Spring 2023

September is upon us, and spring is in the air. It's time to shake off the winter cobwebs, get out into the garden or the great outdoors. Meanwhile, AFL and NRL fans will be hoping the sun shines on their team this finals season.

After endless gloomy forecasts, there was a glimmer of hope last month that the cost of living might be easing. Inflation fell in July to 4.9% from 5.4% in June, despite predictions by economists of a rise.

While housing prices are still rising, up by 7.3 per cent for the 12 months, and total dwelling approvals recorded a sharp decline in July, the next Reserve Bank Governor Michele Bullock believes prices in some areas will fall by five per cent or more by 2050 because of climate change.

Consumer confidence is continuing to slowly improve. The ANZ-Roy Morgan Consumer Confidence has now increased for a record 26 weeks in a row. Unemployment was up slightly by 0.2% to 3.7%, meaning an extra 36,000 people are now looking for jobs.

China looms large as a threat to Australia's economy. As our largest two-way trading partner, China's worsening economic conditions are concerning for Australian investors although stronger demand from steel producers led to a small increase in iron ore prices. The ASX200 ended the month down, gains in financial stocks were offset by losses in mining and energy shares because of their dependency on China. The Australian dollar rebounded slightly based on improved confidence in the US.

Lowe Lippmann Wealth Advisers
Level 7, 616 St Kilda Road
Melbourne VIC 3004

PO Box 130
St Kilda Vic 3182
P 03 9525 3777
E info@llwa.com.au
W www.llwa.com.au

How to **boost** your super with a *lump sum*

If you're lucky enough to have received a windfall, perhaps an inheritance or a retrenchment payout, your first decision will be what to do with it.

Assuming you have decided against a shopping splurge, finding the best place to invest a lump sum is all about the effect on your tax bill and how soon you will need access to the funds.

For those interested in investing their lump sum for a longer term, superannuation is one approach because of its tax benefits.

But be aware that, while super can be a tax-effective investment, there are limits on how much you can pay into your super without having to pay extra tax. These are known as contribution caps.

Different types of contributions

There are two types of super contributions you can make – concessional and non-concessional – and contribution caps apply to both.

Concessional contributions are paid into super with pre-tax money, such as the compulsory contributions made by your employer. They are taxed at a rate of 15 per cent.

Non-concessional or after-tax contributions are paid into super with income that has already been taxed. These contributions are not taxed.

So, the tax you pay depends on whether:

- the contribution was made before or after you paid tax on it
- you exceed the contribution caps
- you are a high income earner

(If your income and concessional contributions total more than $250,000 in a financial year, you may have to pay an extra 15 per cent tax on some or all of your super contributions.)

Investing after-tax income

There are many different types of after-tax contributions that can be made to your super including contributions your spouse may make to your fund, contributions from your after-tax income, an inheritance, a redundancy payout or the proceeds of a property sale.

Based on current rules, the annual limit for non-concessional or after-tax contributions is $110,000. You can also bring-forward two financial years' worth of non-concessional contributions and contribute $330,000 at once but then you can't make any further non-concessional contributions for two financial years. Note that are certain limitation on these types of contributions.

It is also useful to note that, under certain conditions, there are some types of contributions that do not count towards your cap. These include: personal injury payments, downsizer contributions from the proceeds of selling your home and the re-contribution of COVID-19 early release super amounts.

The Downsizer scheme allows the contribution of up to $300,000 from the proceeds of the sale (or part sale) from your home. You will need to be above age 55 but there is no upper age limit, the home must be in Australia, have been owned by you or your spouse for at least 10 years, the disposal must be exempt or partially exempt from capital gains tax and you have not previously used a downsizer contribution.

Giving your super a boost

A review of your super balance and some quick calculations about your projected retirement income might inspire you to give your super a boost but not everyone has access to a lump sum to invest.

A strategy that uses smaller amounts could include any amount from your take-home pay. These contributions will count towards your non-concessional or after-tax cap.

Alternatively, you add to your super from your pre-tax income using, for example, salary sacrifice. These types of concessional or pre-tax contributions attract a different contribution cap: $27,500 per year, which includes all contributions made by your employer.

If your super fund balance is less than $500,000, your limit may be higher if you did not use the full amount of your cap in earlier years. You can check your cap at ATO online services in your myGov account.

The rules for super contributions can be complex so give us a call to discuss how best to maximise your benefits while avoiding any mistakes.

Managing the *costs of raising kids*

It is a special feeling to welcome a new child or grandchild into the world and watch them grow. Sharing their joy as they reach new milestones is priceless.

Of course, there is a real cost – raising a child is expensive, particularly now as the cost-of-living spirals higher. Estimates vary widely from the few studies completed but it is fair to say that over a child's lifetime families can spend hundreds of thousands of dollars on living, medical and schooling expenses for their children.

So, having a financial strategy in place to cover the costs and taking advantage of government support where available can make a big difference.

Taking care of the basics

The first step is to update your Will to nominate guardians for your children in case the worst happens. You may also consider life insurance and income protection to ensure your family is protected.

Next, a savings and investment plan will help you navigate the years ahead with more certainty. Adding small amounts of money regularly to an account for education and other expenses can help to ease financial stress. The MoneySmart savings goals calculator shows what can be achieved. You could consider fee-free high interest savings accounts or your mortgage offset account as a way to save cash for short-term needs.

Meanwhile, some longer-term investments such as shares, exchange traded funds or listed investment companies may provide financial support for later expenses. They can offer the possibility of capital growth and diversification for a relatively low cost.

Super splitting

Keeping an eye on the future also means thinking about your superannuation. If one partner is staying at home to care for the children, the other partner can split their super contributions with them. You will need to check if your fund allows it, whether they charge a fee and complete some paperwork.

There are also some tax considerations, so it is important to make sure you understand the implications for you.

Government support

Take the time to discover the government payments and supports available for families. For example, the Paid Parental Leave Scheme provides support for mothers for up to three months before the birth.

A recent change to Parental Leave Pay and Dad and Partner Pay sees these two payments combine into one payment that is available to both parents for up to two years after the child's birth.

You will need to meet income and work tests and claim within certain timelines.

Even if you are not eligible for parental leave pay, you may still be able to apply for both the Newborn Upfront Payment and the Newborn Supplement.

Then there is the Family Tax Benefit, a two-part payment to help with the cost of raising children. To receive the benefit, you must have a dependent child or a full-time secondary student aged 16 to 19 who is not receiving any other payment or benefit such as a youth allowance, care for the child at least 35 per cent of the time and meet an income test.

Grandparent gifting

Grandparents who are keen to help out their families financially can gift money to their children or grandchildren. Be aware that Centrelink has gifting rules for those receiving an age pension. You can give $10,000 in one year or up to $30,000 over five years without your pension being affected. If you give more, the amount will be treated as though you had retained it in your own accounts.

However, gifts and inheritances are generally not considered as income for tax purposes. The ATO says neither the donor nor the receiver will pay tax on a gift if:

- it is a transfer of money or property.
- the transfer is made voluntarily.
- the donor does not expect anything in return.
- the donor does not materially benefit.

Tax may apply in some cases where property or shares are gifted.

The joys of raising a little one are many, and having a plan to manage the financial implications can let you enjoy the journey. Get in touch with us to create a plan to secure your family's future.

Should I buy INSURANCE through my super?

While we all hope for good health, the reality is that some of us may struggle at times with sickness or injury. And that may affect your family's financial wellbeing.

Different types of life insurance or personal insurance can provide an income when you're unable earn, or a lump sum to protect your loved ones if the worst happens.

Insurance products such as life insurance and total and permanent disability (TPD) cover are available through your superannuation fund or directly through an insurance company. There are also other products not usually offered by super funds such as accidental death and injury insurance, and critical illness or trauma cover.

Almost 10 million Australians have at least one type of insurance (life, TPD or income protection) provided through superannuation.[i]

Check what your fund offers

Super funds usually provide three types of personal insurance. These include:

- **Life insurance or death cover** provides a lump sum payment to your beneficiaries in the event of your death.
- **Total and Permanent Disability (TPD)** pays a lump sum if you become totally and permanently disabled because of illness or injury and it prevents you from working.
- **Income Protection** pays a regular income for an agreed period if you are unable to work because of illness or injury.

While these insurance products can provide valuable protection, it's essential to be aware of circumstances where coverage might not apply. For example, super funds will cancel insurance on inactive super accounts that haven't received contributions for at least 16 months.[ii] Some funds may also cancel insurance if your balance is too low, usually under $6000. Automatic insurance coverage will not be provided if you're a new super fund member aged under 25.

Should you insure through super?

Using your super fund to buy personal insurance has advantages and disadvantages so it's a good idea to review how they might affect you.

On the plus side

- **Cost-effective:** Insurance through super can be more cost-effective because the premiums are deducted from your super balance, reducing the impact on your day-to-day cash flow.
- **Automatic inclusion:** Many super funds automatically provide insurance cover without requiring medical checks or extensive paperwork.
- **Tax benefits:** Some contributions made to your super for insurance purposes may be tax-deductible, providing potential tax benefits.

Think about possible downsides

- **Limited flexibility:** Super funds can only offer a standard set of insurance options, which may not fully align with your needs.
- **Reduced retirement savings:** Paying insurance premiums from your super balance means less money invested for your retirement, potentially impacting your final payout.
- **Coverage gaps:** Depending solely on your super fund's insurance might leave you with coverage gaps, as the default options may not cover all your unique circumstances.
- **Possible tax issues:** Be aware that some lump sum payments may be taxed at the highest marginal rate if the beneficiary isn't your dependent.

Don't forget the life admin

Whether you decide to buy insurance through your super fund or not, it is important to regularly review your insurance coverage to make sure they reflect your current life stage and to make sure you are not paying unnecessary premiums if you have more than one super fund.

Insurance within super can be a valuable safety net, providing crucial financial support to you and your loved ones. Understanding the types of coverage offered, the pros and cons of insuring inside super and the need for regular reviews are essential steps to make the most of this benefit. If you would like to discuss your insurance options, give us a call.

i The future of insurance through superannuation, Deloitte and ASFA, 2022 1051554 Insurance through superannuation.indd

ii Treasury Laws Amendment (Protecting Your Superannuation Package) Act 2019, No. 16, 2019 Treasury Laws Amendment (Protecting Your Superannuation Package) Act 2019 (legislation.gov.au)