WEALTH SOLUTIONS

WAYS TO WEALTH - IN YOUR 50's

START EXPLORING WAYS TO A BETTER RETIREMENT

Find ideas for getting your family's financial situation into better shape with strategies for dealing with debt, sorting out your mortgage, thinking about investing and lots more.

- **Review your risk profile**
- **Get advice on borrowing to invest**
- **Review insurance arrangements**
- **Pump up your super savings**
- **Bring forward contributions**
- **Accessing your super from age 55**
- **Review your Will**

REVIEW YOUR RISK PROFILE

When did you last review your financial plan to check your investments are still on track to meet your financial goals? Over time your goals or attitude to risk may change, therefore your investment strategy may need to change as well.

Each investment option has a suggested minimum timeframe for investing.

Generally, those investments that aim to provide an income are more conservatively invested (for example in cash and fixed interest), whereas those that focus on growth will be invested more aggressively in property and shares.

GET ADVICE ON BORROWING TO INVEST

Borrowing to invest (also called gearing), may help accelerate your wealth creation. Gearing can allow you to access investments now that you wouldn't otherwise have the money to access. It can also give you the potential to spread money across different investment types, which can help to counter risk.

With a larger investment you have the potential to magnify your returns, but gearing can also magnify your losses.

Because what you earn from your investments is assessable income, you may be able to claim interest on your investment loans as a tax deduction. Some people use equity in their home such as through a line of credit.

You can consider borrowing against this equity to start or increase an existing investment with the objective of achieving increased returns on your investment. Others take out a special investment loan - often called margin lending. While this type of gearing can result in increased returns in a rising market, it may also lead to a greater loss in a falling market. You need to strike a comfortable balance between the level of risk you are prepared to accept and your desired level of return.

You might borrow to access a lump sum to invest. Alternatively, you could borrow a lump sum as well as regular amounts to add to your investment - known as instalment gearing.

Since the interest costs associated with borrowings for investment purposes are usually tax deductible, gearing can be a tax-effective strategy.

In the case of margin loans, lenders allow a maximum gearing level known as the debt to assets ratio (or loan value ratio - LVR). If markets fall and the value of your investment drops, a margin lender may make a 'margin call', requiring you to put up more money at short notice. You might have to offer more security or even sell some of your investment holding at the current prices as a result to bring your gearing back down to the appropriate level.

REVIEW YOUR INSURANCES

Hopefully by now you've made sure you are protected with enough death, disability and income protection insurance. This can give you peace of mind that you and your loved ones would be provided for if something unexpected were to happen to you.

Even so, stay actively interested in your insurance. As your life situation changes, review your cover. For example, you might need a policy that covers other conditions or you might find the level of insurance you have no longer suits what you need.

Make sure you check your listed beneficiaries and consider updating them every 3 years. Consider using binding nominations to lock in who will receive the benefits.

Insurance can be sourced through most super funds and from companies outside super. A financial planner can help work out what type of insurance you should have, for what amount, and where to source it.

Quicktips

Like everyone else over 50, you should now be actively planning your retirement.

Take advantage of lower tax rates, from the year in which you turn 50 you can make up to $35,000 of contributions taxed at 15% to your super each year. If you are an employee, this would be through salary sacrifice and employer contributions. If you are self-employed, you can make tax-deductible contributions of up to $35,000 each year.

You can access your super even if you're still working and boost your super at the same time if you're 55-plus.

Also, consider delaying retirement until age 60 so you can access your super tax-free.

PUMP UP YOUR SUPER SAVINGS

Getting the right financial advice now can make a significant difference in building for your retirement.

Combined with other strategies, salary sacrifice can be even more powerful in boosting your super tax effectively.

Consider drawing on other investments to supplement your income so you can sacrifice even more. See **Maria's story below.**

If you're 55-plus, consider drawing a super pension while still working, allowing you to sacrifice even more.

Consider reducing your mortgage payments to free up more funds to salary sacrifice into super which can be accessed tax-free after age 60.

Release money from non-super assets to contribute to super

Some people sell non-super assets as they approach retirement and roll the money into super. Once they turn 60, they can access tax-free lump sums or a tax-free income stream. Super income streams carry added benefits - such as favourable Centrelink income test treatment and no tax on earnings.

Maria's story*

- *42-year-old Maria inherits $150,000.*
- *She has paid out her mortgage, is on a marginal tax rate of 41.5% and wants to boost her retirement savings.*
- *After allowing for the 9% superannuation guarantee contributions made by her employer, she has $16,000 of concessional contributions cap that is unused.*
- *Maria compares what the outcome of the following three options could be after 10 years:*

  A) If she puts the money into super as a lump sum after-tax contribution she'd end up with around $349,000 in retirement benefits.

  B) If she invests the money in a managed fund outside super the result would be $292,000.

  C) If she makes salary sacrifice contributions of $16,000, and invests the inherited money in a managed fund - withdrawing $9,360 a year from the investment through distributions and from capital gain to replace the $16,000 she salary sacrifices into super - this approach leaves Maria with around $378,500.

Investing outside super and using this investment to supplement her income so she can salary sacrifice into super gives Maria $86,500 more in retirement savings than if she'd invested the money solely outside super - and $29,500 more than if she'd put the lump sum into super as an after-tax contribution. If Maria was on the next tax bracket down, she still would have ended up ahead by taking this approach - and the benefits would have been even greater if she was on the top marginal rate.

Note: If Maria were self-employed, she could achieve similar results by making personal tax-deductible contributions in place of the salary sacrifice contributions used in the above example.

* Assumes gross return pa 3% income (70% franked) reinvested after tax, 5.5% growth, Capital Gains Tax payable.

Think about it

- Are your super savings on track to fund the lifestyle you want in retirement?
- Is the insurance cover you've got really what you need now?
- Do you have the best balance between super and non-super investments?

Action

- Look at the various options you have to fast track your retirement savings and get started with at least one.
- Check if you have any lost super and consider bringing together multiple accounts.
- Ask your employer if they allow salary sacrificing into super

BRING FORWARD CONTRIBUTIONS

You can make a difference to your super by taking advantage of the government's bring forward non-concessional contributions rules.

These rules generally allow you to contribute up to $450,000 into your super every three years without incurring tax, thereby increasing the tax-effectiveness of investing into super any lump sums you receive or assets you have.

Although you're only generally able to put a maximum of $150,000 into your super from your after-tax earnings each year, the rules do allow you, if you are under 65, to bring forward two years worth of this contribution limit into the current year without incurring contributions tax. This means you can pay $450,000 into your super at one time (but nothing more after-tax for the next two years) without incurring tax.

You can then take advantage of the tax-friendly treatment of super investment earnings and generally access your super savings tax-free from the age of 60.

If you're thinking of selling assets - such as managed funds, shares or an investment property - and transferring the proceeds into your super, or if you want to invest an inheritance you receive, the 'bring forward' rule is one to consider.

Bear in mind, though, that this strategy may or may not be right for you. Selling or transferring assets to super can be complicated, particularly in terms of capital gains tax implications, so it's important you seek professional advice.

ACCESSING YOUR SUPER FROM AGE 55

Age 55 and over is an important time. We often call this the age of opportunity as it is the earliest age a person can access their super. There are a number of opportunities to build your wealth, no matter what your personal circumstances. You can take advantage of tax effective strategies to boost your super savings for a better retirement.

Once you reach the age at which you can access your super - 55 to 60 depending on when you were born - you have the option to start drawing an income stream, even if you're still working. For some people, this allows them to cut back their work hours without compromising their income. They can semi-retire and use the income from their super to supplement their working income. For others, they are able to keep working and use the income from their super to supplement their working income so they can make larger salary sacrifices into super. This can be a very effective way of building for retirement.

Quicktips

You can only draw up to a maximum of 10% of your superannuation pension balance each year while you're still working.

What you do throughout your working life to build your super, particularly from age 50, can have a significant impact on how effective this strategy can be for you.

Brad's story*

Brad is 57 and pays $18,225 in income tax on his $75,000 full time salary. Acting on advice from his financial planner, so that he can salary sacrifice to boost his super, he draws a super pension to supplement his income.

The way the pension and salary sacrifice amounts are arranged, Brad's take-home income remains the same as if he just relied on his full time salary. ***Up until he turns 60*** *(after which he can access his super tax-free), Brad draws $24,611 from his super pension and salary sacrifices $30,000 to super.*

His total taxable income, made up of $45,000 take-home salary and $24,611 super pension, is $69,611 on which he pays $12,836 income tax. After Brad pays 15% contributions tax on the amount he salary sacrifices into super, and draws $24,611 from his pension, ***Brad ends up with an additional $889 a year in super.***

Once he turns 60, when he can draw on his super tax-free, he ends up with an extra $4,950 a year extra in super. *Brad only needs to draw a super pension of $20,550 a year now because, being 60 or more, he can access his super tax-free. He only pays $8,775 a year income tax on the $45,000 he takes home in salary.*

If Brad were self-employed, he could achieve similar results by making personal tax-deductible contributions in place of the salary sacrifice contributions used in this example.

* Assumes Brad has a starting super balance of $320,000; invests in a balanced investment returning 6.39% after fees and taxes. Fees based on average AMP retail fees from Flexible Lifetime - Super.

Action

Accessing your super from age 55 is an important strategy. However, make sure you review the entire 50s section to see the other opportunities for building your wealth including investing in growth assets such as property and managed investments.

REVIEW YOUR WILL

Having a valid will can help make sure your estate is managed and distributed how you intended.

Wills

A will sets out how you want your estate to be managed and distributed, after your death. It can also include the appointment of a guardian for your children. Without a will, management of your estate can be costly, time consuming and must be distributed according to legislation, rather than as you decide. Therefore, it is important to have a valid will and to review it regularly to make sure it is still in line with your intentions. A solicitor can help you make decisions about what you want done with your estate and then prepare the will for signature.

Enduring power of attorney

If you were to become incapable of handling your affairs, control of your assets could revert to a person appointed by a court. It would be more useful if you had an enduring power of attorney set up now so that if you cannot manage your affairs, someone you trust and have chosen to act for you, can make the important decisions affecting you and your affairs. A solicitor can help with setting up a power of attorney, setting the terms and how they will apply.

WHAT NEXT

Building and maintaining wealth is an ongoing journey. Stay proactive and keep looking for ways to make the most of what you have.

In planning your way to wealth you should take a holistic approach, looking at your debts and assets, present and future needs, and considering tax implications and how decisions could impact on entitlement to government benefits.

If you would like further information on this wealth building strategy, please contact **Tony Rimac from PT Wealth Solutions on 9891 1544 or tony@ptws.com.au** who can assist by providing you with the correct tax and investment advice.