WEALTHMATTERS

YOUR PERSONAL GUIDE TO WEALTH CREATION

ISSUE 40
2017

INSIDE

- Appointing an executor
- Investment traps to avoid
- Separation checklist
- Finding the right age to retire
- Top tips for term deposits
- Death benefit pensions above transfer balance cap

Langley|McKimmie
Chartered Accountants

Returning to work after retirement

Regardless of the careful planning you dedicate to your retirement, individuals who leave the workforce to retire and access their super may decide they want or need to return to work.

Understanding how the choice to exit retirement can impact upon your superannuation is futile; disregarding the potential risks involved with returning to work after accessing super can see you land in murky water.

It is regulatory for members of many super funds to sign a mandatory declaration upon retirement before being eligible to access any super. The declaration states that the individual genuinely has no intention of returning to the workforce. Specifics of the declaration will vary depending on age, conditions of retirement and many more. However, circumstances change and while at the time of signing the declaration an individual may have had no intention to work again, they may have no alternative.

You are eligible to return to the workforce after accessing super without raising any flags if it is for no more than ten hours a week. This type of work is ideal for people who find retirement unfulfilling or boring and want the social benefits of being involved in a workplace, but where being employed is not a financial necessity. If an individual decides to return to part-time employment (10-30 hours per week) or full-time employment, they will need to ensure they are not breaching any regulations pertaining to super.

If you wish to return to work for any more than ten hours a week, you will need to satisfy the Australian Taxation Office and possibly the Australian Prudential Regulation Authority (depending on the type of super fund you have) that you acted honestly and in good faith when stating you would not return to the workforce at the time of accessing your super.

LANGLEY MCKIMMIE

Langley McKimmie Chartered Accountants are Corporate Authorised Representatives of SMSF Advisers Network Pty Ltd AFSL No. 430062

Liability limited by a scheme approved under Professional Standards Legislation. *

*Other than for the acts of omissions of a financial services licensee.

17 NICHOLSON STREET,
WOODEND VIC 3442

TEL (03) 5427 8100

FAX (03) 5427 3793

EMAIL
info@lmck.com.au

WEBSITE
www.langleymckimmie.com.au

Andrew Marshall
Janine Orpwood
Bryan McKimmie

Business Services & Taxation
Audit
Self Managed Superannuation Funds
Retirement

Appointing an executor

Whether you are updating or creating a Will, designating an executor is not an easy decision.

The role of executor requires a great deal of commitment. The executor of a Will holds the responsibility of administering your estate and ensuring your wishes are carried out in a time-efficient manner.

When choosing an executor, a Will Maker must consider who is best to take on the role and associated responsibilities. The Will Maker must consider whether the executor has the necessary skills to administer the estate, whether naming a person as executor will place an extra burden on them in a time of grief and if the person nominated is likely to cause conflict between them and beneficiaries.

There can be more than one person nominated as executor for the Will. In many situations, the executor(s) can also be a beneficiary of the estate.

Some of the immediate responsibilities of an executor include arranging the funeral, requesting and obtaining the death certificate, finding the original copy of the Will and beginning to protect and insure assets - such as changing locks on a property and photographing expensive assets.

The executor is also responsible for obtaining probate, collecting any debts or investment income, claiming life insurance, selling assets, preparing tax returns and distributing the remainder on the estate. The full administration of a deceased estate can take up to a year.

Due to the large amount of responsibilities, it is best to discuss the role of executor with the intended person(s) before you nominate them in your Will. They should be made aware that they will be financially liable for any mistakes made when administering the estate. The nominated executor(s) should also be informed of where your Will is kept.

Investment traps to avoid

Investing can be quite challenging, but the rewards make it very worthwhile.

Whether you are a novice or an experienced investor, here are three investment traps to avoid to maximise your returns:

Delaying: Do not delay any longer and start investing now! Many people delay investing because of financial reasons or lack of knowledge when it comes to different investment options. But investing while you're still young is crucial if you want to achieve your financial goals.

Paying too much: Stay aware of hidden fees and do everything you can to keep your fees low.

Not taking enough risk: To avoid the risk of losing money, some people keep their money in cash. But that doesn't contribute to helping you make enough to live a comfortable retirement. Although shares can be unpredictable, a basket of quality shares held for the long term can deliver a significantly more attractive return than cash.

Top tips for term deposits

Term deposits are an easy and secure way to invest your funds. But it is always a good idea to do your research and shop around first to find the best return before investing.

Although there has been a significant decrease in term deposit rates over the past few years, they remain a popular investment strategy for many savers, due to their safety and reliability. And if you are prepared to shop around or switch providers, it is almost a guarantee that you will achieve excellent returns on your term deposits.

Below are some tips for putting money into a term deposit:

Do your research: try to find an impressive rate instead of simply accepting what's on offer from your provider. Lower rates mean that those who want a high return need to be switched on about where they're putting their term deposit.

Look for promotional rates: if you're prepared to look around and chase a special rate, you might just be able to catch one.

Don't automatically roll over: always compare what is available both inside and outside of your organisation. You can do this by setting a reminder for yourself just before your term deposit matures to allow time to check for the next best rate.

Be prepared to change terms: if you usually invest for 12 months and find a better promotional rate on an eight-month term deposit, be prepared to make the change to the better rate.

Consider alternatives: if you are tempted by profits elsewhere, such as in the property market or equities, don't be afraid to consider those options as well to better your investment returns.

Separation checklist

Going through a divorce or separation is an extremely difficult experience; among the emotional challenges are the financial issues.

There are various things to consider after a break-up, such as separating your finances, organising your Will, insurance, super and closing off joint accounts. Here is a checklist of some of the main things you can do after a separation or divorce:

Banking

It is a good idea to close off joint bank accounts and open a new account that only you can access. Consider cancelling joint credit cards and change your pins and passwords. Also, have a chat to your bank about cancelling any redraw facility on your home loan.

Insurance

Any insurance policies that were held in both your name's should be cancelled. Take out a new insurance policy in your name alone. Also, consider reviewing your beneficiaries on any existing life insurance policies and update accordingly.

Utility bills

Be sure to update your utility bills (i.e., gas, phone, internet, electricity, water) to only include the relevant person on the name of the bill. If your name is on the bill, you can still be held liable for unpaid bills.

Legal documents

Update legal document such as your Will. Most likely the executor, beneficiaries, guardianship and power of attorney arrangements will need to be adjusted for the change in circumstances.

Ask your ex-partner to remove you as an executor under their Will and revoke your role under any power of attorney or guardianship of your ex-partner. Also, be sure to update your superannuation to make sure the payout goes to the person you intend it to go to.

Mortgage

If you have a mortgage, let you lender know you have separated. Work out a plan to cover the mortgage repayments during the property settlement.

Finding the right age to retire

A person's quality of life is a key factor in deciding when to retire. At the same time, however, it is important not to forget about the financial considerations as well.

Choosing when to retire is a very personal and sometimes difficult decision that everyone in the workforce will have to make. It is the kind of decision that will have lasting effects on a person's future lifestyle, so should be thought out carefully and strategically.

There are many reasons as to why a person will want to retire. Some may simply want to leave a busy or stressful business world, while others may want to pursue ideas and hobbies with their newly available time. Others are perhaps ready to relax and enjoy the peace and quiet of each new day.

But what time is the right time for retirement? Below are some points to consider to help pick the right time for retirement:

Financial resources

The obvious factor influencing how a person will choose when to retire is whether or not they will have the financial resources and support that allows them to live out their ideal retired life. People should essentially aim to have enough money to pay the bills and gives them the freedom to have fun and live comfortably.

Retiring from the workforce without an adequate financial supply is a dangerous move to make. However, even if you do believe you are at the stage that allows you to live off the income generated by your savings doesn't necessarily make that the right time to retire. It is important to also take other considerations into account that may help you lead a more fulfilling retirement.

Collaborate with your spouse

The dynamic with your spouse will ultimately change upon your retirement. If your retirement means that you will spend more time together, you will need to adjust your two worlds to fit each other. Openly communicating with one another and giving each other space to pursue individual interests can overcome this. Remember that you may spend many years together in retirement, so making the effort to make it work now will pay off in the long term.

Make a plan

Developing a plan for how you will spend your time for the rest of your life can be quite beneficial in a number of ways. It can help determine whether or not current interests and hobbies will be enough to keep you content and may help you realise that now isn't the best time to retire.

For most people, retirement is a combination of activities and relaxation. If you enjoy activities and projects, take some time to consider what they might be once you retire. Planning out what kind of hobbies you would like to pursue in the next stage in your life can help make the future more enjoyable.

What you need to know about the new super rules

The biggest super reforms in over a decade commenced from 1 July 2017. Although many of the reforms have restricted super contributions, there have been some positive developments.

Here are four changes designed to assist individuals in growing their nest egg:

Flexibility for personal super contributions

Before 1 July 2017, an individual (mainly self-employed) could only claim a personal super contribution deduction if less than 10 per cent of their income came from salary and wages. As of 1 July 2017, this condition has been removed to improve the flexibility of the super system, benefitting the self-employed and those people who cannot salary sacrifice with their employer.

Most people under 75 years old will be able to claim a tax deduction for personal super contributions, including those aged 65 to 74 who meet the work test. If you want to claim a deduction for personal super contributions you must notify your fund in writing of the amount you intend to claim within the required timeframe and your fund must acknowledge your notice of intent to claim a deduction in writing.

Those making personal super contributions must keep in mind that these are considered concessional contributions; any contributions exceeding the $25,000 cap will be subject to an individual's marginal tax rate.

Contributing downsizing proceeds to super

This year's Federal Budget proposed that from 1 July 2018 individuals aged 65 or over will be able to make a non-concessional contribution to super of up to $300,000 from the proceeds of selling their home. These contributions will not count towards the non-concessional cap and the individual making the contribution will not need to meet the existing maximum age, work or $1.6m balance tests for contributing to super.

Catch-up contributions

From 2018-19, individuals can carry forward and use in a later year, up to five years of unused concessional contributions cap. The first year in which you can use the carry-forward for any unused amounts is 2019-20. To be eligible, your total superannuation balance must be under $500,000 at the end of 30 June of the previous financial year.

For those with total superannuation balances less than the transfer balance cap, they are eligible for a non-concessional contributions cap ($100,000 in 2017-18). Based on your total superannuation balance, you may be entitled to a two- or three-year bring-forward period for your non-concessional contributions cap.

Broadening of the spouse tax offset

Under the new super rules, the spouse income threshold has increased to $37,000 for the maximum tax offset of $540 as of 1 July 2017. Previously, members could claim a tax offset for contributions made to their spouse's eligible fund if the total of the spouse's assessable income, total reportable fringe benefits, and reportable employer super contributions was under $13,800.

The current 18 per cent tax offset of up to $540 will remain as is and will be available for any member, whether married or de facto, contributing to a recipient spouse whose income is up to $37,000. The offset is gradually reduced for income above this level and completely phases out at income above $40,000.

Death benefit pensions above transfer balance cap

Information released in the ATO's Practical Compliance Guideline 2017/6 has clarified much confusion surrounding superannuation reforms and the commutation of a death benefit income stream made before 1 July 2017.

When an individual dies, their superannuation and remaining superannuation interests are to be cashed to their beneficiaries or legal representative by their superannuation provider. This payment is called a superannuation death benefit and can be cashed as:

- A lump sum paid by the superannuation system
- A death benefit income stream retained in the superannuation system
- A combination of both

With the introduction of the transfer balance cap, much confusion has arisen over the correct course of action.

The ATO has stated that the Commissioner will not apply compliance resources to review whether an SMSF has complied with compulsory cashing requirements relating to a death benefit provided that:

- the SMSF member was the spouse of the deceased on the date they deceased,
- the commutation and roll-over of the death benefit income stream is made prior to 1 July 2017, and
- the superannuation lump sum paid from the commutation is a member benefit for income tax purposes because it meets the appropriate requirements (as defined in subsection 307-5(3)).

This publication is for guidance only, and professional advice should be obtained before acting on any information contained herein. Neither the publishers nor the distributors can accept any responsibility for loss occasioned to any person as a result of action taken or refrained from in consequence of the contents of this publication. Publication date August 2017.