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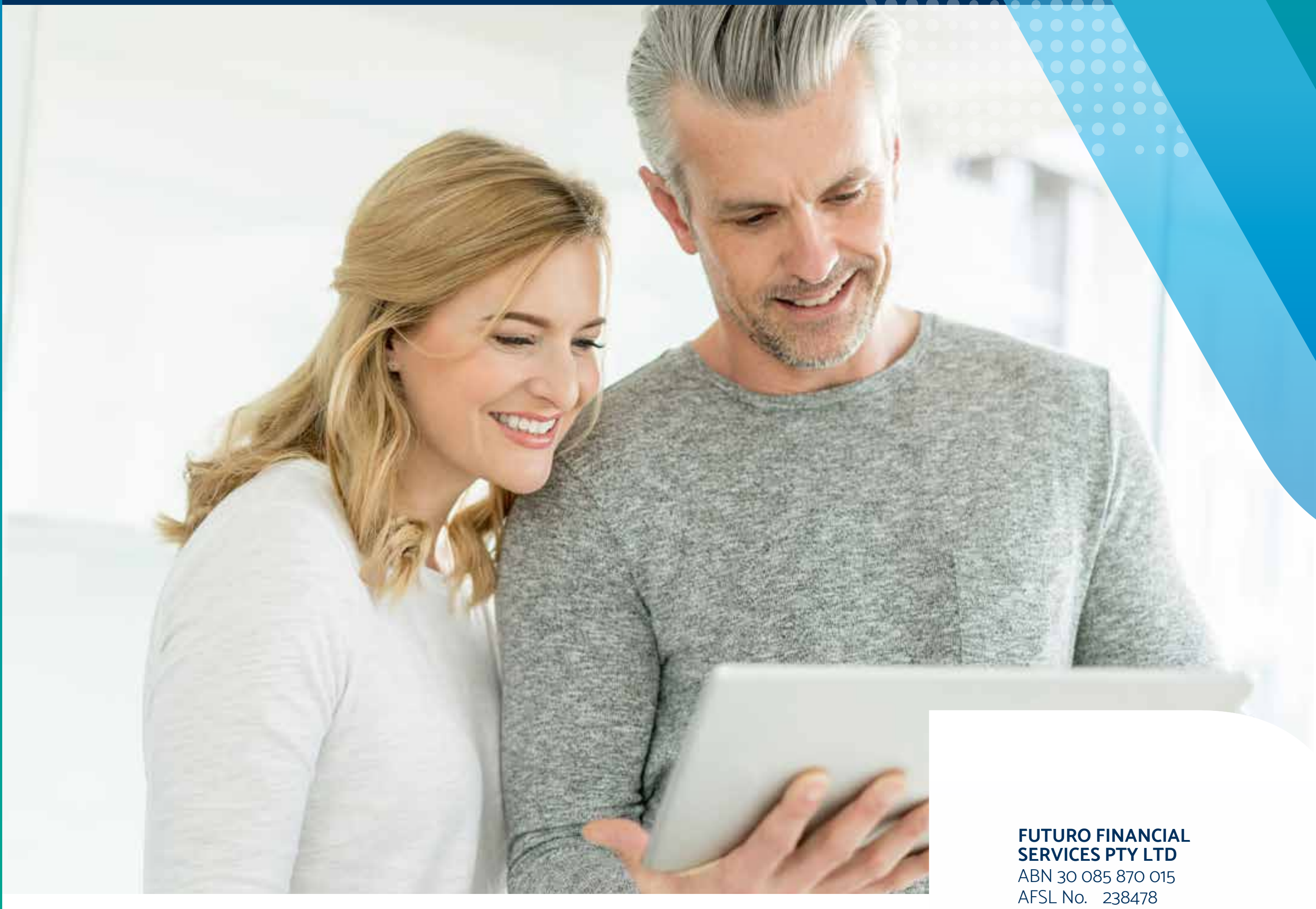

Super life cover

Is holding insurance cover in your superannuation fund a good idea? Read on...

FUTURO FINANCIAL SERVICES PTY LTD
ABN 30 085 870 015
AFSL No. 238478

HEAD OFFICE:
Level 6
200 Creek Street
BRISBANE QLD 4000

EMAIL:
info@futuro.com.au

PHONE:
(07) 3018 0400

OTHER STATE OFFICES:
WA: (08) 9388 9009
VIC: 0403 722 803

www.futuro.com.au

Super life cover cont...

Life and total and permanent disability (TPD) cover

Many super funds provide insurance that pays a lump sum if you die or are disabled to such an extent that you will never be able to work again. There is currently no limit on the amount of death cover that can be paid to dependants.

As an example, consider Tony and his wife Sue. He is the only income earner whilst she looks after their three young children. They have a large mortgage. His adviser tells him he needs $2.5 million of life cover so that if he dies the debts will be paid off and his family will have the financial support they need.

Having life cover in his super enables Tony to pay the premiums tax effectively. He is on the highest tax rate and by salary sacrificing he is able to pay the premiums with pre-tax dollars.

Using super for life insurance may not suit everyone. A death benefit paid to non-dependants will be taxable whereas a lump sum paid by a personal policy will be tax-free. In addition, superannuation policies may lack the flexibility to meet your individual needs and you may not be able to specify in advance who will receive a death benefit paid by the super fund.

Temporary disability insurance

Some super funds offer a policy that will pay you an income if you are temporarily unable to work due to accident or illness. Alternatively, you can buy a personal income protection policy directly and the premiums are generally tax deductible.

Premiums for policies offered through superannuation might not impact on your current budgeting but, as always when buying any type of insurance, the most important issue is to have a policy that will pay out if you have a claim. It's important to remember that any lump sum payments paid from a TPD policy held within a super fund cannot be made to the beneficiary unless and until that person satisfies a condition of release as defined in the legislation. This virtually rules out the use of 'own occupation' TPD policies within super.

As from 1 July 2019, if a super fund hasn't received any contributions for at least 16 months, any insurance held in the fund may be cancelled. You will need to advise your fund if you wish to continue to hold the insurance.

My Super

Under the 'My Super' arrangements, default super accounts for employees who have not exercised a choice of fund must include a minimum level of Life and TPD cover on an opt-out basis.

Affordability

One of the advantages of holding life cover through superannuation is that the premiums are deducted from your super account.

As an example, consider Sam and Hannah. They have just bought their first home and are finding it hard to keep on top of their mortgage payments. Even though they are both working, they can't afford insurance premiums as well as their other expenses. Arranging cover through their super means the premiums are deducted from the superannuation guarantee contributions.

Sam and Hannah accept that their retirement benefits will be lower because they are using their super to pay premiums. However, when they can afford it they can pay more into super to catch up.

Often it is hard to achieve all your financial goals at the same time and you may have to compromise. We recommend you seek professional advice and review your insurance policies at least annually to ensure they continue to meet your needs.

The tips, traps and costs of retirement villages

With an aging population, an increasing number of Australians are opting to live in retirement villages. While pitched at the 'over-55s', the average age of entry is 75, and average age of residents is 81.

Depending on the retirement villages, attractions include having home maintenance issues taken care of, more social contact, access to recreational facilities and on call assistance in case of medical emergency. Moving to a retirement village can also free up capital to support living costs in retirement.

These benefits all come at a cost, of course, and the type and amount of fees can vary enormously from village to village. There are also several different types of ownership or occupation rights or 'tenure'. Most commonly, residents pay the market price of a unit in exchange for a long-term lease, or pay an upfront fee for a licence to occupy. Straight rental arrangements, often for serviced apartment-style accommodation, are also available in some villages.

Lots of fees

While there are many ways in which retirement villages structure their fees, the most commonly encountered include:

- Waiting list fees.
- Ingoing contribution. This may be referred to as a refundable deposit, purchase price or a loan, and will be the largest upfront payment.
- A regular (e.g. monthly) maintenance fee to cover upkeep of facilities, pay staff and cover a range of services.
- Personal services fees for things like meals, laundry and personal care.
- Utilities.
- Deferred management fee, or departure or exit fee, on leaving the village.
- A refurbishment fee.
- Share of any capital gain.

On the other hand, when you leave the village you will receive the proceeds of selling your unit less any exit fees. However, depending on the prevailing market it can be many months before the final payment is received.

The tips, traps and costs of retirement villages cont...

Some of these fees can better understood by way of an example.

JOHN AND WENDY'S EXPERIENCE

John and Wendy are in their late 70s when they decide to downsize from the family home. They are attracted to the retirement village lifestyle by the recreational facilities and social opportunities, plus the availability of personal care should they require it in the future.

- They pay $400,000 for the right to occupy a unit. The monthly maintenance fee is $600. Eight years later they both need to move to aged care so need to sell their unit. It is now worth $600,000.
- Their exit fee (deferred management fee) is 4% of their purchase price for each year of occupancy (capped at 40%). In this case it amounts to 32% of the purchase price, or $128,000.
- In their village the resident's share of any capital gains is 50%, so the village operator takes a further $100,000.
- John and Wendy therefore come away with a total of $372,000 ($600,000 - $128,000 - $100,000).

This is just one simplified example, and even slightly different circumstances can lead to a very different result. While it may seem a poor result for John and Wendy to pocket less than the purchase price after eight years, the decision to enter a retirement village is more about lifestyle and services rather than just about financial returns.

Centrelink considerations

If your entry contribution is more than the extra allowable amount (the difference between non-home owner and home owner assets test threshold) Centrelink will classify you as a home owner. This applies to most people. Anyone assessed as a non-home owner may be eligible for rent assistance, with the amount based on the ongoing fees.

Major event

Moving house is a major and stressful life event at the best of times. With their varying fees and ownership structures, a move into a retirement village may be even more complicated. That's no reason to dismiss the idea – many retirement village residents report an increase in their happiness as a result of making the move. However, entering a village has major financial consequences, so talk to your financial advisor about they assistance they may be able to offer you.

Are you investing or gambling?

The potential financial results of investing can feel limitless, and it can be tempting to think that just one stock pick could make you an overnight millionaire. Yes, stock-picking can have a place in your investment strategy, but if you're focused on the allure of a "get rich quick" mentality, you may be gambling, not investing.

What's the difference?

One of the key differences between investing and gambling is process and strategy. If you don't have a process and strategy in place, it is a sign that you need to establish or refine your plan. Further, gambling focuses on emotions such as hope. Investing, on the other hand, is all about strategy. With a clear strategy, you know approximately how much your investments will grow and over what time horizons.

How do you know if you're investing effectively?

If you're unsure whether your current investment approach is working to realise your goals, think about your investment process and how many of the below five elements are included in your approach.

COMPLETING NO RESEARCH

If you're not completing any research and putting money into assets based on tips from friends or what you see on social media, you're exposing yourself to increased risk and not doing enough due diligence.

INVESTING IN MICRO-CAP STOCKS ONLY

Micro-cap stocks typically have a market capitalisation under $500 million and are ranked from 350 to 600 on the Australian Stock Exchange. With a relatively small market capitalisation, buying stocks in these companies can be cheap. The downside, however, is that these companies are usually in their infancy and experience volatile price fluctuations. There's a place for micro-cap stocks in your investing. However, if you're putting all of your money into these companies, you're likely exposing yourself to unnecessary risk.

INVESTING WITH SHORT TIME HORIZONS

Putting all of your money into short-term investments or activities such as day trading is an indication that you're too focused on short-term gains without a long-term strategy. There's a place for short time horizons in your investing, but

Are you investing or gambling? cont...

only once you've mastered the foundations such as establishing a long-term plan and ensuring you have adequate cash buffers.

LACK OF DIVERSIFICATION

If all of your money is invested in one asset class, you'll be over-exposed to volatility in a single market. To ensure your money grows consistently over time, your money needs to be balanced across a range of asset classes and sectors.

HAVING NO INVESTMENT STRATEGY

If you don't have an investment strategy, your investing won't be as effective as it could be. To start putting together an investment strategy, you need to think about things such as:

- building up adequate cash buffers,
- how much money you need invested to live comfortably off your returns, and
- when you anticipate you'll start drawing an income from your investments.

Moving forward with a long-term wealth strategy

Investing in different asset classes such as equities, commodities, and fixed-income assets is a great way to build long-term wealth. To build this wealth, however, you need a strategy and process to follow.

If you're unsure how to develop an investment strategy, be sure to seek qualified financial advice. Investing in this advice now can reap great rewards in the years to come, ensuring your money is working to help you realise your financial and lifestyle goals sooner.