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Lifestyle Matters

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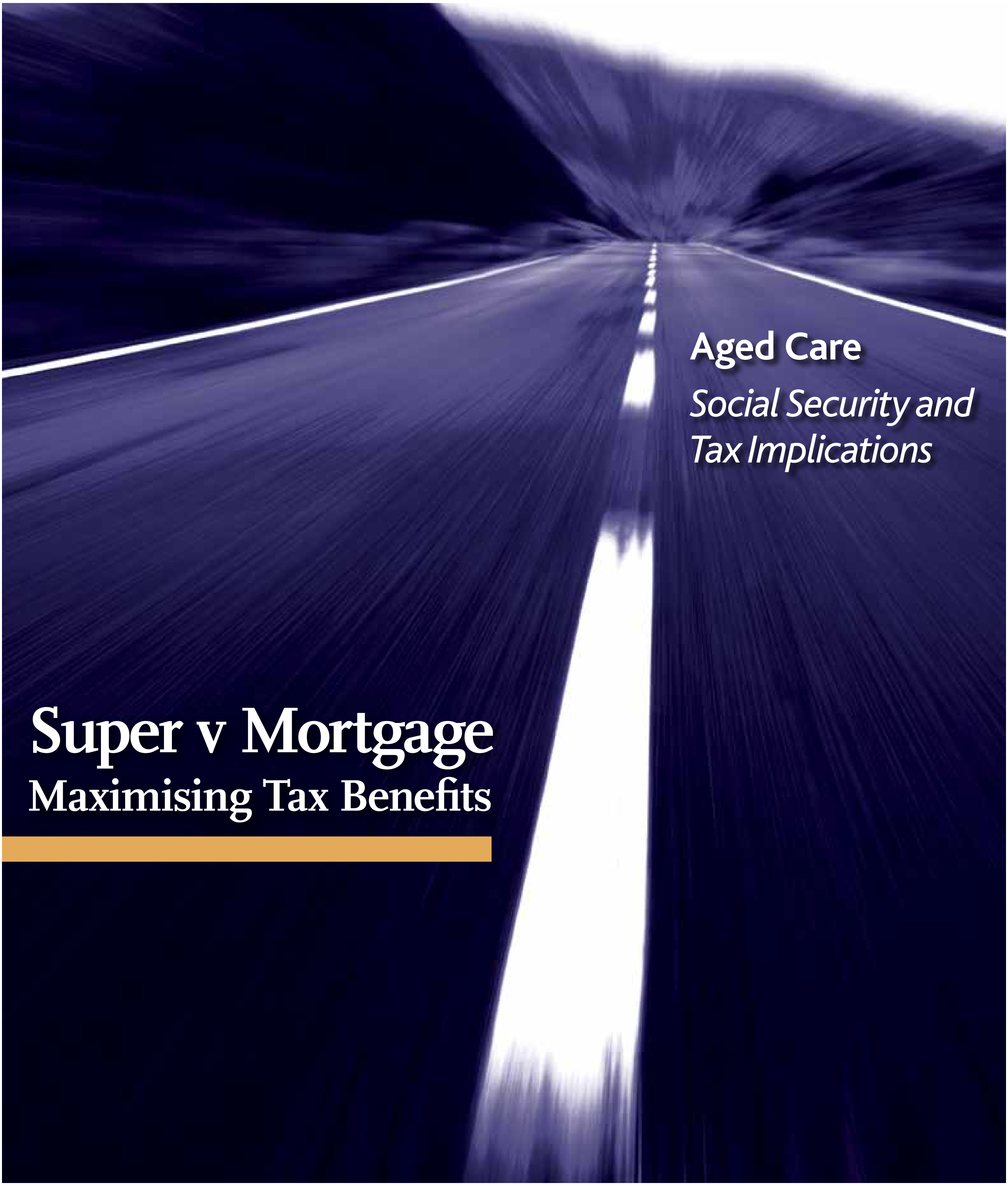

Aged Care

Social Security and Tax Implications

Super v Mortgage

Maximising Tax Benefits

The answer is not the same for everybody.

Super v Mortgage

About 4 years ago, we, at Lifestyle, looked at whether it was a good idea to increase superannuation (super) contributions at the expense of making additional repayments on the home loan.

As always, in financial planning, the answer is not the same for everybody. However, there are certainly many cases where this strategy alternative may be worth looking at due to the tax advantages of making salary sacrifice contributions (or tax deductible contributions for self employed people) to superannuation.

This topic has become even more significant because of recent moves by the Labor Government to minimise the tax effective contributions that can be made to super. As of 1 July 2012, even the over 50's are limited to making annual concessional contributions of $25,000. So it is very much a "USE IT OR LOSE IT" situation when it comes to maximising your tax benefits from super.

While home loan payments are usually made from after tax money, super contributions can be:

- Made with pre-tax dollars via a salary sacrifice agreement, or
- Claimed as a tax deduction by clients who meet the 10% test and other conditions.

The table below compares the tax payable between taking salary and making super contributions. Ultimately, if you pay less tax you have more money working for you. So you should be better off having 59%, 38% or 29% more money invested in super compared to a lesser amount being paid off the mortgage. This assumes that you get reasonable returns from your super over time.

	SALARY TAKEN TO PAY MORTGAGE			SACRIFICE TO SUPER
	TAX @ 46.5%	TAX @ 38.5%	TAX @ 34.0%	TAX @ 15.0%
Salary	$10,000	$10,000	$10,000	$10,000
Tax	$(4,650)	$(3,850)	$(3,400)	$(1,500)
AMOUNT AFTER TAX	**$5,350**	**$6,150**	**$6,600**	**$8,500**

	Benefit of Contributing to Super v Paying Mortgage
TAX @ 46.5%	**59%**
TAX @ 38.5%	**38%**
TAX @ 34.0%	**29%**

Other Considerations:

Legislative Change: with all strategies, the risk of adverse changes needs to be considered.

Liquidity: consider money going into super as inaccessible until a condition of release is met. In other words, do the appropriate planning to ensure you will not need access to this money while it is "locked" in super.

Investment Volatility and Risk Tolerance: Super may provide greater risk (in terms of volatility) than simply paying off the mortgage which is generally considered to be a low risk strategy.

Conclusion: The Government's recent backflip on super contribution limits for over 50's has brought this strategy alternative back to the forefront of strategy conversations. However, as highlighted above, everyone's situation is different so the pros and cons of implementing the strategy need to be carefully weighed up before proceeding.

Aged Care Considerations

Whether for yourself, your parents or friends, choosing an aged care facility can be a financially and emotionally challenging time for all concerned. As financial advisers, we are qualified to provide advice to our clients in relation to aged care. In doing so, we help our clients (applicants) look at the following areas:

1. Financial Position:

The first step is to assess our client's financial position as this can impact the level of fees and charges they could be asked to pay, and the strategies they could use to reduce these liabilities.

2. Get Eligibility Assessed:

To be eligible to enter an aged care facility, an applicant will need to have their physical and mental situation assessed by an Aged Care Assessment Team (ACAT). This is a free service that is funded by ACAT and will determine whether the applicant needs low level care (known as a hostel) or high level care (known as a nursing home).

3. Find an Aged Care Home

Once ACAT has determined that the applicant is eligible for residential aged care, they can start looking for a facility. When doing this, they should consider whether they want a place in an "extra services facility". At a higher cost, these facilities provide a higher standard of accommodation and broader range of food choices.

Applicants may apply for as many aged care homes as they wish. When one becomes available, they will be contacted and the home makes the decision on whether they accept the applicant based on various criteria including whether the facility is appropriate for their needs.

4. Work Out the Cost

While the Federal Government provides some funding for aged care, those who can afford it are expected to contribute towards the cost of care. The table below summarises the main fees and charges a resident could be asked to pay:

5. Consider Social Security Implications

Social Security entitlements, such as the age pension, may be impacted by a move to aged care so this should be considered beforehand. This is a complex area and could be the topic of a whole newsletter on its own so we suggest that professional advice be sought in relation to social security considerations.

6. Consider Tax Implications

Among other tax considerations, the treatment of the applicant's principal place of residence needs to be considered – whether the plan is to sell it, keep it (unoccupied) or keep it but rent it out.

7. Consider Estate Planning Implications

With any major life changes, estate planning issues such as wills, superannuation death nominations, trusts and enduring powers or attorneys should be reviewed to ensure they reflect the goals and wishes of those concerned.

	Low Level Care (hostel)	High Level Care (nursing home)	Extra Service Facility (low level)	Extra Service Facility (high level)
Accommodation Bond	YES	NO	YES	YES
Accommodation Charge	NO	YES	NO	NO
Basic Daily Fee	YES	YES	YES	YES
Daily Income Tested Fee	YES	YES	YES	YES
Extra Services Fee	NO	NO	YES	YES

What's happening at Lifestyle

Farewell Chris....

Known as "The Master" for his wide and varied academic and sporting achievements, Chris has left Lifestyle to pursue a career as a financial adviser with Bank West. Chris has a big personality and an even bigger phone voice. While being extremely professional in his role as Portfolio Manager at Lifestyle, we will miss his wit, sense of humour and all round energetic enthusiasm in the office.

Welcome Sandy...

To help fill the hole left by Chris, we are excited to be welcoming Sandy Lui into the team at Lifestyle. Sandy will fill the role of Portfolio Manager. She comes with impeccable credentials having worked as an associate advisor for the last 6 years with Centric Wealth and Godfrey Pembroke. Sandy is well qualified having both a Bachelor of Business and Advanced Diploma of Financial Services. She is also a Certified Financial Planner (CFP). Out of the office, Sandy enjoys cooking and dancing, as do many of her new work colleagues.

Tristan in the Desert...

After 2 years in the ADF, Anne's son Tristan left in June for his first deployment to Afghanistan. After a hot summer in Townsville, he spent a few days of final training in 58° heat in Dubai before landing in a positively balmy 40° Tarin Kowt. He spends most of his time at (unairconditioned) forward bases so there is little regular contact but he enjoys the camaraderie of army life mentoring the ANA. Requests for care packages include starbursts and cheetos but definitely NO chocolate – it melts before it's opened. We wish him a safe and speedy return.

Dylan grows up...

As most grandparents will tell you, having grandchildren is a wonderful experience. The amazing thing is just how quickly they grow and change. This is very noticeable when you are separated by distance and only catch up every couple of months. Watching them grow makes you very aware of how quickly time passes. Gareth and Carmel recently spent a few days on the South Coast with their grandson Dylan who is now 17 months old, and wanted to share a cute photo in our newsletter.

Shane's Renovation Journey Continues...

It has been a constant source of amusement and coffee room chatter, but this could all come to end as Shane confidently tells us that the renovation journey is "almost" over. In fact, it sounds as though he is over it! One of his last big jobs, joining the driveway to the house, is now complete. Being the DIY'er that he is, Shane did a lot of the heavy lifting (and digging) himself and has the dirt under the finger nails to prove it. Hopefully, Shane can now sit back and enjoy the castle he has created. Watch this space...

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