PREPARE FOR LIFE

CENTREPOINT ALLIANCE

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ARE YOU SUPER AWARE?

It seems that the beginning of every financial year brings changes to superannuation, and 2019 is no different.

If you didn't get a chance to read the fine print of the legislative changes that came into effect from 1 July 2019, here's a summary of the big three.

Concessional contribution cap carry-forward

According to the Income Tax Assessment Act 1997 (Cth)[1], concessional contributions include:

- employer contributions (including contributions made under a salary sacrifice arrangement); and
- personal contributions claimed as a tax deduction.

The maximum amount of concessional contributions that can be made in a financial year is currently $25,000. This is referred to as the concessional contribution cap.

However, what happens if the cap isn't fully used?

In the past, any unused portion of the concessional contribution cap was lost. But that changed from 1 July 2019.

Now, unused portions of concessional contribution caps can be carried forward for up to five years for people who have a 'total superannuation balance' of less than $500,000 that accrues from the 2018 -19 financial year, for a period of up to five years.

Incidentally, the normal age restrictions applying to superannuation contributions continue to apply. That is, anyone under the age of 65 can make contribution to super and those aged 65 to 74 can contribute provided they meet a work test or are exempt from the work test.[2]

Concessional cap carry-forward in action

For example, if James had concessional contribution of $15,000 made in the 2018-19 financial year, he has an unused cap of $10,000 – i.e. $25,000 less $15,000. His concessional contribution cap for 2019-20 is $25,000; however, James may also be able to bring forward the unused cap of $10,000 from 2018-19, meaning he can make concessional contributions of up to $35,000 in 2019-20.

Work test exemption

Under superannuation law, a person aged 65 to 74 is generally able to make voluntary contributions to super provided they meet a work test.[3]

Previously, this work test requires they be gainfully employed or self-employed for a minimum period of 40 hours, within a 30 consecutive day period in the financial year in which they intend to contribute.

However, from 1 July 2019 a person aged 65 to 74 can make contributions to super without having to meet the work test in the year of their contribution, provided they met the work test in the previous financial year. This is a once-only opportunity – that is, it can only be accessed once in person's lifetime.

And, it is restricted to those people whose total superannuation balance at the end of the previous financial year was less than $300,000.

This work test exemption should not be confused with the 2019 budget announcement where the Federal Government confirmed plans to increase the age you are required to apply the work test from 65 to 67. This would mean that anyone aged 65 or 66 would not need to meet the work test to make voluntary super contributions. It is designed to align the ability to make voluntary super contributions with the increasing eligibility age for the age pension.

However, this announced change was passed as legislation before the election was called and will now have to be re-introduced to the Parliament. We expect to see this happen in the coming months, with the change not intended to commence until 1 July 2020.

Work test in 2019

Janette is 67 and retired from full-time work on 1 February 2019. Her total superannuation balance as at 30 June 2019 was $280,000. As she had met the work test in 2018-19, Janette is able to make superannuation contributions in 2019-20 without having to meet a further work test.

Protecting your Super

The Federal Government introduced the “Protecting your Super” reforms which came into effect on 1 July 2019. These reforms have resulted in some people having insurance they hold through their super account being cancelled, as well as introduced changes to fees and new powers for the Australian Taxation Office (ATO) to transfer and hold inactive, low balance accounts.

In relation to the cancellation of insurance, this will occur where a person has an inactive super account and they have not opted-in to maintain their insurance. Consequentially, many people run the risk of inadvertently losing valuable insurance protection.

An inactive super account is one that has not received a contribution or rollover in the previous 16 months.

This is an ongoing test. Even though an account may be active now, if no contributions or rollovers are made within a 16-month period, the account may become inactive at a future date.

To ensure that valuable insurance cover is not lost, a person can either:

1. make a contribution or arrange for other super to be rolled into their account at least once every 16 months, or

2. make an election with their super fund not to cancel the insurance cover irrespective of whether contributions or rollovers are made.

Importantly, the potential loss of insurance is not limited to people with small superannuation account balances. It also applies to all accounts, large or small.

You should speak to an authorised financial planner to review your superannuation account and any insurance policies you hold to ensure your retirement goals and savings objectives remain on track.

[1] Income Tax Assessment Act 1997 (Cth) ss291-75.
[2] Superannuation Industry (Supervision) Regulations 1994, reg.7.04(1) and (1A)
[3] Superannuation Industry (Supervision) Regulations 1994, reg.7.04(1)

THE INTERGENERATIONAL WEALTH TRANSFER WINDFALL

Over the next 20 years, an estimated 12.7 million people will benefit from the greatest transfer of wealth to occur[1]. All up, over $3.5 trillion will be bequeathed to the children and grandchildren of the Baby Boomer generation.

The boomtime generation

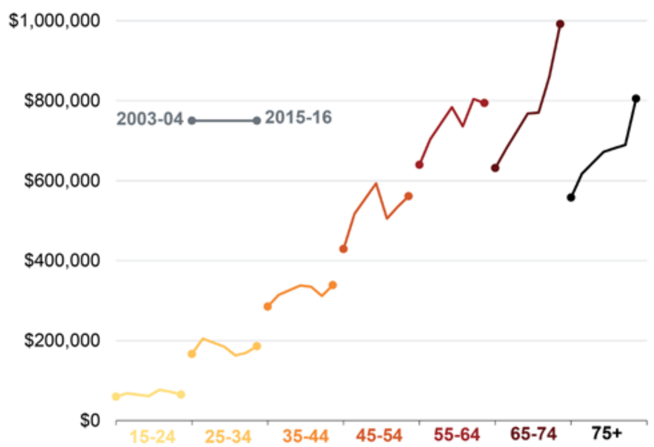
The Baby Boomer generation comprises of those Australians born between 1946 and 1964. They represent almost 25% of the Australian population[1] and own 60% of Australia's private wealth.[2]

The accumulation of wealth in this segment is because of:

- high level of home ownership
- steady increase in property values
- years of stable economic growth
- smaller families compared to previous generations
- compulsory superannuation in the 1990s leading to substantial growth in retirement savings

In fact, in the last decade, the wealth held by the Baby Boomer generation has virtually doubled.[3]

The net wealth of older households has grown substantially



The generation gap

The result is an increased gap with subsequent generations. This gap in wealth is likely to widen with declining rates of home ownership among younger Australians.

Another factor is in superannuation savings. In fact, current data suggests that some members of Generation X will not have enough superannuation savings to support their retirement lifestyle.[4]

To make up this disparity, some may rely on receiving an inheritance to supplement retirement savings. Contributing all or part of an inheritance to super, or investing it in the non-super environment, may be an effective option for many. But for those that will not have this option, having a clear view of the amount you are likely to need to fund your retirement and working towards that goal is important.

Sharing the wealth

For those thinking about who to bequeath their assets to, effective estate planning becomes important. Having an effective plan can ensure that the right beneficiaries receive the right inheritance at the right time, and in a tax effective manner. A properly considered Will, and an appropriately drafted superannuation death benefit nomination, are two key instruments to ensure the appropriate transfer of wealth.

However, it is not unusual for disputes to occur over provisions that have been made in a Will. An analysis of 195 court decisions suggests that many of these disputes are because of changing family dynamics including previous spouses, children from previous relationships, and stepchildren, having expectations around inheritances.[5]

A good plan is key

Not all estate disputes can be avoided, however careful planning and appropriate documentation will go a long way in avoiding disputes.

A transfer of wealth can provide an opportunity for financial independence across generations if managed properly.

A good level of financial literacy, coupled with appropriate financial advice, becomes extremely important to ensure that any financial windfall or bequest is not wasted.

[1] Australian Bureau of Statistics (2016) *'Talking 'bout our Generations: Where are Australia's Baby Boomers, Generation X & Y and iGeneration?',* <https://www.abs.gov.au/ausstats/abs@.nsf/Previousproducts/3235.0Feature%20Article12014>
[2] Ibid.
[3] Source: Grattan Institute, *'Generation gap: ensuring a fair go for younger Australians'* <https://grattan.edu.au/report/generation-gap/>
[4] Hunt, K et al, *'Intergenerational Wealth Transfer: The Opportunity of Gen X & Y in Australia'* Griffith University 2017.
[5] *Estate Contestation in Australia – An Empirical Study of a Year in Case Law*, White, Tilse, Wilson, Rosenman, Purser and Coe. UNSW Law Journal, Volume 38(3) p.890

LONGEVITY - ONLY A RISK FOR SOME!

Have you heard of longevity risk? It's the risk of outliving your savings. With the current life expectancy at over 80 years of age, and rising, it's becoming a real concern.

However, just as important as having enough money in your retirement, is having the health and wellbeing to enjoy it. With nearly two-thirds of Australia adults overweight or obese, this epidemic is not only impacting mortality rates, but providing a burden on both the quantity and quality of life.

A report by consulting firm PwC estimates that by 2025, the cumulative economic costs of obesity will reach $87.7 billion.

One size won't fit all

For many, it seems like common sense to tell people to eat a balanced diet and exercise more. However, that 'common sense' approach is clearly not working.

Weight is complex – influenced by the interplay between a person's genes and lifestyle factors. Therefore, the strategies taken to alleviate the obesity burden need to take these factors into account, along with the age group being targeted and their socio-economic circumstances.

While it can seem overwhelming, there are some simple steps to help prevent or reverse obesity:

- keep a record of what you eat and drink. Review it to see what you could cut out, and what you may need to include;
- try to get more physical activity on a daily basis; and
- talk to your local GP about what approach may be best for you.

Most of all, if you are wanting to lose weight – stay positive. Even a small reduction in excess weight can have major health benefits, contributing to a healthy, active retirement.

CENTREPOINT ALLIANCE

ABN: 72 052 07 507
Level 9, 10 Bridge Street, Sydney NSW 2000
P +61 2 8987 3022 | F +61 2 8987 3075
E info@cpal.com.au | www.centrepointalliance.com.au