PLANET WEALTH

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Newsletter - June 2020

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 Investment options, Retirement and provide you with information on Digital payments, online banking and Checklist for the end of Financial year.

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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Investment options and retirement

If retirement was on your horizon in the next five years or so, the market downturn due to COVID-19 coronavirus might have prompted you to take a closer look at your superannuation and how it's invested. Perhaps you've seen your balance drop and are now wondering what you need to do to get your retirement back on track?

In this article, we explain, generally, what super funds do with retirement savings, the different types of investment options to choose from, stage of life considerations, and the implications of changing investments.

What super funds do with your money?

Generally, no less than 9.5% of your before-tax salary (if you're eligible) is paid into super by your employer, which is then taxed at a maximum of 15%. Or if you are self-employed, the amount you've paid into your super, if you've chosen to invest in one, will be at your discretion. A super fund will then invest this money over the course of a person's working life, so they can hopefully retire comfortably.

A person can choose from a range of investment options and generally the main difference will be the level of risk they're willing to accept to have the potential opportunity to generate higher returns. There are never guarantees of higher returns and it's important to understand the risks and returns before you make a decision about what suits your appetite and circumstances.

Super investment options you can choose from

Most super funds let you choose from a range or mix of investment options and asset classes. These might include 'growth', 'conservative' and 'cash' but the terms can differ across super funds. Here's a small sample of the typical type of investment options available:

Growth options aim for higher returns over the long term, however losses can also be notable when markets aren't performing. This option generally invests around 85% in shares or property.

Balanced options try to have a mix of asset investment which may impact the overall return. Generally, during a market downturn, any losses experienced may be lower. This option typically invests around 70% in shares or property, with the rest in fixed interest and cash.

Conservative options generally aim to reduce the risk of market volatility and may generate lower returns. It typically invests approx. 30% in shares and property, with the rest in fixed interest and cash.

Cash options aim to generate stable returns. It typically invests 100% in deposits with Australian deposit-taking institutions, such as banks, building societies and credit unions.

Super funds may have different allocations, so it's important to read your super fund's product disclosure statement in full.

How your stage of life may influence your preference

Choosing the most suitable investment option generally may come down to one's goals for retirement, their attitude to risk and the time a person has available to invest.

As a person gets closer to retirement, they may prefer a more conservative approach to investing as a share market crash can be harder to recover from.

However, if someone is five years or less from retiring, it's important to understand the impacts any changes to an investment option may have on a retirement outcome.

Implications of changing investment options

People should think carefully before deciding to change investment options and if possible, speak to us to understand the implications before making a decision.

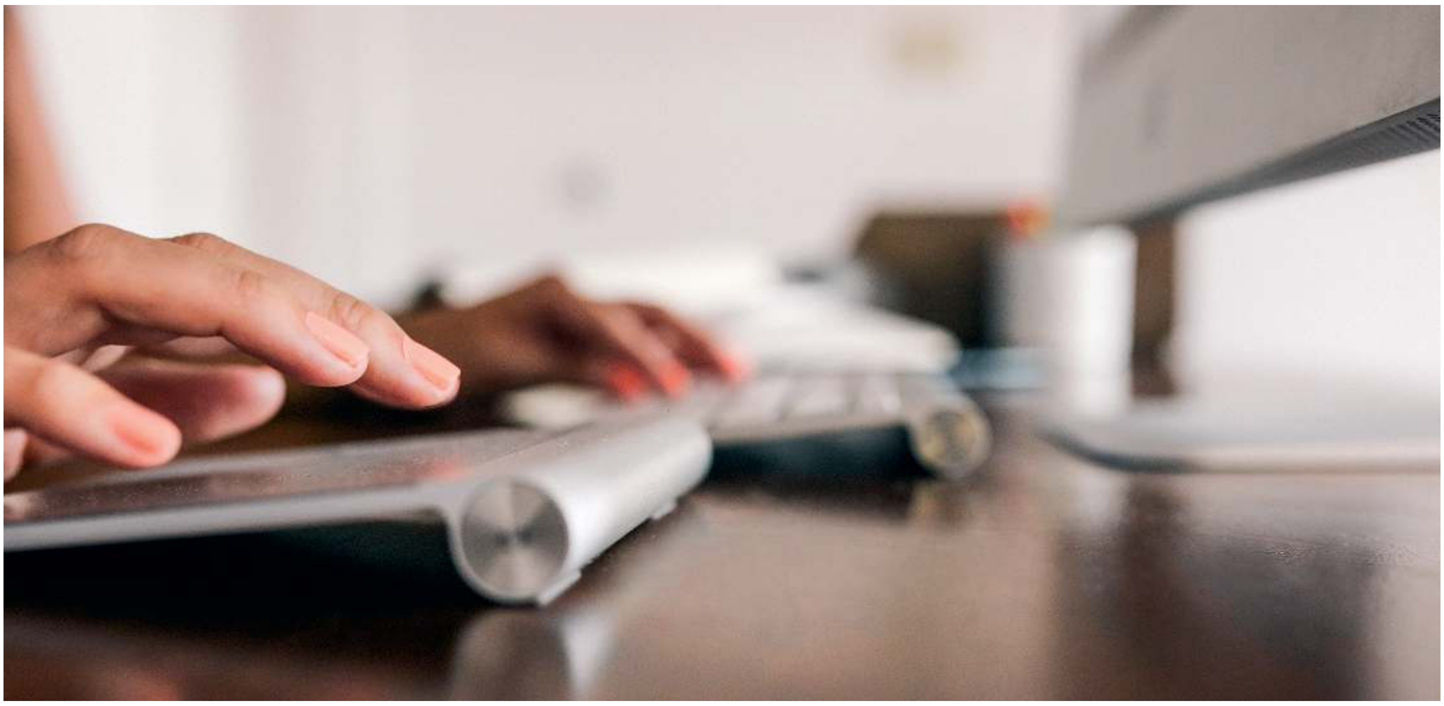
For example, if you've seen your super balance go down and are thinking about changing your investment option, say from a balanced fund to a conservative or cash fund, this may see you lock in any losses. It's similar to selling a house at the bottom of a market slump – most people would think twice and consider allowing the property market time to bounce back before taking that step.

It's not just locking in your losses to think about. Depending on the type of fund you have, there may be capital gains tax (CGT) or other tax/fee implications when switching investment options.

It's important to remember that the decisions you make about your retirement savings at this stage in your life could potentially mean the difference between a comfortable and not-so-comfortable retirement.

If you need further help in making sure your retirement's on track, speak to us.

We can bring the right knowledge, expertise and guidance to identify your specific goals, and help you achieve them.



Digital payments and online banking for older Aussies

Although we're already a predominantly cashless society[i], the introduction of social distancing has further increased our reliance on digital payments and online banking.

Face-to-face encounters have become less frequent in so many areas of our lives – and banking and shopping are no different. So now's an ideal time for older Australians to start integrating more digital transactions into their everyday banking. Using these methods for the first time can be intimidating, so we've answered some of the key questions you might have about digital transactions and online finance.

What are contactless payments?

In the wake of the COVID-19 coronavirus health crisis, many shops and businesses have moved away from cash and are accepting payment by credit or debit card only. If you go into a store to buy something, you'll likely be asked to use the 'contactless' payment method. This is simply a payment that's processed in real time by holding your debit or credit card near the card reader without the need to swipe or insert it.

Also known as Tap & Go, this method allows you to make a purchase of up to $200 (temporarily increased from the $100 pre-COVID-19 limit) by simply hovering your card above the machine – you won't need to enter a PIN.

If your transaction is in excess of $200, you'll need to enter a PIN. Use one hand as a barrier over the keypad to prevent anyone else seeing your pin entry.

Some merchants may pass on the costs they incur to use these processing systems. If you are charged, the surcharge varies between merchants. You may find you'll have to pay a small percentage for credit and debit purchases; however, merchants will generally let you know before the transaction.

What details do I need to give when I'm shopping online?

When you purchase something online, you'll be asked to enter your details, including your name, address and contact details for the delivery. You'll also be asked for the debit or credit card number that appears on the front, as well as the CVC or CVV number, which is the three-digit number printed on the back of your card or four-digit number on the front of the card above the main numbers. This is an important anti-fraud measure to ensure that only you, the card holder, can make purchases online.

As a convenient feature on your computer or mobile phone, you may be prompted with a pop-up message to save your debit and credit card details for quicker checkouts when online shopping in future. If you don't feel comfortable storing them digitally on your computer or mobile phone, you can reject or opt out of the pop-up request.

Staying safe - online banking and shopping

It's true that if you're online, there can be a risk of online fraud and 'phishing'[ii]. Phishing is the sending of fraudulent messages through channels such as email, social media and text messages that are designed to steal your confidential information.

However, there are several steps you can take to increase the safety of your finances and details online.

- Never give out your personal information or details via email, text message or over the phone, unless you have called your financial institution directly.
- Never enter sensitive details into a website you've arrived at by clicking on a link, including any links you've received in an email or text message. In particular, you should always go directly to the website of a financial institution or online banking system, rather than via a link.
- Familiarise yourself with scams that are circulating so you can stay informed. A regular update of these appears on the Stay Smart Online website.

Looking out for fraud

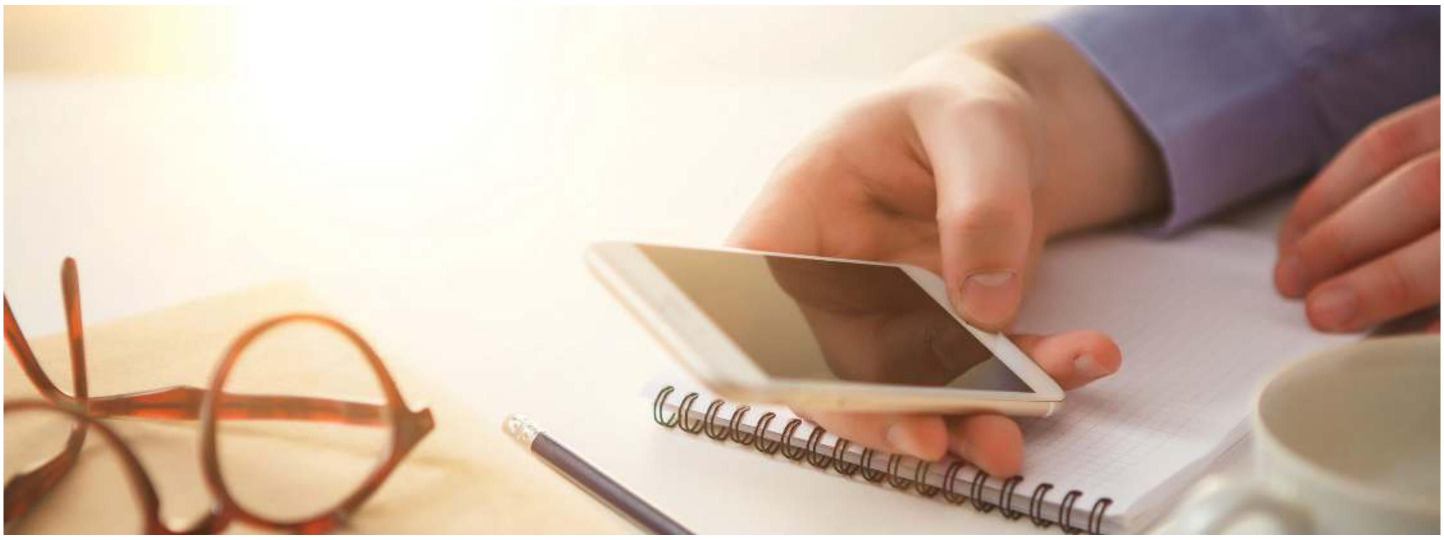
The COVID-19 outbreak provides a further smokescreen for fraudsters. Pretending to be legitimate businesses, from charities to your local supermarket, they hope to exploit confusion and the absence of face-to-face contact to gain your money and information.

The Australian Banking Association has a helpful short refresher with good tips on how to spot a scam.

If you suspect suspicious activity online or have been contacted via email or phone by someone who you think could be running a scam, it's important that you contact your financial institution immediately to discuss the details.

i RBA: Trends in Consumer Payments | RDP 2017-04: How Australians Pay: Evidence from the 2016 Consumer Payments Survey

ii Australian Cyber Centre: Phishing



Checklist for the end of financial year

The end of financial year on 30 June is a good time to take stock and get your finances in order.

This is an end of financial year like no other.

Being prepared, reviewing your super contributions and submitting your return on time are good policies every year, but the shadow of COVID-19 (coronavirus) means many of us face unexpected pressures in a changing economic environment.

Many people will have concerns around job security, which makes long-term planning seem less important.

You may face urgent priorities for your money, such as mortgage repayments, covering bills and paying down debt.

If you've worked from home this year, the government has recently released guidance on claiming working from home expenses as a tax deduction. Due to COVID-19, this financial year the ATO will accept a shortcut method for calculating running expenses from 1 March to 30 June.

Here are some other things to consider as 30 June approaches.

What's new this year if you're at or near retirement

Changes kicking in this financial year include lower minimum pension drawdown requirements to help retirees affected by significant losses in financial markets as a result of COVID-19.

The minimum annual payment required for account-based and allocated pensions and annuities has been cut by 50% in the 2019–20 and the 2020–21 financial years.

If you've recently retired, you may still be able to make voluntary super contributions and potentially claim a tax deduction for personal super contributions. Current regulations allow eligible 'recent' retirees, aged 65 and over, a limited exemption from having to meet the work test, which is otherwise required to make voluntary super contributions. This applies to contributions made from 1 July 2019.

This is also the first year that those who are eligible can use unused carried forward concession cap amounts from the previous financial year.

First applications for early release of super withdrawals up to $10,000 must be made by 30 June. A further application can be made between 1 July and 24 September 2020.

Super fund members born between 1 July 1962 and 30 June 1963 will reach their preservation age during the 2020/21 financial year and may wish to consider whether a transition to retirement pension is appropriate.

Proposed changes

From 1 July 2020, the following proposed changes, if legislated, may benefit members aged 65 and 66 who want to make additional contributions to super. Note that legislation around these changes hasn't yet been passed.

- Up to age 67 (currently 65) you will be able to make personal and non-mandated employer contributions to super without needing to satisfy the work test (ie been gainfully employed for 40 hours in 30 consecutive days during the financial year in which the contributions are made).
- You will be able to access the bring forward provisions for the non-concessional cap up to age 67 (currently 65). This means you will be able to contribute up to $300,000 to super (you can generally bring forward up to $300,000 if your total super balance on the previous 30 June is less than $1.4m, or up to $200,000 if it's less than $1.5m).
- The maximum age at which you will be able to receive a spouse contribution will increase from 70 to 74.

Think about making extra super contributions

End of the financial year is usually a good time to think about making extra contributions to take advantage of the lower rates of taxation on super.

While that might be harder this year with competing priorities, it still makes sense to keep in mind that additional contributions today could boost your super balance in the future. There are a number of different types of contributions to consider. You may also be able to reduce your taxable income and pay less on investment earnings.

To claim a tax deduction on your post tax contributions, you need to tell your super fund by filing a notice of intent. You will generally need to lodge this notice, and have the lodgement acknowledged by your fund, before you file a tax return in the year you made the contributions.

If you're earning more than your partner and would like to top up their retirement savings, or vice versa, you may want to think about spousal contributions. The spouse making the spousal contributions could be eligible for a tax break.

You and/or your partner may also be eligible to receive a government co-contribution. If so, you might consider making a personal non-concessional contribution before 30 June to make sure you receive the matching government co-contribution for the 2019-20 financial year that you are entitled to.

Consider your insurance premiums

If you have income protection cover, and your budget allows, you may consider pre-paying your premiums 12 months in advance to take advantage of claiming a bigger tax deduction this year. This may work well if your income is higher in the current income year than next.

However, it is important to get some tax advice as to whether doing so this year is a good idea for you based on your income.

Talk to a professional

If you use a tax agent to complete your return, it's worth having a word with them about your circumstances to see if there are other potential savings you can make. Also have a word with us, if you haven't already as we can assist you to make the best decisions for your situation at this time.