INVESTMENT SOLUTIONS

Autumn 2017

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FINANCIAL FOOTPRINT

Welcome

With the 2017 Federal Budget having just been handed down, it would seem there's a bit in it for everyone.

In this edition, we discuss different strategies to help boost your super balance before proposed government changes take effect on the 1st July 2017.

BT Financial Group Investment Specialist, Riccardo Briganti, provides us with an update on local and international markets. We hear Wendy's story and how her income protection policy helped her deal with an incurable and debilitating condition.

Jackie Gower from Simple Saving shares her top tips for cutting household expenditure and finally, those wanting more detail on the Federal Budget can go to the following link -

www.financialfootprint.com.au/news/

Until next time – happy reading.

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Economic outlook

What's in store?

Riccardo Briganti – Investment Specialist, BT Advice

The new year started on an optimistic note with global economic sentiment. Manufacturing surveys largely maintained the strength seen in late 2016 with the US purchasing managers index rising to 56 in January from 54.5 in December – the highest level in more than 2 years. Strong results were not restricted to the US. Europe and Japan also saw improvement in January from already strong end of year results. While Chinese and UK results eased back slightly they continue to suggest economic expansion. Furthermore, the results were not restricted to manufacturing, with the services sector showing similar strength.

The results are encouraging, particularly in the US, where the US Federal Reserve increased the fed funds rate in December 2016 by 25 basis points to 0.5%-0.75%. The increase was small and while interest rates remain low by historical standards, there has been concern in some quarters that the economy remained fragile and interest rate increases could impact growth prospects. US consumer confidence declined in January but remains above levels seen during most of 2016. Other indicators such as employment data remain robust.

Domestically, the Reserve Bank of Australia (RBA) left monetary settings unchanged at 1.5% in February. The two domestic rate cuts in 2016 and the pick-up in the global growth pulse informed the decision to leave rates unchanged while temporary factors were seen as causing the fall in GDP in the September quarter. The commentary accompanying the decision suggests the chances of further rate cuts are low. In particular, the RBA expects Australian GDP growth to be around 3% for the next couple of years. Consumption spending is seen picking up from its recent lacklustre showing and resource exports are expected to continue as a strong contributor to growth. Inflation is forecast to move back into the RBA's target zone through 2017.

The market's positive assessment of Trump's proposed policy agenda of corporate and personal tax cuts and increased infrastructure spending, together with continued improvement in economic momentum has seen US equities power ahead. In the three months to end January, the S&P500 Index returned 7.8%. The Australian equities market as measured by the S&P/ASX200 also showed a solid 6.7% return over that period but faltered somewhat in January, declining 0.8%. The same drivers of the encouraging equities trend has put pressure on fixed interest markets with the US 10 year government bond yield rising to 2.5% at end January from 1.8% three months earlier. The equivalent Australian government yield rose to 2.7% from 2.3%.

In the currency market, the Australian dollar recently appreciated significantly moving above the $US0.76 level from $US0.72 less than two months ago. Reduced expectations of domestic rate cuts and stronger commodity prices helped the A$, as did data showing a substantial improvement in Australia's trade surplus.

Boost your super before the rules change

Did you know the amount you can contribute to superannuation will decrease from 1 July 2017? Paying extra into your superannuation now may make a big impact later in retirement. It could mean the difference between being able to afford regular holidays or dinners out, and still being able to pay your bills at age 100. Even a little bit may make a difference.

Making before-tax contributions

Right now the total amount you can contribute to your superannuation before tax, is capped at:

- $35,000 per year if you are aged 50 or over.
- $30,000 per year if you are aged under 50.

Your before-tax contributions include your Superannuation Guarantee contributions, any other employer super contributions, salary sacrificing (if you do this) and any contributions that you have claimed a tax deduction for.

The cap will reduce to $25,000 per financial year from 1 July 2017, regardless of age.

There will be additional flexibility from 1 July 2018 if you have less than $500,000 in total superannuation which will allow you to carry forward your unused before-tax (concessional) contributions for up to five years.

Making after-tax contributions

Take advantage of the current higher after-tax contributions cap to boost your super before it changes.

From 1 July 2017, the cap on after-tax contributions will reduce to $100,000 per financial year. It's currently $180,000 for those under 65 years. From 1 July you will also only be able to make after-tax (non-concessional) contributions if your total super balance is less than $1.6 million.

If you have spare cash on hand, whether an inheritance, dividend payments, a bonus or even just change after bills, you might consider contributing this to your superannuation sooner rather than later.

And, if you are aged under 65, you can bring forward up to three years of after-tax contributions, allowing you to invest up to $540,000 in one go. This cap will change to $300,000 from 1 July this year.

Entering retirement

If you're retired or about to retire, there are a few changes you should know about.

From 1 July 2017, the maximum amount you can have invested in the retirement phase will be $1.6 million. If you've already retired and your balance exceeds this cap you will be required to either:

- Move the excess back to the accumulation phase or
- Withdraw the amount as a lump sum by 1 July 2017 or have a tax penalty applied.

Note: This deadline is 31 December 2017 if the excess amount is $100,000 or less.

If you're currently invested in a Transition-to-Retirement (TTR) pension, from 1 July 2017, the earnings from this pension will be taxed at up to 15% pa (compared to its current tax-free status).

You may want to talk to us and evaluate whether this style of pension is still right for you.

To learn more about end of financial year strategies for your super, please don't hesitate to contact us.

Meet Tom†

Tom is 58 years old and has nearly $2 million in his superannuation. He'd like to retire in two years. He is thinking about selling an investment property (currently valued at $800,000) and using the proceeds after-tax to boost his superannuation. He hasn't made any additional contributions to his superannuation in the past few years.

Tom's options for after-tax contributions to his superannuation are below:

Before 30 June 2017		From 1 July 2017
Contribute up to $540,000*	OR	May not be able to contribute
* The cap on after-tax contributions is currently $180,000 per financial year, with the option to contribute up to $540,000 under the three-year bring forward rule.		People with a superannuation balance of $1.6 million or more will not be able to make after-tax contributions.

Once Tom retires, Tom will be limited to investing $1.6 million (indexation may apply depending on when he starts the income stream) in a tax-free retirement income stream. The remainder will need to remain in an accumulation superannuation account (where it is taxed at up to 15%) or be withdrawn from superannuation.

This scenario assumes that Tom does not wish to take any other possible options for financially managing his money.

† Scenarios described are for illustrative purposes only and are based on fictional characters

The before tax contribution cap will reduce to $25,000 per financial year from 1 July 2017, regardless of age.

When unexpected illness strikes

In 2010, Wendy was diagnosed with rheumatoid arthritis, an incurable and debilitating condition that changed her life overnight.

At the time of her diagnosis, Wendy, then 47, was loving life, enjoying peak career success working for a pharmaceutical company, and a newfound romance with David, a lovely man she had met six months earlier.

At first, Wendy was unable to comprehend the reality of what lay ahead. Just six weeks after her diagnosis, crippling pain meant Wendy could no longer perform her normal duties at work. When it became clear she would have to leave the job she prided herself on being good at and which she loved, the mum of three was devastated.

Just six months before her diagnosis, Wendy had met with a financial adviser who suggested she take out income protection. Fortunately, Wendy listened and now, looking back, says it was one of the best decisions she had ever made. She often thinks about what her life would have been like had she not had the financial support income protection provided.

Rather than worrying about how she was going to pay her share of a new mortgage and meet her medical expenses, Wendy could focus on her treatment, and adjusting to a new life that was never part of the plan.

It took three years to get her condition to a manageable level and David stood by Wendy's side and they married, even though they hadn't been together long, creating in the process a blended family that makes them the proud grandparents of 10.

These days, Wendy works part-time as a first aid teacher and keeps her RA symptoms under control through a strict vegan diet and plenty of exercise, especially swimming and cycling.

Wendy's story is an inspiring tale of indefatigable resilience in the face of adversity. As David says, "She gets up, she dresses up, she turns up – and she never gives up."

Adds Wendy, "Life these days is definitely challenging managing an incurable disease. I have my good days and bad days, and still a few sad days too. My health has its ups and downs but my focus now is on staying well as best I can."

Hope for the best but plan for the worst

It may be important to know which options could be available to try and help protect you and your family's future, in the event of any unforeseen sickness or injury. Speaking to us about your insurance cover could provide peace of mind for you and your loved ones.

Smart saving for your household

Imagine always having spare income to add to your investment so that your money is constantly working harder for you? According to Simple Savings' Jackie Gower, it's not a pipe dream with these common sense tips for cutting expenses.

Curtailing your spending is no easy feat, especially if you have a family. But there are some simple ways to cut back that may mean a bigger investment portfolio.

Food

Usually the biggest bill in any household, but luckily, it's one of the easiest to diminish. As the TV chefs always say, cooking at home is the key. "We know of families who've reduced their weekly food bill by as much as 50% as a result of menu planning," Jackie reveals. Also, look beyond the supermarket. "Taking the time to shop around your local butcher and greengrocer can result in valuable savings.

Utilities

The answer to saving here, Jackie says, is to review and compare. Do your research and check out deals from different providers. This is not the most exciting task, but Jackie estimates one to two hours on the phone or online could save you several hundred dollars a year.

Petrol

Potentially another large household expense. "The best way to cut-back on petrol is not to use it. Walk, ride or use public transport whenever possible. Car-pooling is also a great cost-saver. Make a list of your errands over a fortnight and try to get them done in the same area at once.

Entertainment

Everyone automatically reaches for their wallet here, but fun can be reasonably priced, or even free. Check out exhibitions, markets, walks and local fairs. Host a movie or games night, or pack a picnic and head to the beach or a national park. And, instead of buying new toys, join the local library or toy bank if available. The kids can play with exciting 'new' toys as often as they like - for free," she adds.

More thrifty hints...

If you're terrible with money, downloading an app to track spending could be your salvation. "One tried-and-true app is Track My Spend" our expert says.

Finally, if you really struggle with self-control, many banks offer accounts with online-only access, or require you to go in to make a withdrawal. This can prevent you going on mad sprees with your EFTPOS or credit card.

The important thing is to take the first step, as Jackie affirms, "Aim as big or small as you like. Any saving is a good saving."

Disclaimer
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