# QUARTERLY INSIGHT

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## Winter Update

Welcome to the Winter edition of the Quarterly Insights Newsletter. As we bid farewell to the crisp, sunny days of Autumn, we now face the brisk arrival of winter and the fast-approaching end of the financial year.

In this edition, we delve into the recent Federal Budget and its implications for you. We'll explore how the Federal Government is allocating funds to areas such as cost of living, health, and aged care, among others.

With June 30th just around the corner, we've included an article titled "How to End the Financial Year on a High Note," packed with straightforward tips and reminders to help you maximize this important time.

This winter, we also want to share some tax-effective strategies to ensure that you can leave a legacy for your loved ones in a secure manner, potentially safer than a traditional will. In our article "Who Needs a Testamentary Trust?" you'll discover alternative estate planning options and learn if they might be suitable for you.

And finally, working out how much you'll need in retirement can be tricky but there are some guidelines to help you plan the rest of your life. Our final article provides some useful information for those contemplating what their retirement will look like.

Thank you for joining us for this edition. Stay warm and informed!

# The Federal Budget – What it Will Mean to Me?

Treasurer Jim Chalmers has high hopes that his 2024 Federal Budget will rein in inflation earlier than expected, ease cost-of-living pressures and build a stronger economy in the future.

It's a Budget for the here and now, he says, but also for the decades to come.

More than $8.4 billion has been allocated to quick-fix cost-of-living adjustments along with the previously announced Stage 3 tax cuts and the waiving of $3 billion in student debt.[i]

With a federal election due next year, the Federal Government has announced spending of almost $83 billion on housing, infrastructure, health and a Future Made in Australia project to build a more resilient economy for the future.

## The Big Picture

While Treasury is forecasting a $9.3 billion surplus for 2023-24 after the previous year's $22.1 billion surplus, the books will look considerably different the following year with a $28.3 billion forecast deficit expected.[ii]

That's against a backdrop of an uncertain global economic outlook with wars in the Middle East and Ukraine as well as slowing growth in China and elsewhere.

"Most advanced economies recorded subdued outcomes during 2023, with around a third of OECD nations recording a technical recession," notes Treasury in the Budget papers.

"Global inflation has moderated but remains too high, and there are risks it will persist. Tackling inflation remains the primary focus but, as inflationary pressures abate and labour markets soften, the global policy focus will increasingly shift to managing risks to growth."

There are some bright spots for Australia though.

Treasury is forecasting inflation could return to the target rate of between 2 and 3 per cent earlier, perhaps by the end of the year, the Treasurer says.

Jobs growth is stronger here than in any major advanced economy and real wages are growing again for the first time in almost three years.

## Cost of Living

This year's Budget aims to help out those struggling to pay the bills with a range of tax cuts and subsidies.

Every taxpayer will pay less tax as part of the Stage 3 tax cuts announced earlier this year. The average tax cut is $36 a week or an annual $1,888.[iii]

More than 10 million households will receive a total rebate of $300 on their electricity bills and eligible businesses will receive $325.

The government says its Energy Bill Relief Plan has kept electricity price increases to two per cent through the year to the March quarter this year. Without it, prices would have increased by 14.9 per cent.[iv]

While it won't provide immediate relief, the government has grocery prices in its sights. It's taking steps to make a Food and Grocery Code mandatory with penalties up to 10 per cent of turnover for major breaches. It also directed the Australian Competition and Consumer Commission to investigate pricing and competition in the supermarket sector.

Commonwealth Rent Assistance has been increased by a further 10 per cent, there is a $138 million boost to emergency relief funding and financial support services, and the freeze on the deeming rate for income support recipients has been extended.[v] The deeming rates are used by Centrelink to predict earnings from super and investments over the 12 months ahead. The lower deeming rate will remain at 0.25 per cent and the upper rate will remain at 2.25 per cent until 30 June 2025.[vi]

Anyone with a student debt will welcome a change to the indexation rate for the Higher Education Loan Program (HELP). The government says it will cut $3 billion in student debt for more than three million Australians.

## Health

Medicines can be a big cost for many people and a new $3 billion agreement with community pharmacies is expected to help. The government is expecting the deal to deliver cheaper medicines and better patient health.

There will be a one-year freeze on the maximum patient co-payment and a five-year freeze for pensioners and other concession cardholders. This change means that no pensioner or concession card holder will pay more than $7.70 (plus any applicable manufacturer premiums) for up to five years.

Almost half of Australians live with a chronic health condition and the Budget provides more than $141 million for research and services for conditions including bowel and skin cancer, diabetes and dementia.

The government is also providing an extra $411 million to the Medical Research Fund to continue research for low-survival cancers.[vii]

And, in a strengthened mental health package, the government has committed more than $888 million over eight years to improve access to services and support.

## Aged Care

Providing further support for the recommendations of the Royal Commission into Aged Care Quality and Safety, the Budget allocates $2.2 million to develop a new Aged Care Act. The Act is expected to establish a new Support at Home program and improve the standard of in-home aged care.[viii]

An extra 24,100 Home Care Packages will also be made available to reduce waiting times and wait times for the My Aged Care Contact Centre will be reduced.

# The Federal Budget continued

Meanwhile, the government has allocated funding to beef up the regulatory capabilities of the Aged Care Quality and Safety Commission.

To support fair wages for care workers, the government has committed to fund a further increase in the award wage for direct and indirect aged care workers. The government is also providing $87.2 million for initiatives to attract nurses and other workers into aged care.[ix]

## Housing

With housing affordability affecting millions of Australians, the government has allocated $6.2 billion in the Budget on a range of initiatives.

There's a further $1 billion for states and territories to deliver new housing, more student accommodation, an increase in funds for homelessness services and more concessional loans for community housing providers.

The Build to Rent market will receive a boost with a plan to allow foreign investors to purchase developments with a lower foreign investment fee.

The government is also supporting 20,000 new fee-free TAFE places for courses in the construction sector.[x]

## Infrastructure

The government aims to stimulate the economies of the states and territories with funding for a number of major infrastructure projects.

There's $21.6 billion for Queensland over 10 years for projects including the Sunshine Coast rail line and Bruce Highway works; $20.8 billion over 10 years for NSW for various road upgrades; $19.2 million in Victoria for the North East Link and other projects.

## Attracting Investment

Aiming to shore up Australia's economic fortunes, the government has created a comprehensive package of projects to lift our manufacturing industry and position us to take advantage of net zero.

The Treasurer says the world's commitment to net zero by 2050 will demand "the biggest transformation in the global economy since the industrial revolution".

He believes Australia's energy, resources, regions, researchers and workers can all play a part in creating a "renewable energy superpower".

To that end, the Budget includes $13.7 billion in production tax incentives for green hydrogen and processed critical minerals, $1.7 billion to develop new industries using green metals and low carbon fuels and $566 million to map the geological potential of the entire country to get a better picture of our critical minerals and groundwater.

There will be major work on attracting new investment by reforming investment settings and regulatory processes.

The government says it will make it simpler to invest in Australia to entice more capital both from overseas and at home. It will work with business, governments, unions, communities and other experts during 2024 to come up with the best approach.

## Supporting Women and Families

With escalating rates of family violence and an alarming increase in the incidence of violence against women, the Budget includes funding to support a range of programs.

More than $925 million will be spent over five years to provide support for victim survivors leaving a violent intimate partner relationship and a program to strengthen accountability for systemic gender-based violence in higher education.

The government will invest more than $56 million over four years to improve access to sexual and reproductive healthcare for women including training GPs to provide better menopause care.

A newly released national gender equality strategy will drive government action on women's safety, sharing, economic equality, health, leadership and representation.

In a move to take the pressure off parents, superannuation will be paid on government funded Paid Parental Leave (PPL) for parents of babies born or adopted on or after 1 July 2025.[xi]

## Looking Ahead

The stimulus provided by this Budget will bring some relief in the short term, but our economy will be relying on the big ideas, such as the Future Made in Australia project, to provide the resilience we need in an uncertain global economy.

Treasury is forecasting slow global growth and only 1.75 per cent growth in Australia this financial year and 2 per cent next year along with a significant deficit.[xii]

But the Treasurer is confident he has delivered "an inflation-fighting and future-making Budget" with "responsible relief that eases pressure on people and directly reduces inflation".

It's one that will "forge a new economy and a new generation of prosperity", he says.

*If you have any questions about the Budget measures announced, please don't hesitate to contact us.*

Information in this article has been sourced from the Budget Speech 2024-25 and Federal Budget Support documents.

It is important to note that the policies outlined in this article are yet to be passed as legislation and therefore may be subject to change.


i https://budget.gov.au/content/overview/download/budget-overview-final.pdf (page 5)
ii https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/speeches/budget-speech-2024-25
iii https://budget.gov.au/content/overview/download/budget-overview-final.pdf (p 11)
iv https://budget.gov.au/content/overview/download/budget-overview-final.pdf (p 15)
v https://budget.gov.au/content/overview/download/budget-overview-final.pdf (p 11)
vi https://ministers.dss.gov.au/media-releases/14651
vii https://budget.gov.au/content/overview/download/budget-overview-final.pdf (p44)
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x https://budget.gov.au/content/overview/download/budget-overview-final.pdf (p24)
xi https://budget.gov.au/content/05-opportunity.htm#m1
xii https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/speeches/budget-speech-2024-25


# How to End the Financial Year on a High Note

As the financial year draws to a close, it's the perfect time to review your financial affairs and set the stage for a successful new financial year. By taking care of essential tasks and implementing strategic planning, you can position yourself for a smooth transition and a strong start for the new financial year.

## Topping Up Super

One important item for the To Do list is to top up your super with either concessional (pre-tax) or non-concessional (post-tax) contributions. For example, you could make a voluntary concessional contribution up to limit allowed and then claim a tax deduction on your personal assessable income for it.

Maximising contributions not only helps you build your retirement savings but can also provide valuable tax benefits. But it's critical to be mindful of your caps and to ensure that you make any super contributions before the end of the financial year to meet the deadline.

## Reviewing Investments

Reviewing your investment portfolio is a valuable task at any time but particularly now.

For example, you could take a look for any capital gains or losses that you could be used strategically to manage your tax liability.

Also, it is worth considering how your portfolio performed over the past 12 months against your goal of capital growth, income, or balance.

You may decide to readjust your goals or your investments to help steer performance in the right direction for the next 12 months.

Of course, if you're planning any changes, it's important to check in with yus to ensure you're making informed decisions about your investments.

## Paying Expenses Early

Another useful strategy at tax time can be to bring forward any deductible expenses or interest payments before 30 June to reduce your taxable income.

That could include incurring expenses on an investment property, prepaying interest on investment loans, making charitable donations, or claiming eligible work-related expenses.

Make sure you keep detailed records and receipts to support your deductions.

The ATO's myDeductions app is a great place to start for free record keeping and being ready during tax time.

## Setting Up Salary Sacrifice

As you look ahead to the new financial year, consider whether a salary sacrifice arrangement might be right for you.

Salary sacrifice allows you to divert a portion of your pre-tax salary directly into your superannuation, which effectively reduces your taxable income and boosts your retirement savings.

You will need to think carefully about your living expenses to work out the amount you can afford to contribute to your super, but it can help create a disciplined approach to saving.

Your employer or payroll department can help you set up a salary sacrifice arrangement.

## Checking Your Budget

This is a good time to revisit your financial goals and how you're tracking, and then to put together a strong budget for the new financial year that will help get you further along the track.

Take the time to review your income and expenses and identify any areas where you can cut back spending or improve your income.

This exercise not only helps you understand your financial habits but also allows you to reallocate funds towards your goals, such as paying down debt, building an emergency fund, or increasing your investment contributions.

## Consult With Professionals

Don't forget to check in with your trusted advisers – financial advisers, accountants, or tax professionals – to make sure you are making the most of any opportunities for financial growth and also maximising tax savings.

Taking advantage of our expert advice to review your current financial situation and goals, and to check that you are making the best decisions for you can make a difference. It provides peace of mind, ensures that you are complying with any obligations and, importantly, puts you in the best position to achieve your financial goals.

# Who Needs a Testamentary Trust?

The rising cost of living is grabbing all the attention right now as people struggle to pay the increasing prices. But in the meantime, our collective wealth has been growing steadily and is being transferred to the next generation at increasing rates.

In fact, the value of inheritances as well as gifts to family and friends has doubled over the past two decades.[i]

A 2021 Productivity Commission report found that $120 billion was passed on in 2018 and that amount is expected to grow fourfold between now and 2050. In 2018, the value of the average inheritance was $125,000 while gifts averaged $8000 each.

So, there is a lot at stake and it means that estate planning – a strategy for dealing with your assets after you die – is vital to help fulfil your wishes and protect the interests of the people you care about.

One powerful tool in planning your estate is a testamentary trust, which only comes into effect after your death. It operates in a similar way to a discretionary family trust and your Will acts as the trust deed, providing instructions for the trust.

It allows you to control the distribution of your assets and provides a way of managing any tax implications for your beneficiaries. Testamentary trusts are often used to protect assets from unforeseen circumstances such as lawsuits, creditors and divorces and they can help to preserve a family's wealth.

A testamentary trust can be useful for those with blended family relationships and children with complex needs. For example, a child with a disability who is unable to manage their own investments can be supported by the use of a trust. Testamentary trusts may also help to provide some certainty for parents that their young children will be provided for. They are also often used by philanthropists as a way of providing a legacy for a cause they support.

## Choosing a Trustee

If you are setting up a testamentary trust, you will need to appoint one or more trustees who will manage administration and distributions.

The trustee could be a family member (who may also be a beneficiary) or the role could be handed to an independent person or organisation.

Trustees should understand the tax situation of each of the beneficiaries to ensure that the timing and amount of distributions don't inadvertently cause difficulties for them. Trustees must also lodge a tax return every year and maintain trust accounts and records.

As the ATO points out, for the trust to operate effectively, a high level of co-operation between family members may be important so that tax, financial and other information is shared.

## The Pros and Cons

Whether or not you should set up a testamentary trust in your will depends on your own circumstances.

The positives include:

- The ability to control the distribution of income
- The possibility of some tax advantages for your beneficiaries
- A level of protection for your assets from lawsuits, family breakdowns and business difficulties
- A way of keep a family's wealth intact into the future
- Support for vulnerable beneficiaries such as those with special needs or lacking financial experience and minors
- Can be used by anyone with assets to distribute, whatever the size of their estate

On the other hand, there are a number of considerations to be aware of such as:

- The complex paperwork and reporting required
- The cost to establish the trust and keep it running
- The possibility of disputes among beneficiaries or with the trustee over the future of the trust, distributions, and its administration

Testamentary trusts are a valuable strategy to help ensure your wishes are followed. They can shape your legacy, provide fairly for your loved ones and protect assets.

Call us if you would like to know more about establishing a testamentary trust and to see whether it is suitable for you.

i https://apo.org.au/node/315436

# Living Your Best Life in Retirement

If you're nearing retirement age, it's likely you're wondering if you will have enough saved to give up work and take it easy, particularly as cost-of-living increases hit some of the basic expenses such as energy, insurance, food and health costs.

Fortunately, someone has already worked out what you might need.

The Association of Superannuation Funds in Australia (ASFA) updates its Retirement Standard every year, which provides a breakdown of expenses for two types of lifestyles: modest and comfortable.[i]

Based on our average life expectancy - for women it is just over 85 years and men 81 - if you are about to retire at say age 67, you will have between 14 and 18 years in retirement, on average and depending on your gender.[ii]

ASFA finds that a couple needs $46,944 a year to live a modest lifestyle and $72,148 to live a comfortable lifestyle. That's equal to $902 a week and $1,387 respectively.

The figure is of course lower for a single person – $32,666 for a modest lifestyle ($628 a week) or $51,278 ($986) for a comfortable lifestyle.[iii]

What does that add up to? ASFA estimates that, for a modest lifestyle, a single person or a couple would need savings of $100,000 at retirement age, while for a modest lifestyle, a couple would need at least $690,000.[iv]

A modest lifestyle means being able to afford everyday expenses such as basic health insurance, communication, clothing and household goods but not going overboard.

The difference between a modest and a comfortable lifestyle can be significant. For example, there is no room in a modest budget to update a kitchen or a bathroom; similarly overseas holidays are not an option.

The rule of thumb for a comfortable retirement is an estimated 70 per cent of your current annual income.[v] (The reason you need less is that you no longer need to commute to work and you don't need to buy work clothes.)

## Building your nest egg

So how can you build up a sufficient nest egg to provide for a good life in retirement? There are three main sources: superannuation, pension and investments/savings.

Superannuation has the key advantage that the money in your pension is tax free in retirement.

Your superannuation pension can be augmented with the government's Aged Pension either from the moment you retire or later when your original nest egg diminishes.

Your income and assets will be taken into account if you apply for the Age Pension but even if you receive a pension from your super fund, you may still be eligible for a part Age Pension. You may also be eligible for rent assistance and a Health Care Card, which provides concessions on medicines.[vi]

## Money keeps growing

It's also important to remember that the amount you accumulate up to retirement will still be generating an income, whether its rentals from investment properties or merely the growth in the value of your share investments and the accumulation of money from any dividends paid.

You can also continue to add to your superannuation by, for instance, selling your family home and downsizing, as long as you have lived in the home for more than 10 years.

If you are single, $300,000 can go into your super when you downsize and $600,000 if you are a couple. This figure is independent of any other superannuation caps.[vii]

Planning for a good life in retirement often requires just that – planning. If you would like to discuss how retirement will work for you, then give us a call.

i Retirement Standard - Association of Superannuation Funds of Australia
ii Life expectancy, 2020 - 2022 | Australian Bureau of Statistics (abs.gov.au)
iii https://www.superannuation.asn.au/media-release/retiree-budgets-continue-to-face-significant-cost-pressures/#:~:text=The%20ASFA%20Retirement%20Standard%20December,to%20around%203.5%20per%20cent.
iv https://www.superannuation.asn.au/resources/retirement-standard/
v https://www.gesb.wa.gov.au/members/retirement/how-retirement-works/cost-of-living-in-retirement
vi Assets test for Age Pension - Age Pension - Services Australia
vii Downsizer super contributions | Australian Taxation Office (ato.gov.au)

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