ISSUE 49

WEALTH MATTERS

Your personal guide to wealth creation

INSIDE:

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Returning to work after accessing your super

Retirement isn't necessarily a permanent thing as even the best-laid plans can collapse when circumstances change.

The Australian Bureau of Statistics has found the most common reasons retirees return to employment are financial necessity and boredom. But what does this mean when you have already dipped into your superannuation funds?

Individuals are able to access their super once they have reached their preservation age and retired, ceased an employment arrangement after age 60, or turned 65. Depending on your circumstances, there are rules regarding how you can return to work after retirement.

For those who genuinely retired with no intention of ever returning to work but found that circumstances required them to, you can return provided that you work on a casual basis up to 10 hours per week. By meeting this requirement, you can still access your super whilst working, however, additional contributions made to your account after you met the definition of retirement will be preserved until you meet another condition of release.

In the event you access your super after an employment arrangement comes to an end once reaching age 60, you are able to work in a new position as soon as you like, provided the first arrangement ended. Subsequent contributions made after your employment arrangement came to an end will be inaccessible, however, you will have access to the benefits that became available as a result of your first employment arrangement coming to an end.

When you turn 65, you don't have to be retired or satisfy any special conditions to get full access to your super savings. This means you can continue working or return to work if you have previously retired, provided you complete the work test requirements before going back. If you return to work and earn more than $450 a month, your employer will be required to make superannuation contributions at the current rate of 9.5% until you reach age 75 where you can still work but receive no further super contributions, either voluntary or from your employer.

As returning to work and continuing to receive super is circumstantial, individuals considering their options should consult their accountant or financial advisor for information specific to their situation.

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Strategic vs tactical asset allocation

Asset allocation is one of the most important decisions that investors make in order to minimise investment risks to maximise rewards.

Allocating assets can be useful in helping to focus on long-term financial goals and protecting investors against the fluctuating market conditions. Strategic asset allocation and tactical asset allocation are both methods that investors can follow depending on their financial goals.

Strategic asset allocation:

Strategic asset allocation (SAA) aims to balance a portfolio's risk and reward through determining how much money should be invested in various asset classes, including shares, stocks, cash or bonds. This is done according to the investor's goals and objectives, risk tolerance, and investing time-frame.

SAA focuses on using a disciplined strategic approach by following a stable allocation of investments that takes advantage of market efficiency. This is to avoid making bets on the future of markets and making short-term decisions based on current market conditions.

SAA assumptions are based on the long-term past performance of asset classes or educated forecasts of their long-term asset class performances, considering factors such as past or predicted risks, returns and correlation.

SSA is often a suitable approach for money that investors plan to use for their retirement.

Tactical asset allocation:

Tactical asset allocation (TAA) is an investment style that focuses on the bigger picture and allocates capital to take advantage of the most attractive asset classes opportunistically during different periods in the investment cycle. This method can be used to increase risk-adjusted returns and adapt to market conditions.

TAA involves moving funds around more frequently than SAA and investing more money in low risk undervalued assets while investing more money in higher risk overvalued assets. Allocations will change depending upon expected market and economic events, and the investor's goals.

TAA may be more suited to money in a regular investment account that investors want to grow, but do not have a concrete goal.

Contributing to super when you're self-employed

If you are a sole trader, or in a partnership, then you are not obligated to make super guarantee payments for yourself.

However, you should still consider making personal contributions to super to help you save for retirement. Your methods of contributing to super can depend on how you pay yourself. For example, if you receive a wage, then you can set up a regular transfer into super from your income before tax. If your income is from business revenue, you can periodically transfer a lump sum into your super depending on your cash flow.

When making personal super contributions with after-tax income, you may be eligible to claim tax deductions on them. Before making a claim, you must give your selected super fund a 'Notice of intent to claim or vary a deduction for personal contributions' form, and receive an acknowledgement from your fund.

You can claim a tax deduction of up to $25,000 in a year, known as concessional contributions. Additional contributions up to $100,000 per year can be made but this is not tax-deductible. If you are aged 75 years or older, you are only able to claim tax deductions for contributions you made before the 28th of the month after you turned 75.

Tax on superannuation death benefits

Tax on superannuation death benefits can be treated in various ways depending on how super is paid (income stream, lump sum) or whether beneficiaries are classified as tax dependants.

Those who would classify as a tax dependant, under both superannuation and taxation law, usually include current and former spouses and de-facto spouse, children under the age of 18, or a person in an "interdependency relationship" with the deceased person, meaning they lived with each other or provided support (financial, domestic or personal). Dependants will need to work out how much of the death benefit qualifies as a tax-free as well as the taxable component the super provider has paid tax on or has not paid tax on.

For taxable super received as an income stream, the tax treatment is dependant on the age of the deceased and the beneficiary. If both participants are under 60, then there will be a tax offset equal to 15% of the dependant's assessable income, including the death benefit. If both participants are over 60 and the super is paid from a taxed superannuation fund, it is tax free. A non-dependant cannot take the death benefit as an income stream under superannuation law.

Super death benefits are not taxed when they are paid as a lump sum and go directly to tax-dependants or legal representatives. However, super benefits paid to a non-tax dependant will be taxed at the marginal tax rate.

Non-tax dependants don't need to pay on the tax-free component of the death benefit, regardless of how the payment is received, their age, or the age of the deceased.

What to include in your succession plan

Whether you want to change careers or you are ready to start a new journey, passing on your business can be more appealing then shutting it down altogether.

Having a succession plan you can follow with the new owner can help the process run more smoothly and avoid confusion. When developing your plan, it is important to go in depth with details to ensure the handover is carried out as you wish.

The successor:

Who will you be transferring your business to? Enter the details of the intended successor and an alternative successor, and whether they're a family member, business partner, or someone else interested in buying your business. Establishing your successor has undergone the proper training and education for the position will also assist in the transition and business longevity.

Business structure:

State whether the structure of your business falls under a partnership, sole trader, trust, or company. This will allow you to teach your successor the ways of the business and the correct process of doing various tasks.

Succession type:

State what type of succession has been planned, with details of whether it will be a complete or partial succession. Overstepping the boundaries and trying to be over-involved after you no longer own the business can cause conflict between yourself and your successor, negatively impacting the business. To avoid becoming overbearing, make sure you prepare yourself for what no longer owning the business will mean such as how you are going to fill your time that was previously spent working.

Legal considerations:

Include any contracts that need to be created or modified for the succession. Provide whether there is a legal document that outlines the terms and agreements of the succession. Before handing over the business, you will need to do a number of things including cancelling tax registrations such as GST, lodge any final tax returns, pay any outstanding activity statements or bills, and transfer any other assets such as domain names or web registrations.

Finance details:

This includes information such as the current value of the business, the taxes payable in the event of a transfer, retirement income or payment, and sale details (minimum sale price of the business, how long you plan to have the business on the market, who will receive the proceeds).

Property or shares? Where should you invest?

Investing can be a great venture to help grow your wealth as well as provide opportunities for others through your contributions.

Before launching your investment portfolio, you need to consider what is the best avenue for you. Simply asking whether property or shares are a better investment is an oversimplification of a very complex debate. Both areas can provide you with opportunities for financial gain but rely on a sound knowledge of the market to do so. You will need to inform yourself on both property and shares, make a financial plan, consider risks and establish a timeframe to help you determine what area will best achieve your investment goals.

Property:

Investing in property provides you with a greater level of control over your investment. You have the power to make decisions about the property as the owner, giving you the authority to manage your investment how you desire. As property is a tangible asset, you are able to assess the success of your investment or areas that might need to be improved. Further development of your investment is also more straightforward with property as you have to ability to increase value through repairs, maintenance and improvements.

Property investment is generally an easy area to understand, making it a popular choice for people who are more familiar with the real estate market. It also less volatile compared to shares, lowering the risk factors you as an investor may face.

Property investors can access a wide range of tax deductions and items subject to depreciation for their rental property. An immediate write-off applies to items worth less than $300 and can be claimed in the current income year. Construction costs can generally be depreciated at 2.5% each year over 40 years for residential properties built after July 1985. This entitlement passes from one owner to the next whenever the property is sold. A quantity surveyor can provide an estimate if the information is not available and their fee is also tax deductible.

Shares:

Newer investors can start a share portfolio easily as entry level costs can be small. With access to online trading, an investor can start anywhere at any time. Many shares have dividend reinvestment schemes attached to them, meaning an investor can increase their portfolio in small increments with little effort. The lower price of shares also makes it possible to obtain greater diversification from investing.

Shares have a price that in many cases fluctuates daily and is easily monitored. It is a simple exercise to calculate the value of a portfolio at any time. They are also easily converted into cash as required and because of the nature of shares, part of a shareholding can be sold to raise a small amount of cash. Buying or selling shares involves lower transaction costs and substantially lower ongoing costs than property, as direct share ownership does not involve any ongoing costs.

Before deciding between investing in property or shares, consider your personal factors such as your capital, risk appetite, age, goals and financial situation. Each area has its own merits and downfalls, the choice between property and shares comes down to what is the best investment for you.

Individual health has a place in your estate planning

When estate planning, most people focus what will happen to family and assets after they pass, often neglecting to consider what would happen if they were to become ill or incapacitated.

Falling ill can be a very stressful and traumatic time for you and your family, particularly if you are the main financial provider for your household. Taking the time to become prepared and evaluating your financial situation can help you to future proof in the event you are out of work for health reasons. It is important to ensure you know of every entitlement available should you become sick or incapacitated.

Income protection:

Income protection is a form of insurance that pays you a regular cash amount if you are unable to work as a result of a sudden illness, covering up to 75% of your income for a set period of time. You can insure your income through agreed value, where you decide the amount you wish to receive each month, or indemnity, where you prove your income at the time of claim rather than during application. Generally, you can claim part or all of your income protection insurance premiums that are taken outside of your super as a tax deduction, helping you save more on your tax bill. However, you are not entitled to deductions for a policy that compensates for a physical injury. Other insurance policies include health insurance, trauma cover or total and permanent disability (TPD) insurance.

Incapacity plan:

Incapacity planning is a process through which capable adults make choices and plans about future events that are a possibility. It addresses what you would want to happen in relation to health care decisions and financial matters should you lose your ability to make or express choices. In the event you are seriously injured or develop an illness such as dementia, you may not be able to pay bills, file taxes or manage your assets and investments. Incapacity planning allows for those types of things to still be done by someone with the authority to handle them. An incapacity plan should contain the following documents:

- Living Will: states what kind of health care you wish to receive, or refuse to receive, should you lose consciousness or capacity. Unlike a last will and testament, your living will has nothing to do with what happens to your property after you die.
- Financial power of attorney: allows you to choose someone who will have the legal authority to manage your financial affairs if and when you lose the ability to do so yourself.
- Medical power of attorney: allows you to choose someone to have the legal right to make medical choices on your behalf if you cannot make them on your own. You should discuss your wishes with the chosen representative before you are incapacitated and they need to make medical decisions.

Early release of super:

There are very limited circumstances in which you can access your super before you retire. You may apply for early release on the grounds of:

- Incapacity: if you suffer permanent or temporary incapacity.
- Severe financial hardship: if you have received Commonwealth benefits for 26 continuous weeks but are still unable to meet immediate living expenses.
- Compassionate grounds: to pay for medical treatment if you are seriously ill.
- Terminal medical condition: if you have a terminal illness or injury likely to result in death within 2 years, as certified by two registered medical practitioners, at least one of whom is a specialist.

Understanding asset allocation in your superannuation

Most superannuation funds let their customers elect how their balance is invested, meaning you get to decide what assets you want.

Your superannuation is a trust that usually invests in one of two ways: investment strategies or by specified asset allocation.

Asset allocation refers to how money is divided between different types of assets or how much of a person's portfolio is invested in asset classes. These can include shares, cash, property, fixed interest or international investments. Asset classes have varying levels of risk and potential return. This means that a super fund's asset allocation directly influences the level of risk and return in a portfolio. By diversifying amongst each of the asset classes, the overall risk of the portfolio can be reduced.

Getting involved in asset allocation can provide the ability to further customise the mix of assets that your super fund is invested in and the proportions of your balance that are invested in each asset. While there is no 'one size fits all' approach to smart investing, there are a number of common guidelines that individuals may choose to consider when going forward in an asset allocation strategy.

One of these is related to growth assets. These assets are high-risk and high-reward, such as shares and property. This guideline states that if you subtract your age from 100, that is the percentage of your super portfolio that should be made up of growth shares. It is based on the idea that when you are younger, you will end up with a higher percentage of growth assets with this approach. This is because you can afford to take risks as you have a longer period of time to make up any of your losses, while as you get older you need to adopt a more conservative approach.

It is worth keeping in mind that everyone is different, and consider what type of asset allocation is most appropriate for your situation. Choosing an asset allocation that matches your risk profile, investment timeframes and objectives can be complex, so it may be worth seeking professional financial advice.