



Welcome to our quarterly magazine – in this edition:

- Don't miss out on a super opportunity
- Budgeting tips that are not just for the young
- Property and super – beware the pitfalls
- How to protect your assets from expensive mistakes
- Time is running out... don't get caught offside when the pension rules change
- The new minimalism

Here we are again, another year ending! I hope that each of you have had a good year and are looking forward to a summer of sunshine. Maybe you have holidays planned, catch-up time with friends and family or will use the end of the year to sort out the nagging jobs you didn't get to over the last 12 months. Whatever your plans, I hope you stay safe and well.

As you read through our last edition of InTouch magazine for the year, consider if there are any articles pertinent to your situation and may require further discussion with your financial adviser. Now is an ideal time to check-in to get peace of mind that your financial house is in order. Discuss any major changes or life events that have occurred throughout the year so they are reflected in your financial plan.

Thank-you for your continued support, we look forward to working with you in 2017.

All the best,
Peter Ormsby
RI Advice Group, CEO

Don't miss out on a super opportunity

The winding back of non-concessional super caps from the next financial year is creating an opportunity to top up super while you can.

Proposed changes to non-concessional caps on super contributions are expected to generate a rush of money into super before the start of the next financial year.

The Government recently announced its intention to abandon a proposed lifetime cap of \$500,000 on non-concessional contributions in favour of a reduction in the annual cap, which will be cut from the current \$180,000 to \$100,000 from 1 July 2017. Non-concessional contributions will be limited to individuals with balances below \$1.6 million.

The cut in the annual cap also means a change to the bring-forward rule, which allows you to bring forward two years of contributions. Currently individuals can make \$540,000 of contributions. However, from 1 July 2017 this figure will reduce to \$300,000. Those who have triggered the bring forward cap in the 2015/16 or 2016/17 financial years may have a higher transitional cap.

Current	An annual cap of \$180,000. Those less than 65 at 1 July can bring forward 2 years of contributions – a total of \$540,000.
Previous proposal - now abandoned	A \$500,000 lifetime cap on non-concessional contributions
New proposal	An annual cap of \$100,000. Those less than 65 at 1 July can bring forward 2 years of contributions – a total of \$300,000.

Boost your super while you can

Over the next 9 months there is a small window of opportunity to contribute as much as possible to super – one that may never open up again.

Under the current rules, a couple over 50 could make superannuation contributions of \$1.15 million this financial year, based on non-concessional contributions of \$540,000 each and concessional contributions of \$35,000 each.

If you have a super balance of over \$1.6 million, making the most of the current caps is particularly important, as from next year you will be unable to make any non-concessional contributions into super.

If you are currently in the middle of a bring-forward arrangement, speak to your adviser about the best time to complete your contributions as transitional caps will apply.

Summary

If you are in a position to make a significant contribution to your super balance, this is the year to do it. Arrange an appointment with your financial adviser before making any super contributions as penalties may apply for breaching the current caps.

Season's Greetings
...from all of us



Budgeting tips that are not just for the young

With an increasing number of Australians running out of funds in retirement, here we look at some of the ways to budget for old age, so you don't join them.

Set goals – at any age

If you are working, the chances are you are no stranger to budgeting – saving for a home, managing family expenses and paying off debts. Yet budgeting is not a habit that should end when the kids leave home – keeping track of outgoings and saving is important at any age.

Setting short, medium and long-term financial goals with your financial adviser is often a good starting point.

Your adviser can then work with you to portion off your income and assets into different investments aimed at meeting those goals.

The benefit of this 'goal-based' approach is that rather than tracking performance against benchmarks that have little or no relevance, results can be measured against targets you have set yourself.

Be realistic

Ensuring you set a realistic budget to allow enough for lifestyle spending such as gifts and entertainment is crucial if your budget is to be successful. An unrealistic budget is a bit like a low-calorie diet – you can do it for a while but it is not sustainable long term.

Another key to success is building up an emergency cash reserve – a buffer in your bank before you start to budget. This ensures your savings and hard work are not derailed if an unexpected event such as a redundancy occurs. Typically when there is no emergency fund, the expense gets placed on a credit card, which can lead to a vicious cycle that is difficult to break.

Separate your bank accounts

Restructuring your bank accounts to support your budget also makes it easier to stick to your spending plan.

As an example, you could have one bank account that captures all your income and acts as a 'hub', then make regular payments into other accounts each fortnight or month.

These might include separate spending accounts for bills and utilities, personal spending such as, medical expenses, groceries, clothing, entertainment and another for gifts and donations.

You may also want to consider having savings accounts for different purposes, which can vary depending on your needs – a holiday account, for instance, or one for helping out the grandkids.

Separate bank accounts can work as they make you conscious of what you are spending.

If your entertainment account is running low, you will stop and think before you go out for dinner. It also means you can spend without guilt, knowing all your bills are already covered.

Plan for retirement

Retirement – what retirement? If your superannuation balance is lacklustre and you are still paying off a mortgage, retirement can often seem like an unachievable feat.



If this is the case, you are not alone – in fact an in-depth study found only 53% of couples and 22% of single people are on track to achieve a comfortable level of retirement income¹.

The good news is there are many things you can do to address the situation. Taking an interest in your super is often a sound starting point, and there are a range of ways to build up your balance, from spouse contributions to salary sacrificing - or transition to retirement strategies if you are over 56. Speak to your adviser about which strategies are most suitable for you.

Manage spending in retirement

New reports released this year by the Actuaries Institute², predict that an increasing number of retirees in the future will run down their superannuation account completely.

This is because around one in five Australians aged between 75 and 85 are drawing more than 10% of their super balances – a figure that typically may not be sustainable for those who live longer than average and rely on their super.

The situation is being compounded by record low interest rates and volatile markets, which mean many retirees are barely staying ahead of inflation.

There are many ways an adviser can help you to avoid outliving your retirement funds, such as:

- Setting realistic spending goals;
- Planning for unforeseen retirement expenses such as home improvements, helping adult children or serious illness; and
- Helping with investment and tax strategies for your retirement income.

Summary

While budgeting is important for younger people who are just starting out on their financial journey, having a budget is just as important in the later years to ensure your money lasts as long as possible.

Speak to your financial adviser today about strategies you can put in place to help with budgeting to ensure you have sufficient savings as you get older, whether you're in wealth accumulation or retirement stage.

1. Measuring Adequacy of Retirement Savings, Melbourne Institute and Towers Watson, 2014
2. Retirement Income Market Report - Plan for Life and CSIRO studies 2016



Property and super – beware the pitfalls

Recent years have seen a rush of investors buying property through super. But while the strategy has its advantages, there are also some potential risks to be aware of.

Physiotherapist Jenny Brundle recently bought a small commercial property in the outer suburbs of Brisbane by pooling her super fund with that of her signmaker husband Brian.

“Our super fund returns were all over the place for a few years and we could see that we were unlikely to be on track to retire when we wanted, so last year we decided to make the leap and invest in a premises for me to run my business from,” says Brundle.

Jenny and Brian’s strategy of investing in property through a Self-Managed Super Fund (SMSF) is an increasingly popular strategy for Australian investors¹ dismayed by volatility in share market returns. But while it sounds attractive, a strategy such as this is not without its pitfalls, and a labyrinth of regulations to be aware of.

The pitfalls

While property has been a good performer in recent years, property investing still involves a number of risks.

Some hidden costs in owning direct property can catch buyers unaware, such as building maintenance costs and or levies. A property’s rental income may also not be sufficient to cover your mortgage payments or expenses, and what would happen if your property was vacant? Do you have enough disposable income to cover the costs yourself? And while interest rates are currently at record lows, an eventual switch in interest rate policy would lead to higher repayments.

In addition, past performance is no indicator of future performance so there are no guarantees your property will increase in value. You should also weigh up the impact of notoriously high entry and exit costs such as stamp duties, legal fees, agent’s fees and advertising costs on your investment.

One of the most important principles of investing is the benefits of diversification.

So, if like Jenny and Brian you invest the entirety or a large part of your SMSF in property you will have all or most of your wealth concentrated in the property market, leaving you highly exposed to a market downturn.

The pros versus the regulations

Investing in direct property, whether residential or commercial, can provide diversification benefits for a portfolio that may otherwise be dominated by listed shares, and offers the potential benefit of rental income and the opportunity for capital growth.¹

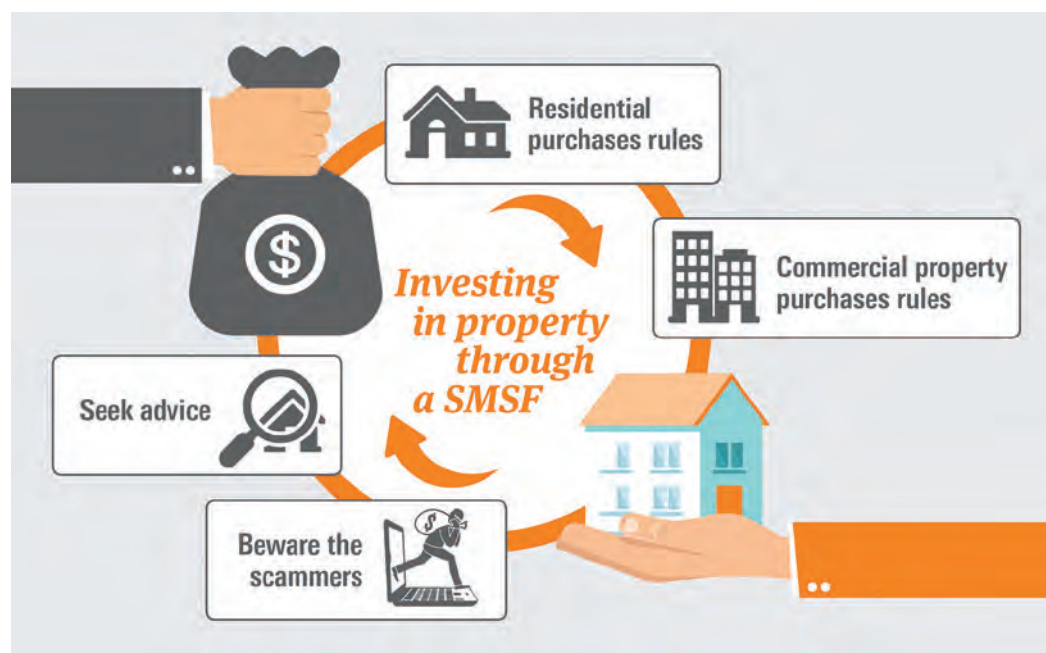
However, investing in property inside SMSFs is highly technical in terms of regulations and potential tax implications.

In particular, there are strict rules around purchasing property through an SMSF specific to buying and or renting to “related” parties. As such, it’s prudent to seek professional advice on this area.

Commercial property

Jenny and Brian’s strategy of using their SMSF to buy commercial property to lease back through their business is again subject to strict regulations and if you are thinking of replicating this you should discuss the regulatory requirements with your adviser.

According to the ATO, you can invest in commercial property, including your own business premises, through your SMSF, however the overall fund must still meet the sole-purpose test of providing retirement benefits to its members.²



When dealing with commercial property, an SMSF can generally buy the property and lease it back to a member or a related party of the fund – including the member’s business.

Another regulatory hurdle to be particularly aware of includes having an arm’s length sale price and lease arrangement for the property in question when acquiring and or leasing the property to a member or related party of the fund.³

Beware the scammers

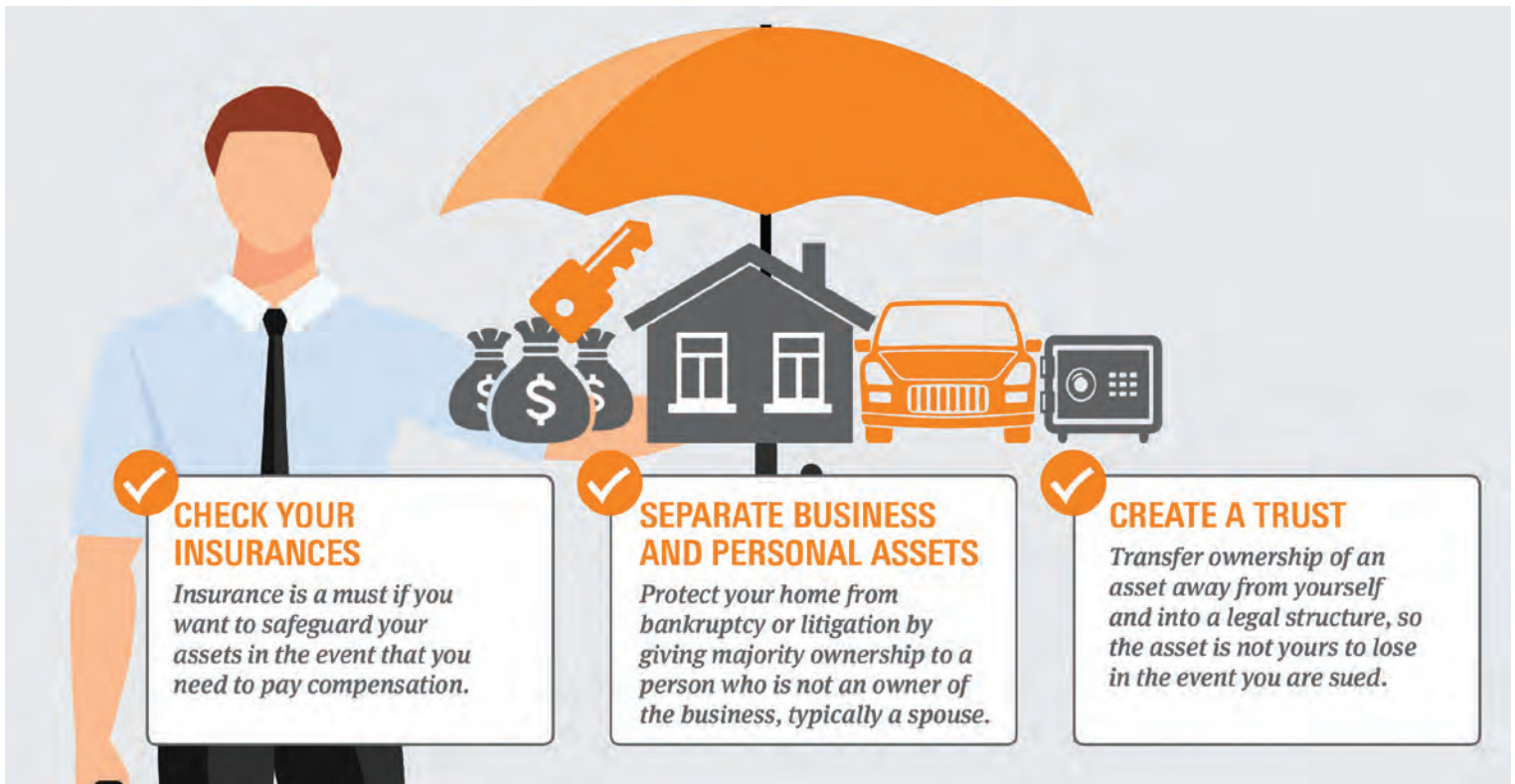
Unfortunately there have been instances of scammers operating in Australia using tactics such as:

- persuading people to access their super early to buy property;
- seminars where salespeople use pressure selling tactics to encourage you to make quick decisions; and
- cold calling from companies offering free financial advice or unreasonable returns on properties which are often located overseas.

What next?

Bricks and mortar can be a great long-term investment and may help to set you up well for retirement, but any such plan should be considered in the context of your overall financial plan and discussed at length with a trusted financial adviser. In addition, it is also prudent to do your own research by visiting the Australian Taxation Office’s webpage on self managed super funds.

1. Pros and cons of investing in property, Moneysmart.gov.au at: <https://www.moneysmart.gov.au/investing/property#investment>
2. Superannuation Industry (Supervision) 1993 Act and refer to a summary at the ATO website: <https://www.ato.gov.au/super/self-managed-super-funds/investing/sole-purpose-test/>
3. <https://www.ato.gov.au/Super/Self-managed-super-funds/In-detail/SMSF-resources/Valuation-guidelines-for-self-managed-super-funds/?page=10>



✓ CHECK YOUR INSURANCES

Insurance is a must if you want to safeguard your assets in the event that you need to pay compensation.

✓ SEPARATE BUSINESS AND PERSONAL ASSETS

Protect your home from bankruptcy or litigation by giving majority ownership to a person who is not an owner of the business, typically a spouse.

✓ CREATE A TRUST

Transfer ownership of an asset away from yourself and into a legal structure, so the asset is not yours to lose in the event you are sued.

How to protect your assets from expensive mistakes

Protecting yourself from frivolous creditors and lawsuits is becoming an increasingly common concern. Here we outline some of the ways you can insulate your assets.

Check your insurances

Liability insurance is a must if you want to safeguard your assets in the event that you need to pay compensation. Lawsuits can arise for a range of reasons – from personal injury to financial loss resulting from any products or services you provide.

You can choose from three key types of cover – public liability insurance, professional indemnity insurance and product liability insurance. Seek advice from your financial adviser or insurance broker to determine which, if any, of these are suitable for you.

Separate business and personal assets

If you are a business owner and your family home is held in your name, it may be at risk from bankruptcy or litigation procedures.

One way to protect your home is to give majority ownership of the home to a person who is not an owner of the business, typically a spouse.

The business owner generally retains some interest in the home, however, to ensure the asset is not dealt with without his or her authority.

It is also important that the spouse does not have any dealings in the business, for example guaranteeing loans. You should also know that the trustee in bankruptcy will consider other factors to determine the bankrupt's interest in the house and if you transfer your home to your spouse for no consideration or for less than its value, before bankruptcy, the trustee in bankruptcy can in some cases reverse the transaction.

Create a trust

Trusts can be beneficial asset protection strategies, as you are transferring ownership of an asset away from yourself and into a legal structure, so the asset is not yours to lose in the event you are sued.

Anthony Lieu, Lawyer at Legal Vision, says trusts also provide a degree of flexibility. "Just as each family is different, each discretionary or family trust is also different. Trusts generally take their rules and operation from the trust deed, so each trust will have to abide by a different set of rules," Lieu says.

Summary

Structuring your assets the right way is one of the most important things you can do to protect your hard-earned wealth. As these strategies can be complex, always seek the help of a qualified professional such as your financial planner, lawyer or accountant.

Time is running out...

Don't get caught offside when the pension rules change

The commencement of 2017 will see some significant changes to means testing for Social Security pensions (including the Age Pension).

Uncertainty around income can be unsettling for those receiving a pension or considering retirement. That's why it's important to understand if and how you might be impacted by the new rules so that you can review your game plan before they change.

What's changing?

The Government is making two changes to the assets test which will take effect from 1 January 2017.

Pensioners need to be aware of how the changes impact their entitlements. For some, the changes will create a cash flow shortfall and may have a significant impact on standard of living.

1. Increasing the lower assets test threshold

The lower assets test threshold refers to the level of assessable assets that can be owned before pension entitlements are affected. Pension payments are reduced once assets exceed this level.

Encouragingly, it is estimated this change will result in around 50,000 part pensioners qualifying for a full pension. Those already on a full pension will be unaffected by this change.

Thresholds differ, depending on your relationship and home-ownership status.

Here's how the new levels compare to the current ones:

Status	Current lower asset threshold	Lower asset threshold from 1 Jan 2017
Single homeowner	\$209,000	\$250,000
Single non-homeowner	\$360,500	\$450,000
Couple homeowner	\$296,500	\$375,000
Couple non-homeowner	\$448,000	\$575,000

2. Increasing the assets test taper rate

The taper rate is the rate at which pension entitlements reduce where assessable assets exceed the lower threshold. The rate will be increased from \$1.50 to \$3 per fortnight for every \$1,000 in assessable assets above the asset threshold.

As a result of this increase the pension for the upper threshold is effectively lowered, meaning the pension cuts off at a lower level of assets. It is estimated that approximately 91,000 part pensioners will no longer qualify for the pension and a further 235,000 will have their part pension reduced.

Once again, the upper threshold will depend on an individual's relationship status, home-ownership status and whether they are asset tested or income tested.

Status	Current upper asset threshold	Estimated upper asset threshold from 1 Jan 2017
Single homeowner	\$793,750	\$542,500
Single non-homeowner	\$945,250	\$742,500
Couple homeowner	\$1,178,500	\$816,000
Couple non-homeowner	\$1,330,000	\$1,016,000

Pensioners who lose entitlements as a result of the changes will cease to be eligible for the Pensioner Concession Card (PCC).

They will, however, automatically qualify for the Commonwealth Seniors Health Card (CSHC) or if less than pension age, the Health Care Card (HCC).

What about income tested pensioners?

While the changes are more directly relevant for assets tested pensioners, those who have their pension entitlement determined under the income test may not be unaffected. The changes could mean that certain pensioners become asset tested and this could lead to a loss of some or all of their entitlements.

What can be done?

Thankfully, there are a number of potential strategies that could be put in play to reduce the impact of the new rules.

Strategies which reduce an individual's or couple's assessable assets, like gifting or expenditure on the main residence, may potentially help. As every situation is different, it's important that your game plan is both appropriate and sustainable for your circumstances.

Don't get caught offside when the rules change, talk to your financial adviser about your game plan.

The new minimalism

Living a simpler and less cluttered life is a concept that is gaining fans around the globe. Here we look at some of the key trends.

Tiny living

Rapidly growing global populations mean our homes are getting smaller – from micro apartments to tiny houses. Yet living small does not have to mean living in a cramped space, with designers increasingly focused on maximising every inch of space.

Sydney architect Spencer Jones says today there are many design elements that can be used to maximise usable space.

“In cities like Paris where living spaces are very small, people often have made-to-measure, full-height joinery to store as much as they can and leave the rest of the floor empty.

“Designers are also taking inspiration from caravan or boat architecture, using spaces for multiple functions. We are seeing more bedrooms that double as living and dining spaces, multi-function furniture and the use of mezzanine floors in smaller spaces.”



Mindful consumption

Australian consumers tend to have high consumption habits. Our purchasing power is particularly high and has grown by more than 43% in 15 years, according to research by Santander Trade.

Yet the research also finds Australians are increasingly concerned with their health and the environment, which is helping to drive a trend towards more mindful purchases. Consequently, demand is rising for fresh and organic foodstuffs, environmental markets and products linked to energy saving technology.

If you are aiming to become a more mindful consumer, here are some tips to get started:

- Shop for locally produced and made products instead of imported goods.
- Buy secondhand from charity shops or online listings. Older or vintage items are usually better quality and will last longer.

- Choose eco-friendly goods made from recyclable materials.

Decluttering

According to blogger Joshua Becker, of lifestyle blog *Becoming Minimalist*, there are many benefits to owning fewer possessions – less to clean, less debt, less to organise, less stress and more money.

One method Becker recommends to declutter your home is the ‘12-12-12 Challenge’. Find 12 items to throw away, 12 items to donate and 12 items to be returned to their proper home. You can even make it fun by turning it into a family competition!

Summary

Our living, shopping and lifestyle habits have moved on considerably from the 80s and 90s when conspicuous consumption was the norm. Today’s consumers are discovering that living with less can not only help the environment and our pockets but can also help to reduce stress levels too.

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