover within multiple super accounts.

Step 6: Compare insurance providers

If you're not sure whether you're getting the best deal, you might want to compare providers. Remember, there are other considerations to take into account aside from reduced premiums, such as what level of cover you get, any exclusions (like the treatment of pre-existing medical conditions) and waiting periods.

Also keep in mind if you do cancel your insurance, you might lose access to features and benefits, and you might not be able to sign back up at the same rate or with the same level of ease.

It's also important to disclose your situation to your insurer honestly, or the policy might be invalid if you do need to make a claim.

Step 7: Reduce or manage your insurance premiums

If affordability is a major concern, speak to your super provider or insurer depending on what type of insurance you hold, to find out how you can manage your premiums without losing your policy. You might be able to:

- reduce the amount you're insured for
- change how often you make a payment (if you don't hold insurance inside super)
- adjust your waiting and benefit periods.

Changing your insurance policy can be complicated, so it could help to speak to an expert. We are here to help.

i Rice Warner,Life insurance adequacy, paragraph 8.

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