Accredited by
AMP Financial Planning

Newsletter - April 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 “Super Changes effective 1st July 2022” and provide you with information on “Budget Smarter with the 50/20/30 rule” and “Save money for home deposit”.

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

Planet Wealth
18 Boronia Dr Glen Waverley Vic 3150
P 1300 004 254
E info@planetwealth.com.au
W www.planetwealth.com.au
Facebook Planet.Insurance.Australia
Twitter alisplanet

Super changes that could affect you from 1 July 2022

A number of changes to the super system could create opportunities for Australians of all ages. Here's a rundown of what you need to know.

Last month, the Federal Government legislated a number of proposals that it previously put forward in its May 2021 Federal Budget. The changes announced will come into effect on 1 July 2022.

Here's a snapshot of what will change, with further details below.

- More people will be eligible for contributions from their employer, under the Superannuation Guarantee (SG), as the minimum income threshold of $450 per month will be removed.
- Work test requirements for those aged 67 to 75 will be softened and only apply to people who want to claim a tax deduction on voluntary super contributions they may be making.
- More people will be able to make up to three years' worth of non-concessional super contributions in the same financial year, with the cut-off age increasing from 67 to 75.
- More people will be eligible to make tax-free downsizer contributions to their super from the proceeds of the sale of their home, with the eligibility age reducing from 65 to 60.
- First home buyers, who meet certain criteria, will be able to withdraw an additional $20,000 in voluntary contributions from their super, to put toward a deposit on their first home.

How you could benefit from the changes

Compulsory (SG) contributions from your employer

Under the government's Superannuation Guarantee (or SG for short), you currently need to earn at least $450 per month to be eligible for compulsory super contributions from your employer. However, from 1 July 2022 that minimum income threshold will be removed.

This means that even where an eligible employee earns less than $450 in a calendar month, there is now an obligation on the employer to make contributions.

The work test

Currently, people aged 67 to 74 can only make voluntary contributions to their super if they've worked at least 40 hours over 30 consecutive days in the financial year, unless they meet an exemption.

From 1 July 2022, the work test will no longer apply to contributions you make under a salary sacrifice arrangement with your employer, or personal contributions that you don't claim a tax deduction for. The work test however will still need to be met if you wish to claim a tax deduction on personal contributions.

Under the new rules, the work test can be met in any period in the financial year of the contribution. This is different to the current rules, where the work test must be met prior to contributing.

Non-concessional super contributions

Currently, those under the age of 67 at the start of the financial year can make up to three years of non-concessional super contributions under bring-forward rules.

From 1 July 2022, the cut-off age will increase to 75.

The bring-forward rules allow you to make up to three years of non-concessional contributions in a single year if you're eligible. This means you could put in up to three times the annual cap of $110,000, meaning you could top up your super by $330,000 within the same financial year.

How much you can make as a non-concessional contribution will depend on your total super balance as at 30 June of the previous financial year.

Downsizer contributions

The age Australians can make tax-free contributions to their super from the proceeds of the sale of their home, which needs to be their main residence, will be reduced from 65 to 60. (Note, there is no upper age limit for downsizer contributions and no requirement to meet the work test.)

The maximum downsizer contribution amount of $300,000 per eligible person and other eligibility requirements remain unchanged.

For couples, both spouses can make the most of the downsizer contribution opportunity, which means up to $600,000 per couple can be contributed toward super.

The First Home Super Save Scheme (FHSSS)

The First Home Super Saver Scheme (FHSSS) aims to provide a tax-effective way for eligible first home buyers to save for part of a deposit on a home.

Under the scheme, you can withdraw voluntary contributions (plus associated earnings/less tax) from your super fund, with the current maximum withdrawal broadly $30,000 for each eligible individual.

From 1 July 2022, this withdrawal cap will increase to broadly $50,000 for each eligible individual.

Other important things to note about your super

- If you exceed concessional and non-concessional super contribution caps, additional tax and penalties may apply.
- The value of your investment in super can go up and down, so before making extra contributions, make sure you understand, and are comfortable with, any potential risks.
- The government sets general rules around when you can access your super, which typically won't be until you reach your preservation age (which will be between 55 and 60, depending on when you were born) and meet a condition of release, such as retirement.

There may be lots of things to consider when it comes to these superannuation changes, and it may affect what you choose to do this financial year. We're here to help

Budget smarter with the 50/20/30 rule

Looking at your spending in a new light could make a substantial difference to your financial future. The 50/20/30 budget rule works for one main reason – it's easy.

New to budgeting? You may know how much money you make and have a rough idea of how much you spend. But do you know what you're actually spending it on, or if your spending patterns will benefit you in the long run? The good news is, you don't need complicated spreadsheets and formulas to get your personal finances in check.

Enter the 50/20/30 budget rule, a kind of yardstick to guide your spending patterns. The concept was popularised by bankruptcy expert and US senator Elizabeth Warren, who co-wrote All Your Worth: The Ultimate Lifetime Money Plan with her daughter, Amelia Warren Tyagi. The essence is to keep your personal budget simple: the easier it is to understand, the easier it is to stick to.

What is the 50/20/30 rule?

Needs: Ideally, you'd spend 50% of your after-tax income on essential living expenses, like rent or your mortgage, other loan payments, groceries, bills, insurance and transport.

Savings: Next, you'd channel 20% of your income into your financial goals, whether that's building an emergency fund, boosting your superannuation or saving for a house deposit.

Wants: The final 30% of your money would be allocated to things that make your life a little more enjoyable but aren't necessary to get by. Think new clothes, concert tickets, a holiday or a meal out with friends.

Consider the figures for needs and wants as a guiding principle – if you spend less than what you budgeted for in either category, the surplus can be channelled into things such as extra mortgage repayments, general savings or investments.

How to create a 50/20/30 plan

To put this budgeting plan into action, you need to have more than a rough idea of what you spend. Make a list and tally up your monthly expenses – remember to include averages for bills that might be infrequent – and then break them up into 'needs' and 'wants'.

If you're currently spending 60% of your income on needs and 40% on wants, you probably won't be surprised to find you're not saving anything for your future. Take some time to reassess where you can cut back to start saving more in each category.

- **Needs:** Can you get a better deal on your phone plan? Can you plan weekly menus to reduce your grocery bills? Do you need to take more drastic measures, like moving to a new house to reduce the amount you spend on rent or your mortgage?
- **Wants:** Can you go without takeaway coffee this month? Do you really have to go out to dinner three times a week? Is that new jacket a must-have?

One way to make sure you stay on track with saving money is by splitting your pay packet as soon as you get paid. You could keep your everyday bank account for your needs, for frequent and easy access. Then consider additional accounts, for wants and savings. Set up an automated direct debit for the day after you get paid, so that the cash split from your everyday bank account happens without you having to do a thing.

Why the 50/20/30 rule works

The 50/20/30 budget rule is popular because it may allow you to manage your money without making too many sacrifices. You pay your bills, grow your savings and still get to have some fun. It also gives you a way to look at your spending in a different light – would you have moved to a cheaper apartment sooner if you'd realised what a large chunk of your income your rent was consuming? Having a new perspective of what's absolutely necessary can be refreshing and rewarding.

When the 50/20/30 rule doesn't work

Like all rules, the 50/20/30 rule was made to be broken – in some situations. If you have a hard time separating your needs from your wants, you'll probably find this form of budgeting tricky to stick to. And it can be downright detrimental if, for example, you have large debts but are still stashing away 30% of your pay for personal splurges. This is the time to consider shifting some of the money in your 'wants' column to your 'needs' column – not forever, but just until you get your spending on essentials down to a more manageable level.

How much do I need to save for a home deposit?

If you're ready to step onto the property ladder, the first thing you'll need is a deposit. But exactly how much you'll need to save will depend on a few factors, including what you can afford to borrow and how much your ideal property costs.

Your overall financial situation, and in particular, your income and expenses, can be a good guide when considering how much you can afford to borrow and how much money you have each month to cover loan repayments.

It's important to remember that interest rates change, so consider building a buffer into the repayment amount to cover your loan repayments if interest rates rise.

How much deposit do I need?

Typically, a 20% deposit is required when buying a home, although it may be possible for home buyers to have as little as a 5% deposit.

On top of your house deposit, you'll also need to save for other upfront costs associated with buying a home such as legal fees, building and pest inspection fees, stamp duty, moving costs and insurances.

Trying to save as much as you can for your house deposit is a good idea, as the more money you put towards your deposit the less you'll need to borrow. This means lower loan repayments and paying less interest on your home over the long-term.

Why do I need a deposit?

The amount you borrow relative to the property's value is known as the loan to value ratio (LVR). The higher the LVR, the more money you owe and – in the eyes of banks and other authorised lenders – the greater risk you pose.

As a result, lenders require home buyers to have a deposit because it reduces their risk. When the buyer has a significant financial stake in the property it's considered less likely that they'll default on their loan repayments.

Saving a deposit demonstrates to lenders that you have the ability to save money, which makes it more likely you'll be able to budget for your loan repayments on an ongoing basis.

How to save for a deposit

When you begin saving for a deposit it can be helpful to have clear objectives upfront, such as a target amount you'd like to save over a set period of time.

To start saving, it's important to have a budget and understand what money you have coming in (your income) and what outgoings you have (your expenses). The difference between the two – your surplus – is where to look to determine a regular amount you can begin saving.

Keeping your deposit savings on track

Here are some tips:

- Open a separate savings account for your house deposit.
- Set up an automatic transfer to avoid the temptation to spend.
- Top up your savings with any additional money left at the end of the month, or when you receive a tax refund or work bonus.

Compare products and services when looking for a savings account, such as the interest rate on offer, how accessible your money is, the fees charged and whether the account pays additional interest if you deposit a minimum amount each month.

What if I don't have a deposit?

If you don't have a deposit, or have less than 20%, it may make it harder to get a loan, but there are still a few options available to you.

Lender's mortgage insurance

If you have less than a 20% deposit, most lenders will require you to take out lender's mortgage insurance (LMI).

LMI is a type of insurance that makes sure the lender doesn't lose out if you can't make your repayments and they have to sell the property for less than the amount owing on your loan. It's charged as a one-off premium and can either be paid in full as an upfront cost or added onto the amount you're borrowing (which also means you'll pay interest on it).

Guarantor

If you have a small – or no – deposit and want to avoid paying LMI, one option is to have someone act as a guarantor for your home loan. This will typically be an immediate family member.

Under this arrangement, the property you're purchasing acts as partial security for the lender, and the equity in a property owned by the guarantor provides additional security. This means the guarantor's property and credit rating could be at risk if you can't make your loan repayments. It's important that everyone involved understands the risks and reads the loan's product disclosure statement carefully.

Deposit protect bond

If the money you'd use for a deposit is tied up in other investments and not immediately available, you may be able to use a deposit protect bond in lieu of a cash deposit.

This might be useful if you're waiting for funds to come through from the sale of a property to use as a deposit on a new property, or if you're buying a property off-the-plan with a long settlement, as your deposit can continue to earn interest in other investments until the settlement date.

There are costs involved in getting a deposit protection bond, which a mortgage broker can help you arrange. However, check whether the vendor and real estate agent or developer of the property you're interested in buying will accept one first.

Other options

If you're a first home buyer you might be eligible for government assistance when buying a home. This could include:

- First Home Owner Grant
- Stamp duty concessions
- First Home Super Saver Scheme