July 2019

It's July and temperatures are falling across the country. It may be chilly Downunder but Aussie women are on fire in the northern hemisphere, with Ash Barty, Sally Fitzgibbons and Hannah Green victorious in tennis, surfing and golf.

All eyes were on interest rates and the ongoing US-China trade war in June. In Australia, the Reserve Bank cut its official cash rate by 25 basis points to an historic low of 1.25% with more cuts anticipated. In the US, Federal Reserve chair Jerome Powell said the case for cutting rates had strengthened. This led to a fall in the US dollar, with one Aussie dollar now buying US70c, up more than a cent over the month.

The RBA is concerned about emerging signs of a slowing economy. Australia's annual economic growth fell from 2.3 per cent to 1.8 per cent in March, the weakest since 2009. Local unemployment is stuck at 5.2 per cent compared with 3.6 per cent in the US. Inflation at 1.3 per cent is well below the central bank's 2-3 per cent target band. Retail trade fell 0.1 per cent in April with annual growth down from 3.5 per cent to 2.8 per cent. New vehicle sales were down 7 per cent in the year to May, the biggest annual decline in 9 years.

On a more positive note, Australia's trade surplus was a record $37.7 billion in the year to April with record China imports and exports. Iron ore prices at US$115 a tonne are up almost 72 per cent year on year. And in the aftermath of the federal election, the NAB business confidence index rose from 0.1 points in April to 7.3 points in May, the biggest lift in almost 6 years.

growing together.

Ivy Wealth
9/39 Murray Street
Hobart TAS 7000
P 03 6245 1777
E reception@ivywealth.com.au
W www.ivywealth.com.au

3 WAYS TO LIFT RETIREMENT INCOME

Aussies are living 10 years longer than we did 50 years ago; we are also staying fit and active well into retirement. Expectations of retirement are also higher, whether that be overseas travel, eating out, learning a new skill or spoiling the grandkids.

Recent changes to boost retirement income may go at least some of the way to achieving your dream retirement and providing for a healthy, independent and good life in your later years. While there are some changes that affect self-funded retirees, the changes generally relate to those with Centrelink entitlements.

Here are the three main areas where changes have been introduced as of 1 July 2019.

Pension Work Bonus

If you receive the age pension or a Veterans Affairs pension, you can now earn up to $300 a fortnight (up from $250) without impacting on your Centrelink payment. Together with the income test free area of $174, this means singles can earn $472 a fortnight before your pension is affected.

The work bonus applies whether you are an employee or self-employed. And you don't have to earn a maximum of $300 every fortnight. You can accumulate unused work bonus up to $7,800 (previously $6,500) and use this when you earn employment or business income in the future.[i]

For instance, if you haven't worked for a year, you accumulate $7,800 of unused work bonus. Then if you earn $4,000 for contract work over a six-week period, $4,000 of your accumulated work bonus (leaving a balance of $3,800) is used so your Centrelink payment will not be affected.

Not only can you improve your income, but you may also enjoy the stimulation of remaining in the workforce.

Pension Loans Scheme

Changes to the Pensions Loans Scheme mean that more people can tap into the equity in their home.[ii]

The fortnightly loan to boost income has been extended to apply to all age pensioners as well as self-funded retirees.

You can borrow up to 150 per cent (previously 100 per cent) of your maximum fortnightly pension rate to provide you with a better standard of living in retirement. The amount borrowed is secured by property you own in Australia.

The loan can be repaid at any time you choose, although it is recovered either when you sell the property or it's sold from your estate (whichever comes first).

Currently retirees are charged a compounding variable interest rate of 5.25 per cent a year.

The scheme is effectively a reverse mortgage facilitated by the government. Of course, such a loan will reduce your home equity, but it will give you added cash flow in the meantime.

New means testing of annuities

Changes have also been made to the treatment of pooled lifetime retirement income streams such as lifetime pensions, lifetime annuities both in and out of super and deferred lifetime annuities.[iii]

An annuity is a product where your money is pooled with other investors and a set amount is paid to you each year, usually for the rest of your life. The changes do not apply to account-based pensions or to annuities purchased before 1 July 2019.

Under the new rules, Centrelink will treat a fixed 60 per cent of all annuity payments as income. And for the assets test, it will assess 60 per cent of the nominal purchase price for the period until you are age 84 (for a minimum of five years) and after that 30 per cent for the rest of your life.

While the 60 per cent ruling may improve your circumstances, it won't in all cases. If you have or are considering an annuity, give us a call to discuss what works best for you.

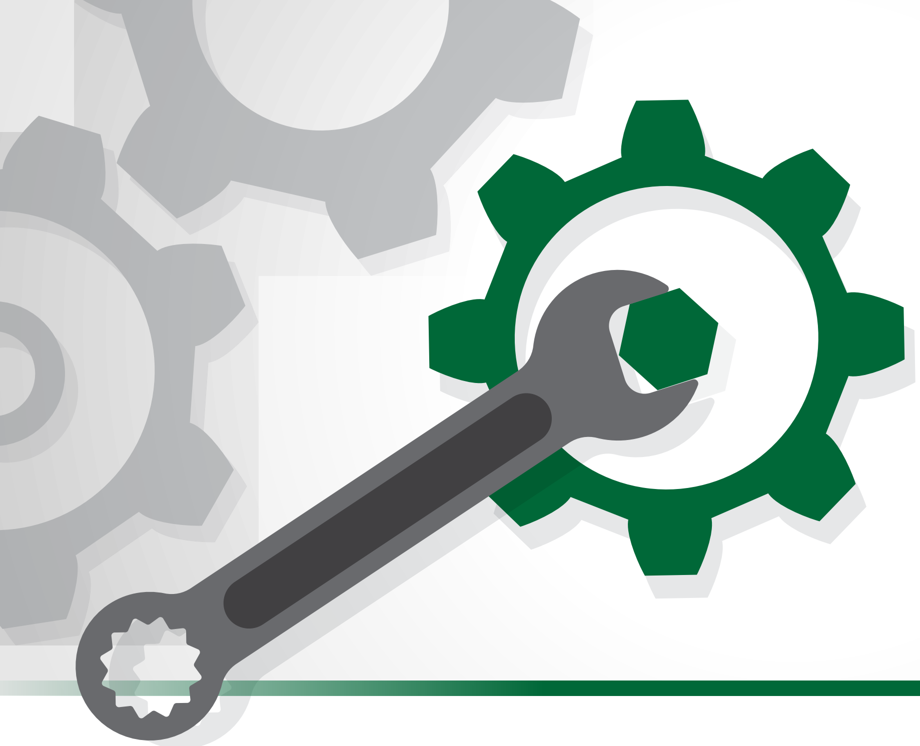
As the interest rate on annuities is set at the time of purchase, they are less attractive when interest rates are low. But there is an argument for investing part of your retirement savings in an annuity to give you guaranteed income on top of any Centrelink payments or a superannuation account-based pension that may not last your lifetime.

These three changes are all aimed at giving you additional sources of stable income in retirement. If you would like to know more, give us a call.

i https://www.dss.gov.au/seniors/programmes-services/work-bonus

ii https://www.humanservices.gov.au/individuals/news/changes-pension-loans-scheme-from-1-july-2019

iii https://www.dss.gov.au/sites/default/files/documents/05_2018/d18_13635_budget_2018-19_-_factsheet_-_more_choices_for_a_longer_life_-_finances_for_a_longer_life.pdf



Time for an annual tune-up?

Checking in on your goals, finances and health

We don't think twice about taking our car in for a regular tune up. Why? Because we know it's going to mean our car runs at its best and saves unexpected problems down the track. It follows then that we should take the same approach to other areas of our lives. From our goals, to our finances, to our health, there's so much to be gained in checking in regularly to make sure everything's tracking well.

Kick your goals into gear

A good place to start is with your goals. If you set some at the beginning of the year, take some time to reflect on how you're tracking. If you didn't, there is no time like the present to stop and think about what you want for your future.

The next step is to make a plan. This will involve writing down your goals then looking at what resources you'll need to help you achieve them. You want to make sure you have allocated enough hours and dollars towards making them a reality. This will also dictate your overall timeframe. Set regular, realistic deadlines with measurable sub-goals and make sure you have someone in your corner to hold you accountable.

Remember too, that your goals don't need to be bigger than Ben-Hur. They might just be to see more of your friends or put a bit extra aside each month for a holiday. Reflect on the little things in life that bring you joy, and what you can do to pursue them.

Fueling up your finances

Once you've got a handle on your goals, it's a good idea to review your finances. The new financial year presents the perfect opportunity.

Start by reviewing your budget. If it's not currently working for you, what changes can you make to start taking meaningful steps towards your goals? Maybe there's an online subscription you aren't using or you're having one too many meals out. Shopping around for a better deal on your utility bills, as well as the interest rate on your mortgage and credit cards, is another worthwhile consideration.

It's also wise to take a proper look over your investments. Review your asset allocation and risk tolerance to make sure that your approach is still in line with your present situation as well as future goals.

For many of you, your biggest and most tax-effective investment will be your superannuation. It makes sense then to ensure you're comfortable with what your fund is returning as well as your current risk profile.

Your super may also include some level of insurance cover. If your circumstances have changed, it might be time to review. We can assist you in assessing whether you are adequately protected, looking at options both within and outside of super.

Get a handle on your health

Even if you're feeling fit as a fiddle, a regular health check-up can be a worthwhile investment of both time and money that could help you to live a long, happy and healthy life. If you have reached a milestone birthday it's worth speaking to your GP about any recommended tests.

Likewise, your physical health doesn't start and end with a doctor or dentist visit. Getting into some exercise habits now and changing your eating habits could bear dividends for your long-term health and well-being.

Someone in the passenger seat

No matter where you're going it's always helpful to have someone in the passenger seat to help you navigate the way. For your goals and your passions, it might be a friend, partner or family member. For your health, it's a doctor. And when it comes to your finances, we can help you protect the lifestyle you have, while mapping out the journey to achieve your ideal future.

If you need help with the financial aspects of your annual tune-up, give us a call. We're always here to help.

Election 2019: A vote for continuity in an uncertain world

The Liberal/National Party Coalition has been returned to government, as Australians chose continuity over change and cautious economic management over Labor's ambitious reform agenda.

The Coalition is promising sweeping tax cuts for individuals and continuity for investors with no big changes to existing investment or superannuation policies.

One of the first items of business for Prime Minister Scott Morrison will be to reconvene Parliament to pass legislation on a low and middle-income tax offset.

Individuals to pay less tax

Providing the legislation is passed quickly, from 1 July Australians earning less than $37,000 will receive a tax offset of up to $255 (effectively a cash rebate) with their tax returns. If you earn between $48,000 and $90,000 you will get the maximum amount of $1080. The offset then scales down to zero for those earning $126,000 or more.[i]

Further planned tax cuts could depend on the Coalition winning the next federal election.

From July 2022, the Coalition plans to raise the top threshold of the 19 per cent income tax bracket to $45,000. Then from July 2024, it plans to reduce the 32.5 per cent tax bracket to 30 per cent and do away with the 37 per cent rate entirely.

If adopted, these proposals will result in a flat 30 per cent tax rate for anyone earning between $45,000 and $200,000.

Support for first home buyers

In a proposal that could also help stimulate the flagging residential property market, the Coalition has promised help for first home buyers trying to get a foot on the property ladder.

From January 2020, the proposed first Home Loan Deposit Scheme would allow eligible first home buyers with income of up to $125,000 (or $200,000 for a couple) to buy a home with a deposit as low as five per cent without incurring lenders mortgage insurance.[ii]

Help for small business

Small business has not been forgotten. As announced in the recent Budget, the popular instant asset write-off will be increased and extended to businesses with turnover of up to $50 million (previously $10 million).

Eligible businesses will be able to write off assets up to the value of $30,000 (previously $25,000) against their taxable income.

Investment tax concessions to stay

Investors can breathe easy now that controversial changes to dividend franking credits and negative gearing proposed by Labor will not go ahead.

Individuals, including those with a self-managed super fund, will continue to be entitled to a cash refund of franking credits attached to their share dividends if the franking credits exceed their tax liability.

Property investors have also earned a reprieve, with no changes to negative gearing rules.

Super changes at the margins

Australians hoping to boost their super in the run up to retirement will continue to enjoy existing tax concessions.

You will still be able to make catch-up concessional (pre-tax) contributions if you meet certain conditions. From the 2019-20 financial year, individuals who have not used their full $25,000 annual concessional contributions cap will be able to carry forward the shortfall for up to five years and claim a personal tax deduction. To be eligible, your total super balance must be below $500,000 on June 30 the previous financial year.[iii]

The non-concessional (after tax) contributions cap will remain at $100,000 a year for people with a total super balance below $1.6 million. Those under 65 can still bring forward up to three years' contributions (or up to $300,000) with a proposal to increase the age limit to 67 from 1 July 2020.[iv]

The Coalition also plans to allow older Australians to make voluntary contributions until age 67 without meeting the work test. Subject to legislation, this measure would also begin on 1 July 2020.

Looking ahead

With the election out of the way, Australians can get back to the business of planning their finances with more certainty.

The initial response from financial markets was positive, with the Aussie dollar and local shares both up on the first day of trading after the election. However, the jury is still out on whether the Government's tax cuts and spending promises will be enough to boost economic momentum.

If you would like to discuss your overall financial plan in the light of the election result, please give us a call.

i https://budget.gov.au/2019-20/content/tax.htm

ii https://www.liberal.org.au/latest-news/2019/05/12/helping-australians-buy-their-first-home

iii https://www.ato.gov.au/Individuals/Super/In-detail/Growing-your-super/Super-contributions---too-much-can-mean-extra-tax/?page=2#Concessional_contributions

iv https://www.ato.gov.au/Individuals/Super/In-detail/Growing-your-super/Super-contributions---too-much-can-mean-extra-tax/?page=3#Non_concessional_contributions