# Winter 2017

As the days get shorter and we settle into the cooler months, the political heat is subsiding after the Federal Budget. The Budget provided an annual snapshot of the state of Australia's economy: Treasurer Scott Morrison forecast a budget deficit of $37.6 billion this financial year, dropping to a deficit of $29.4 billion in 2017-18.

While stopping short of guaranteeing a return to surplus, the Treasurer projects the budget will be back in the black by 2020-21. The improving budget bottom line is predicated on an expected rebound in economic growth from 1.75 per cent this year to 2.75 per cent next year and 3 per cent beyond that, as the local and global economies pick up steam.

The government pledged to focus on good debt for productive purposes, with projects such as its $75 billion infrastructure program. While reining in recurrent spending, net debt is expected to peak next year at 19.8 per cent of GDP, falling to 17.6 per cent in 2020-21.

Inflation is expected to remain at the lower end of the Reserve Bank's 2-3 per cent target band, due to a soft jobs market and low wages growth.

In Europe eyes will look towards the UK general election held on June 8, while in the US domestic demand is firming up, strengthening the case for the Federal Reserve to raise rates again.

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# JUNE 30: Get your (FINANCIAL) house in order

Time is running out to get your financial house in order before June 30. This is especially the case for anyone who has funds available to make a large cash injection into their superannuation retirement savings before the rules change.

The 2016-17 financial year is your last opportunity to make a non-concessional (after tax) contribution of up to $180,000 to your super account, or as much as $540,000 under the 'bring forward' rule. This rule allows people under age 65 to make three years' non-concessional contributions in the current financial year by bringing forward two years' contributions.

From 1 July, the annual non-concessional cap reduces to $100,000 and $300,000 under the bring forward rule. What's more, anyone with a total super balance of more than $1.6 million at the end of this and future financial years will not be able to make any more non-concessional contributions.

## A golden opportunity

If you have recently sold an asset or received a windfall, this is the moment to think about making the most of the existing super rules while you can. A couple aged 50 or older could potentially put an extra $1.15 million into super before 30 June 2017 if they each made non-concessional contributions of $540,000 using the bring forward rule and concessional contributions of $35,000.

Younger couples can make a maximum concessional (pre-tax) contribution of $30,000. Concessional contributions include superannuation guarantee payments made by your employer and salary sacrifice amounts.

The advantage of doing this is that once your savings are in the super environment, investment earnings are taxed at 15 per cent instead of your marginal tax rate and are tax-free in pension phase. After June 30, people with more than $1.6 million in super will only be able to make concessional contributions and the annual cap will fall to $25,000 for everyone, regardless of age.

## Take advantage of government contributions

Low and middle income earners may also be able to boost their super balance, thanks to government contributions.[i]

If you earn less than $36,813 this financial year and make an after-tax contribution to super, then you are entitled to a government co-contribution of up to $500. The co-contribution tapers out once you earn $51,813.

Also, low income earners on incomes below $37,000 may be eligible for a government-paid low income super contribution (LISC). This payment is equal to 15 per cent of your or your employer's concessional contributions over the financial year up to a maximum of $500.

## Bring forward expenses, delay income

The countdown to June 30 is not all about super; some simple financial housekeeping tips could help you reduce your tax bill.

Begin by collecting all supporting receipts and documentation for any work-related expenses. Where possible, bring forward tax-deductible expenses to the current financial year and delay income until July. This is especially worthwhile if you think your taxable income will be lower next financial year.

## Review investments

After a mixed year on global sharemarkets, you may be sitting on paper losses on some of your stocks. This could be a good time to sell some of your poor performers to offset against capital gains made on the sale of other investments over the past 12 months. Look to sell investments held for at least 12 months if you want to take advantage of the 50 per cent capital gains tax discount.

Residential property has had a mixed year across the country, with the boom continuing in Sydney and Melbourne and prices falling in the West. With interest rates on investment loans on the rise, it's more important than ever to claim all allowable rental property deductions.[ii]

The tax and investment landscape is constantly changing and growing in complexity. If you want to take advantage of the current super rules or traditional end-of-financial-year tax-saving strategies, consult your tax accountant and call us if you would like to discuss planning opportunities.

i https://www.ato.gov.au/rates/key-superannuation-rates-and-thresholds/?anchor=govtcont#govtcont

ii https://www.ato.gov.au/general/property/residential-rental-properties/expenses-you-can-claim/

# An insurance lifeline when you need it most

Trauma insurance is the middle child of the personal insurance family. It's overshadowed by its better-known siblings but it's a quiet achiever that will do the heavy lifting when the circumstances require it.

## What trauma insurance is and isn't

Trauma insurance – sometimes known as critical illness insurance – provides a lump sum payment in the event of a major illness or injury, such as a cancer diagnosis, heart attack or stroke. The full list of conditions covered will be set out in your policy.

In 2013, the most recent year for which figures are available, insurers paid out $621 million to 4512 trauma policyholders. (That works out to an average pay out of $137,808.)[i]

As with other types of personal insurance, the cost of a trauma policy will vary depending on how likely you are to make a claim. This is calculated with reference to your age, gender, occupation, health status and the amount of cover you're seeking. A non-smoking 35-year-old male, for example, should be able to take out a standard trauma policy for around $300 a year. This will entitle him to $20,000 if he has a heart attack, $120,000 if he's diagnosed with cancer and $150,000 if he has a stroke.[ii]

## Why you may need it

You may be wondering why you might need a trauma insurance policy if you have private health insurance. If you have other forms of personal insurance that provide a much larger payout if something goes wrong, you may wonder why you need to bother with trauma cover?

The answer to the first question is that trauma cover pays for rehabilitation, carers, other forms of treatment and loss of income that health insurance does not. The answer to the second question is that trauma is best seen as a complement to, rather than substitute for, these other forms of personal insurance:

- **Life insurance** pays your dependants a lump sum if you die.
- **Income protection insurance** replaces (most of) your salary for the period you are unable to work due to illness or injury.
- **Total and permanent disability (TPD) insurance** provides you with a lump sum payment if you suffer an injury or illness that prevents you ever working again.

If you don't have any personal insurance, you would be well-advised to investigate some of the more well-known policies before considering trauma cover.

## A small outlay for a lot of peace of mind

If you have superannuation you almost certainly have some life insurance, TPD cover and possibly even income-protection cover 'baked in', although the amount of cover is often low so you may need to buy a separate policy outside super. Trauma cover can only be purchased outside super, which brings us back to the issue of why bother.

Take the 35-year-old who is paying $300 a year for trauma insurance. Let's say he's diagnosed with cancer. He has a life insurance policy but it's not going to pay out anything unless it's terminal cancer. He's got TPD insurance but it's not going to pay out anything unless the cancer is going to result in a total and permanent disability. He's got income-protection insurance but that's only going to pay out, after a waiting period, once proof has been provided that the cancer is preventing him from earning an income.

With trauma insurance, there are no ifs or buts. Once the diagnosis is made, he qualifies for a lump sum of $120,000. That's not going to set him up for life by any means, but it will allow him to cover medical expenses and pay the mortgage if he needs to, or chooses to, stop working for a while to concentrate on getting well.

If, like our hypothetical 35-year-old, you have financial responsibilities and want the reassurance of a guaranteed payout if you suffer a health-related setback then trauma insurance may be for you.

*Avoiding being under or over insured is no simple task. If you'd like us to help you work out your insurance needs, give us a call.*

i Industry Stats 2013, the risk store 2014, http://www.theriskstore.com.au/resources/16/TRS_Claims_Stats_2013.pdf

ii What's the cost of trauma insurance, finder.com.au 2017, https://www.finder.com.au/cost-of-trauma-insurance

# ESCAPE the winter blues

## – without breaking the bank!

Have you been feeling a bit sluggish as the winter weather sets in? Are you craving richer meals, sleeping in a bit more, and generally feeling a bit flat?

There could be a scientific explanation. Seasonal effective disorder (SAD), otherwise known as the winter blues, is a real condition. It's more common than you might think in this country as it's estimated that up to 54% have some of the symptoms.[i]

Even if you're not afflicted by SAD, it's pretty common at this time of year to feel a bit lacklustre as the days get shorter and the drizzle sets in. One thing guaranteed to put a spring in your step is the idea of escaping the cold weather and heading on holiday somewhere for days of endless blue sky and balmy warm nights.

### Escape the grey skies by heading north

The good news is that Aussies have plenty of options when it comes to getting away to somewhere warmer. It doesn't cost much for those on the southern and eastern seaboards to head to the Northern Territory or Queensland, where it can seem like summer all year round to those from the cities in the southern half of the country. Darwin and the wider Northern Territory have plenty of natural and cultural wonders to explore. There's nothing quite like swapping out the grey palettes of city streets for the rich reds and vibrant aquamarines of the Kimberley gorges. Tropical Queensland is home to plenty of luxury resorts, not to mention national treasures like the Great Barrier Reef. A few days soaking up the sunshine can be had for well under $1,000 for a couple, all inclusive, if you take some time to do your research.

### Overseas destinations

If you've got a bit more time and you're willing to go further afield, south east Asia has a plethora of budget-friendly destinations. According to the ABS, the most popular holiday spots during the winter months are Indonesia (including Bali), Thailand, and Malaysia.[ii]

Emerging destinations, where luxury getaways can be had for the price of a hostel stay back here in Oz, are also worth considering. For example, visitor numbers to Cambodia and Vietnam are increasing, with tourism to these countries having really opened up over the last couple of decades. Vietnam offers world famous cuisine, coupled with stunningly diverse landscapes, from the balmy south to the mountainous north. Cambodia is also a unique cultural experience, home to delightful villages where you can still get that feeling of being somewhere fresh and un-explored.

### Finding the best deals

To find the best deals, look at packages being offered by bigger travel companies, which can use their buying power to your advantage. Alternatively, keep an eye out for airfare sales with lower cost airlines, and build your own holiday from there. There is a 'sweet spot' in terms of timeframes for nabbing the best fares. Booking between three months and six weeks in advance and avoiding peak times like school holidays will get you the cheapest deals.[iii]

Many carriers also offer bargain fares in the middle of winter, when fewer people are taking time off for holidays compared to the summer months. If you prefer hotel accommodation and steering clear of questionable street food 'adventures', an all-inclusive resort deal can help you keep costs under control.

### Budgeting for a break

Putting some money aside for upcoming travel and building up some savings can help you to avoid racking up a high credit card debt that you then have to deal with on your return.

And of course, if you can't beat 'em, why not join 'em and embrace winter? Take a leaf out of the book of European après ski culture and make a day trip to the snow, rent a cabin in the country (complete with roaring fireplace), rug up and go for long walks. Alternatively, just bunker down at home and enjoy lounging around on the couch with a hot choccie in your hand.

i http://mccrindle.com.au/the-mccrindle-blog/winter-blues-having-real-impact-in-australia

ii http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3401.0Jul%202016?OpenDocument

iii Source: Airlines Reporting Corporation (ARC)