

## Welcome to Collins Financial Planning Xpress

Collins Financial Planning's purpose is to provide you, our client, with information and advice that will assist you to understand, enhance and therefore secure your financial future and lifestyle.

Collins Financial Planning Xpress aims to highlight and inform you of various issues in what we hope is in a readable but technically accountable medium.

Past issues can be found on our website [www.collinsco.com.au](http://www.collinsco.com.au) under the tag **Wealth Creation**. They are well worth a browse as they hold a wealth of information.

*In this issue we will take a look at some aspects of property purchasing and the general question of is it better to pay off your mortgage or contribute to super. Also, as June 30th approaches, there maybe some tax benefits that you can achieve.*

*We also have two special articles which are topical at the moment.*

- *Firstly with the ongoing Royal Commission into Banking, Superannuation and Financial Service Industry highlighting some less than ideal practices it is timely to look at what a Financial Advisor should do, rather than what they have, in many cases been forced to do, by the Institutions.*
- *Secondly in case you haven't noticed, the Federal Government did issue it's 2018 budget in early May. We have been hearing about it 'ad nauseam' but it would be remiss of me not to touch on it - so I have provided a very short attachment to this newsletter highlighting those things that I believe are of most interest.*

*We hope you enjoy this issue of Collins Financial Planning Express.*



**Mark Ducret**  
Responsible Manager  
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## The Role of a Financial Advisor

In recent months, financial advisors have been in the spotlight as a result of some poor advice provided by a few bad advisers and advisers under pressure from the institutions that they work for.

What is therefore the role of an Advisor? The answer is – it varies. Some relevant services include:

- **The financial designer** who deals with the big picture of your goals and dreams and strategies to achieve them from a financial perspective. As part of this we help get back control by ensuring you are more organized.
- **The financial coach** someone who earns your trust, develops a relationship with you and guides you through your financial journey with confidence. We deal with many clients so understand the changes in lifestyle and monetary needs as you age.
- **The investment strategist** who chooses how to build wealth to fund those objectives. We bring that third-party view to help you avoid emotionally driven investment.
- **The risk adviser** who makes sense of the options available and make an assessment of the needs of the family in terms of insurance, risk management and protecting the family's financial future.
- **The tax consultant** to minimise the leakage from those returns and ensure compliance.

Overarching all the advice is the structure which takes into account tax considerations, asset protection, cash flow, Centrelink issues, estate planning and any personal considerations for each client.

In terms of **investments** it depends on the client, and I think clients fall broadly into 3 categories. The best way to explain it to use an analogy of a car which Rik Arendsen from Aspi recently published:

### The Driver / Co-Driver

This investor may have a Self-Managed Super Fund (SMSF), have good knowledge of investments, and be quite confident running their portfolio. However, occasionally they come into new territory and they need a navigator to guide them through some tricky streets. Or they may also need to get their "car" serviced – from a super perspective this means provision of technical and legislative expertise to



ensure the client is running their fund according to the law.

### The Back-Seat Passenger

Most of our clients fit into this category. They own the car, and have set the destination but they are happy sitting in the back seat while we do the driving and navigating. They love their car and the journey we are going on, but they prefer the back seat where they can enjoy the view, knowing that a trusted, experienced driver will take them safely to their destination.

### The Taxi Ride

Clients like this may just use our service because they need to get from A to B. They may need some one-off strategic advice, or perhaps need to set up a new super fund. They expect their visit with us to be short, but professional.

Regardless of the type of client and their specific needs, our clients all agree that our role is to deliver:



**Education:** Demystifying investment jargon and translating it into “people-speak”.

**Service:** Removing complexity, solving problems and doing the grunt work

**Expertise:** On super rules, the right funds, the best shares or best strategies

**Experience:** What to do when the market is falling, or how to claim your Centrelink benefits..

Of course the best advisers put their client’s interests first, take the time and effort to understand their client’s needs and goals and consistently check in and review these, and lastly, deliver optimal solutions with integrity and honesty.



## Get ready for June 30—NOW!

*When it comes to getting the most (money) from your annual tax return, there is usually a lot to think about, so we’ve identified a few options that could open the door to some opportunities to save on tax.*

*The key here is to plan ahead.*

### Deductions—lower your tax liability

#### ☒ Pay now for some of next year's expenses

If you have some spare cash available, paying for certain expenses before June 30 could mean you get your tax break back from the ATO earlier. Expenses paid in July could leave you waiting more than 12 months for the return. A popular expense in this category is prepaying interest on an investment loan, but be careful because not all expenses qualify for a tax deduction in advance.

#### ☒ Cash back for insuring your income

You can claim the premiums you have paid for your income protection insurance as a tax deduction. Note that you can only claim the portion of the premium that covers you for loss of income, not for any benefits of a capital nature. Premiums for other personal insurance cover such as life, critical care or trauma cannot be claimed. You also can’t personally claim deductions for premiums that are paid from your superannuation if your policy is held in your fund.

### Super contributions—don’t waste the limits

#### ☒ Salary sacrifice or concessional contributions

The annual limit for these types of tax-deductible contributions is \$25,000 per annum, regardless of age. If you're an employee, this limit covers both



employer super guarantee and salary sacrifice contributions.

How much has your fund received in contributions so far this year? Do you need to review and adjust your current arrangements?

#### ☒ After-tax contributions

Anyone under 65 (whether working or retired) can contribute \$100,000 each year to super as after-tax or non-concessional contributions. You can also contribute \$300,000 in a single year by bringing forward the limit for the following two years. But – when it comes to super there’s usually a ‘but’ – check your total super balance to ensure any extra contributions do not exceed the general balance transfer cap of \$1.6 million for 2017/18.

And one final point on super contributions – the total contributed is based on how much is received by your fund, not when you sent it to the fund. Another reason why planning ahead is crucial.

These are just a few ways to manage how your money is taxed. Depending on your circumstances, other options may be available. Your Accountant or Advisor can work with you to help you achieve what is best for you this financial year. But please don’t leave it too late.



## When buying property, don't forget...

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The deal is done, a property is bought, and it's smiles and handshakes all round. But the agreed purchase price is just the beginning. The happy purchaser must cover a number of other costs, and failure to take these extras into account could take the gloss off this exciting time.

Whether you are buying a home to live in or an investment property, it's important to identify and estimate all the associated costs. Only then can you work out the absolute maximum amount you can offer on your dream home or investment gem.

The following list will get you started.



### Borrowing Costs

In addition to interest, lenders may charge a range of fees. These include:

- Loan application or establishment fee.
- Document preparation fee.
- Bank valuation fee.
- Title insurance.
- Registration of title.
- Lenders mortgage insurance, if your deposit is less than 20% of the property value.

Some of these fees may be waived and with a bit of negotiation you may be able to drive a good bargain.

### Legal fees

It's best to get expert help with transferring legal title of the property. This is a competitive area so get quotes from reputable legal or specialist conveyancing firms.



### Stamp duty

Stamp duty (or transfer duty in some states) is usually the biggest extra and varies widely between jurisdictions. Aside from the value of the property, the level of stamp duty may also depend on whether

you are a first homebuyer and if it is a primary residence or investment property.

State and territory government revenue offices provide online calculators, and a real estate agent should be able to refer you to duties payable for different property values and usages.

### Transfer fee

This also varies from state to state, anything from a few hundred to a few thousand dollars.

### Building and pest inspection

This is a relatively small investment that could potentially save thousands of dollars in the long run. Make sure you organise your own inspection using an independent service; don't rely on a report provided by the vendor or real estate agent.

### Council and water rates

You must reimburse the vendor for their unused portion of prepaid council and water rates that apply at the date of settlement. The amount will depend on the property value and the length of time to the end of the current rates period.

### Running costs

Ongoing running costs include council rates, repairs and insurances, and maybe body corporate fees. Factoring these in from the beginning will help you better manage your mortgage repayments.

### Homework pays

If ever there was a case for 'buyer beware' it's when buying a property. Do your homework to uncover these hidden costs so you can work out exactly what you can afford to pay when it's time to make an offer. Then you can break open the bubbly with confidence.

## Renovating? Be careful not to over - capitalise.

Perhaps due to the popularity of do-it-yourself (DIY) television programs, home renovations are big business. The rewards are there but watch out for the hidden costs – and we're not talking about fancy tap-wear!



Australians in increasing numbers are becoming building experts and style gurus. It's no surprise that Bunnings (or should we say Wesfarmers) shareholders are smiling.

Equally unsurprising is the surge in DIY injuries being treated at hospital emergency centres.

Many DIY-ers jump in with bags of enthusiasm but are often unskilled and unprepared. Done the right way, however, self-renovating can reap rewards. Take these examples.

Tony inherited his mother's 1950s California-style bungalow in a trendy inner-city suburb. Although on a decent-sized block, it was neglected and run down.

Tony's mate Josh was handy on the tools. Before Tony could say, renovator's delight, he and Josh had embarked on an ambitious DIY project.

Dale and Chris owned a nice home on an upmarket street. Although in good nick, it was tired by comparison with their newer, more modern neighbours.

Planning to sell, the couple knew that their location attracted well-heeled buyers, but their home's outdated style brought the price down.

Dale and Chris consulted real estate agents to understand what modern buyers looked for then visited display homes for ideas about current trends.

After chatting with their financial planner, they allocated a realistic budget and engaged a reputable builder to upgrade their kitchen and ensuite.

In the current market, the value of their house wasn't increased by the renovation, but had the renovation not been done, the sale price would have been dragged down by more than the amount they spent.

Weighing cost against return is a delicate balancing act. Dale and Chris were realistic about their goal, their budget and their local property market. They did their homework and did not over-capitalise; their renovation was a resounding success.

Tony's story ended somewhat differently. Josh found a girlfriend and lost focus leaving Tony to pay for a tradesman to finish the job. It took longer and was more costly than he anticipated. By the time his savings ran out, he was disillusioned to realise that his mother's tired old home, was still a tired old home but with a media room, outdoor kitchen and strange floorplan.

When it finally went on the market, the over-priced bachelor pad failed to attract the typical suburban family buyer.

Fed up with paying rates and insurance, Tony cut his losses and dropped the price. Predictably, it was snapped up.

Home DIY can be fun and rewarding and sure, it looks easy on the telly. But there is great potential for mistakes, and mistakes of this kind are usually expensive.

When talking real estate, there's something to be said for having the worst house on the best street. But if your reno project turns your place into the best house on the worst street you could be in for trouble.

Consult property and building experts, identify risks and hidden costs, then weigh your time, financial and emotional outlay against likely gains.

If you're still keen to tramp the DIY path, at least you'll know what you're up against.

# Should I pay off mortgage or contribute to super?



One of the most popular questions we are asked by our clients is whether it’s best to pay off their mortgage first or salary sacrifice money into their super fund – or can they do both? The answer to this question is never the same considering that everyone’s needs are completely different, but we thought we’d provide an explanation with some examples to give you an idea of how both options work.

## It’s not really a sacrifice

Salary sacrifice means arranging for your employer to pay part of your salary into superannuation instead of paying it to you in cash. It can be tax-effective because most of the personal income tax rates are higher than the 15% superannuation tax rate.

To explain, the table shows the difference for three people who invested \$10,000. The top line is for someone on the highest tax rate. They would have \$3,200 extra invested – a whopping 60% more by using salary sacrifice. The other lines show people on lower tax rates – you can see they both will have more invested by “sacrificing”.

INCOME	MARGINAL TAX RATE	INVESTED AFTER TAX	INVESTED BY SALARY SACRIFICE	DIFFERENCE	
\$190,000	47.00%	\$5,300	\$8,500	\$3,200	60%
\$90,000	39.00%	\$6,100	\$8,500	\$2,400	39%
\$60,000	34.50%	\$6,550	\$8,500	\$1,950	30%

## Should I pay off the mortgage or pay more into super?

The easiest way to show the difference is by using a case study.

Consider Christine who earns \$100,000 a year. She is aged 50 and plans to retire at age 60. Christine is worried about paying off her \$175,000 mortgage. The mortgage interest rate is 4.5% and she is paying \$21,764 a year so it will be paid off in ten years.

An alternative strategy is to pay interest only on the loan and salary sacrifice into superannuation so her disposable income remains the same. Christine's accumulation in super will grow faster and she can pay the loan off when she retires. The table compares the cash flows of the two strategies.

	Pay mortgage	Maximise super
Income	\$100,000	\$100,000
Salary sacrifice	\$0	\$15,500
Taxable income	\$100,000	\$84,500
Tax and Medicare	\$26,632	\$20,700
After tax income	\$73,368	\$63,800
Mortgage payments	\$21,764	\$7,875
Disposable income	\$51,604	\$55,925



With her current strategy she pays tax of \$26,632 and has \$51,604 left over after paying the mortgage.

Christine has an upper limit of \$25,000 on the amount of concessional contributions she can make into super. This includes the total of her employer's Superannuation Guarantee contributions and any salary sacrifice amount.

Assuming Christine's SG contributions are \$9,500pa and she sacrifices an additional \$15,500 from her salary, which is within the maximum allowed amount, and pays interest only on the mortgage, this is what she will achieve:

- She will have \$4,321 more disposable income and will pay \$5,932 less tax.
- She will have \$15,500 extra per year going into superannuation.
- The super fund will pay 15% tax so \$13,175 will be invested. If the fund earns 7.5% per year after tax, her super will grow by an additional \$213,000 in 10 years.
- When Christine retires at age 60 she can cash out \$175,000 from her super tax-free to pay off the loan and be more than \$38,000 ahead of her current strategy.

It is important to note that the outcomes for different people will vary and will depend on such factors as interest rates and investment returns. To find out what will work best for you, give us a call.

*Note: all tax calculations include Medicare levy of 2%*



### Technical Article

## Investing: how to reduce concentration risk

In Concentration risk. No, it's nothing to do with thinking too hard about something. In fact, it's more likely to be a result of not paying enough attention.

Concentration risk is the increase in investment risk that comes about from not sufficiently diversifying your portfolio. In other words, too much money is concentrated in too few assets, sectors or geographical markets.

This can happen:

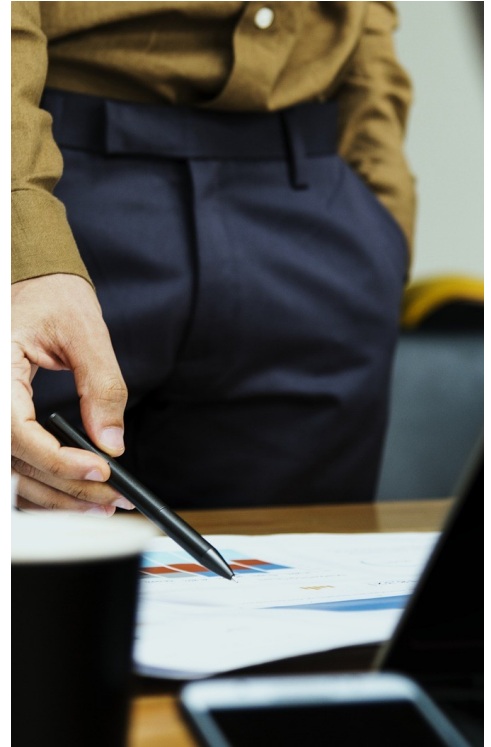
- **Intentionally**, because you have a strong belief that a particular share or sector, such as resources, banks or property, is likely to outperform in the future.
- **Unintentionally**, through asset performance. One or two shares deliver spectacular gains, making the entire portfolio more sensitive to moves in just a couple of assets. Or maybe shares as a whole enjoy a period of strong growth. Even though you hold a large number of different shares, the increased exposure to one asset class increases the risk to your portfolio.
- **Accidentally**, through poor asset selection. Nine out of the ten top companies that make up the MSCI World Index also appear on the top ten list of the main US index, the S&P 500. Investing in two funds, one that tracks the world market and one that tracks the US market won't deliver the level of diversification you might expect.

## Managing your risk

The solution to concentration risk is our old friend, diversification.

- Appreciate the importance of asset allocation, the art of spreading your money across the main asset classes of shares, property, fixed interest and cash. Ensure your asset allocation matches your tolerance to investment risk.
- Diversify within each asset class. Holding the big four banks is not a diversified share portfolio. If property is your thing, buying four one-bedroom apartments in the same building, or even in the same area, creates a huge concentration risk.
- Understand each investment and its role in your portfolio. Does share fund A hold similar shares as share fund B? Do they both have the same strategy?
- Get a professional opinion. Even if you are confident in making your own investment decisions it's wise to run them by a licensed adviser.

It's surprisingly common for investors to develop an emotional attachment to particular shares or properties they own. Concentration risk can also increase over time due to lack of attention. Your financial planner will assess your portfolio for hidden concentration risk and help you achieve a better balance of investments.



### *Worth Considering*

## Save on health insurance while travelling



The Most of us would never travel overseas without first taking out travel insurance with medical cover. Regardless of our destination, the peace of mind such a small outlay provides makes for a better trip. But what about if you are travelling overseas for a lengthy period, say two months or more, and you are already paying a monthly premium to your Australian private health fund? In effect, you're paying for the insurance twice. Depending on your fund, you could save some extra money to enjoy on your holiday by making one phone call.

Most of Australia's private health funds offer an option to suspend cover (and premiums) for members going overseas for up to two years (with conditions). By suspending your policy, you don't lose your benefits. Different funds have different stipulations, such as you must have been a member for a minimum period before you can suspend your policy, so contact your private health fund and get their specific requirements first.

Don't forget that most health funds also offer discounted travel insurance for their members, so you could be saving twice!



# Federal Budget Report

## What it means for you

### Low and Middle—Income Tax Offset

A new non-refundable Low and Middle-Income Tax Offset (LMITO) will be introduced. The LMITO will be a temporary measure applying from 2018-19 until 2021-22.

The maximum annual offset will be \$530 and will cut out for those with a taxable income above \$125,333 per annum.

### Low Income Tax Offset

From 1 July 2022 the annual Low-Income Tax Offset (LITO) will increase to \$645 and will cut out for those with a taxable income above \$66,667 per annum.

### Increase to Medicare Levy low-income thresholds

The Medicare Levy low-income threshold will be increased as follows:

Family Status	2017-18	2016-17
Single	\$21,980	\$21,655
Single, eligible for seniors and pensioners tax offset (SAPTO)	\$34,758	\$34,244
Couple	\$37,089	\$36,541
Couple eligible for SAPTO	\$48,385	\$47,670
Additional threshold for each dependent child	\$3,406	\$3,356

### Superannuation work test exemption

From 1 July 2019 the Government will introduce an exemption from the work test for voluntary contributions to superannuation. This is available for retirees aged 65 to 74 with superannuation balances below \$300,000 in the first financial year that they do not meet the work test.

The exemption will be available for 12 months from the end of the financial year in which they last met the work test.

### Increasing the maximum number of members in self-managed superannuation funds

From 1 July 2019, the maximum number of members allowable in a new or existing self-managed superannuation fund (SMSF) or small APRA fund will increase from four to six.

### Retirement income framework

The Government will require superannuation trustees to develop and offer members retirement income products that provide them with income for life, no matter how long they live.

The Government will consult with industry to confirm the approach and commencement date.



### Expanding the Pension Loan Scheme

From 1 July 2019, the Government will expand eligibility to the Pension Loan Scheme to include all Australians of Age Pension age. Under this measure eligible individuals can obtain a loan (secured against the individual's property) in order to receive a regular fortnightly pension payment of up to 150% of the maximum pension rate. Eligible pensioners who take up this option are able to repay the loan at any time or on the sale of the property and a fortnightly compounding interest rate of 5.25% currently applies.



### Introduce an Income Test for Carer Allowance

From 20 September 2018 the Government will introduce a \$250,000 annual Income Test threshold for the Carer Allowance (currently \$127.10 per fortnight) and Carer Allowance (Child) Health Care Card.

### Providing better access to aged care

The Government will provide an additional 14,000 new high-level home care packages over four years from 2018-19 in addition to the 6,000 high level packages previously proposed in the 2017/18 Mid-Year Economic and Fiscal Outlook.

The additional home care packages will be complemented by the release of a further 13,500 residential aged care places and 775 short term restorative care places.



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