Financial Focus

Winter 2023 Edition

Super Guarantee rate to increase on 1 July

If you're an employee receiving the standard super guarantee (SG) rate, you can look forward to a super boost from 1 July 2023 when the SG rate increases from 10.5% to 11%. There are also some ways to make additional concessionally taxed super contributions to help build a bigger retirement nest egg.

SG increases

SG contributions are employer contributions to super which must be made on behalf of eligible employees. The SG rate will increase from 10.5% to 11% on 1 July this year. Further increases are scheduled for the next two financial years, with the SG rate to reach 12% from 1 July 2025. These increases might be great news if you're an employee, as they may help you secure a better retirement. Keep in mind, if you are on a fixed total salary package your take home pay may reduce because of an increase in the super component of your package.

Sacrifice pre-tax salary into super

A popular way to make additional concessionally taxed super contributions is via salary sacrifice. This is where you arrange with your employer to forgo pre-tax salary in exchange for additional employer super contributions. One advantage of salary sacrificing into super is that contributions, like SG, are generally taxed at 15% rather than personal marginal tax rates, which may be up to 47% (including Medicare Levy).

Make personal deductible contributions

If you like to be more hands on, you may prefer to make personal deductible super contributions rather than salary sacrifice into super. Personal deductible super contributions allow greater flexibility. You can choose when in the financial year you make the contribution and how much you claim as a deduction. This can be helpful if you have fluctuating cashflow or simply wish to top up your super closer to 30 June.

Consider the concessional contributions cap

There are limits on the concessional contributions you can make, which applies to SG, salary sacrifice and personal deductible contributions. The standard cap on concessional contributions is currently $27,500 per year. However, some people can tap into past year's unused concessional cap amounts, meaning their concessional cap can be higher than $27,500 per year. To be eligible to tap into past year's unused concessional contribution cap amounts, you must have a total super balance of less than $500,000 on the previous 30 June and have some unused concessional cap amounts since 1 July 2018.

There are other issues to consider and steps to take when making additional concessionally taxed super contributions. Please contact your Financial Adviser if you'd like more information.

Robert Gothard
Certified Financial Planner ®
Strive Wealth Solutions

www.strivewealth.com.au

In this issue

Retiring on your own terms

Retirement is often a phase in life when people start winding down and enjoying their hobbies — golf, gardening, seeing grandkids, or even a caravan trip.

Whatever you choose, the dream is to retire on your own terms.

It's why understanding the Australian retirement and tax systems – and how you could benefit from them – is important.

The good news is that in Australia retirees are supported by a generous government benefits and tax system[1] supporting those leaving the workforce. Here's what you need to know.

Benefits

The Age Pension

Australian retirees may be eligible for the Age Pension[2], which is an income payment from the government, depending on their age, assets and income. The fortnightly rate is $1,064 for singles or $802 if you're member of a couple[3]. Pension payments are tax-free.

To be eligible for the Age Pension, you need to be 67, an Australian resident at the time of your application and meet the income and asset tests[4].

Concession cards

Retirees may also be eligible for concession cards, which provide discounts on health care, medicine, transport and utilities.

These include the Commonwealth Seniors Health Card[7], the Pensioner Concession Card[8] and each state and territory has their own free Seniors Card.

Tax

Superannuation tax breaks

When you start accessing your superannuation, you can withdraw systematically as a regular income, or take all or part of your benefit as a lump sum.

Your nest egg is taxed at three stages[5]. When it hits your super fund (contributions), while it's sitting in the fund (investment earnings) and when it leaves the fund (super benefits).

Just how much tax you pay at each stage depends on your personal circumstances and the size of your nest egg.

For most people, an income stream from superannuation will be tax-free from 60[6]. Taxation on lump sum withdrawals depends on a number of factors, including your age and the type of super fund.

Pensioner Tax Offset

The good news is that the Australian tax system is generously geared towards retirees.

An Australian resident of pension age qualifies for the Senior Australian Pensioner Tax Offset, explains Yvonne Chu, Head of Technical Services at Australian Unity.

"Once you retire, you generally can have up to $1.7 million of your super savings in a tax-free environment, which is as good as it gets," Yvonne explains.

"There's quite a generous pensioner tax offset, which means that retirees typically don't have to pay personal income tax."

Planning ahead

While the Australian tax system supports retirees, bear in mind that any strategy designed to reduce the tax you pay could be viewed as a tax-avoidance measure by the ATO, so visit an Accountant or Financial Adviser to understand your tax requirements.

"Preparing for retirement is a marathon, not a sprint," Yvonne says. "To maximise super contributions, you've really got to do it over a number of years, so go and see your Financial Adviser so you can look at ways to bolster your retirement income."

Source: Australian Unity

[1]https://moneysmart.gov.au/how-super-works/tax-and-super [2]www.servicesaustralia.gov.au/agepension [3]Rates current for the period from 20 March 2023 – 19 September 2023. This rate includes the maximum basic rate, and pension and energy supplements [4]www.servicesaustralia.gov.au/individuals/services/centrelink/age-pension/how-much-you-can-get [5]www.servicesaustralia.gov.au/individuals/services/centrelink/commonwealth-seniors-health-card [6]www.servicesaustralia.gov.au/individuals/services/centrelink/pensioner-concession-card [7]www.superguide.com.au/how-super-works/4-must-knows-about-super-tax-rules [8]www.ato.gov.au/rates/key-superannuation-rates-and-thresholds/?page=14

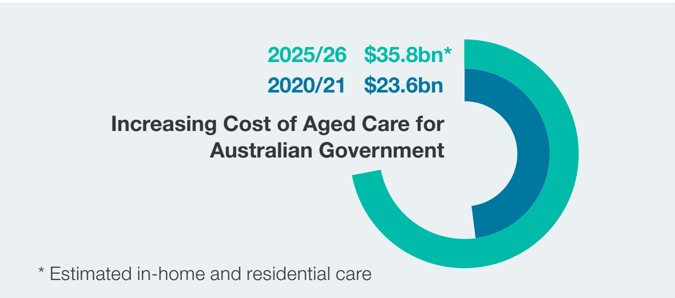
Global approaches to aged care

Aged care has been a hot topic in Australia over recent years – and with an aging population, demand on the sector is only going to grow. So, how does our approach to aged care differ from that overseas, and what could the future hold here?

The topic of aged care is one that's fraught with an array of differing emotions. For many of us, we first negotiate grandparents' transition into care, then parents', then face the sobering prospect of how we spend our own final years.

Here in Australia, aged care has received significant amounts of scrutiny and attention over recent years. Exposés revealed a systemically flawed approach to aged care, and the subsequent Royal Commission into Aged Care Quality and Safety made 148 recommendations to improve the quality of care we provide to the elderly in this country.[1]

Of course, aged care doesn't come cheaply. Aged care – both in-home and residential, cost the Australian Government $23.6bn in 2020/21,[2] and by 2025/26 that figure is estimated to grow to $35.8bn.[3]



With baby boomers now entering their retirement years and the number of people over 70 projected to increase from 3.239m in 2023 to 4.473m in 2033[4], demand and cost for quality options are only going to rise.

So, with aged care in the spotlight, we look at three different approaches from around the world to the care of elders.

Italy: elderly stay at home

In Italy, only two per cent of the country's elderly population live in aged care facilities.[5] Culturally, older family members are always looked after by their family, with authorities only intervening if an elderly person has no one to look after them.

Germany: cohabitation and multigenerational facilities

In Germany, an initiative introduced a decade ago enables the elderly to live together in community apartments, with kitchens and living rooms enabling people to live as normal, outside of institutional care. By cohabiting, the elderly benefit from the interaction and companionship needed to reduce the risk of loneliness, without placing them into full-time care.[6]

Multigenerational housing is also popular in Germany, often comprising kindergartens and social centres where the community can drop in, as well as housing for the elderly. Residents can volunteer to read, play and sing with children, helping provide purpose and meaning.[7]

Asia: societal changes force aged care shifts

Traditionally, Asian cultures have placed great weight on children supporting their parents in old age – however, with smaller families, higher rates of divorce and fewer marriages, things are changing, forcing countries to explore new ways of caring for their elderly.

In Singapore, for example, integrated health and social care systems are being developed to enable older people to 'age in place' – which lessens the required government spending on institutional facilities, and helps people enjoy a higher quality of life too.[8]

Creating the future of aged care

Across the world, it's clear that the demands on and for aged care are changing, and new thinking will help create the future gold standard.

The care given to older people with dementia here in Australia was highlighted in the Royal Commission, with facilities being deemed 'substandard',[9] while research in East and South-East Asia also found a lack of positive care environments for people living with dementia.[10]

In Tasmania, a new village for people living with dementia is leading the way – and could be the face of aged care to come.

The village called Korongee in a suburb of Hobart, mirrors what is, for many, a typical experience of living in a community. Houses, in which eight people live, are situated at the end of quiet cul-de-sacs, while the surrounding gardens and village grounds all reflect dementia design principles.

The village itself contains a cafe, a community centre, a salon, a wellness centre and a general store, all of which promote independence and authentic connection while ensuring the requisite care is on hand.

'Lifestyle companions' encourage and support the residents in daily tasks, promoting the independence that is so critical, and this could be the blueprint for a wider change in how we look after people as they age.

[1] https://agedcare.royalcommission.gov.au/publications/final-report-list-recommendations [2] www.health.gov.au/topics/aged-care/about-aged-care/how-much-does-aged-care-cost [3] www.news.com.au/finance/economy/federal-budget/cost-of-aged-care-rises-to-create-budget-blowout/news-story/56a2c17bfbbc5e49ba298a41261c9557
[4] https://population.gov.au/data-and-forecasts/dashboards/national-projections [5] https://academic.oup.com/gerontologist/article/56/3/383/2605648
[6] www.pflegestuetzpunkteberlin.de/en/thema/accommodation-for-the-elderly/ [7] www.centreforpublicimpact.org/case-study/mehrgenerationenhauser-germany
[8] https://link.springer.com/chapter/10.1007/978-94-017-9331-5_5 [9] https://agedcare.royalcommission.gov.au/sites/default/files/2021-03/final-report-executive-summary.pdf
[10] https://ro.uow.edu.au/smhpapers/5046/

Top-ranked countries to grow old in

So, what are the best countries to grow old in? And where does Australia rank?

Based on a 2023 report using a combination of factors – life expectancy, health care index score, World Happiness Report Score and Safety Index Score – the best place to grow old is… Switzerland.*

Switzerland is closely followed by Finland, Denmark, the Netherlands, Taiwan, Japan, Austria and Iceland.

In case you're wondering, Australia came in 16th on the list, while New Zealand is in 23rd place.

Given 90 countries were analysed, it seems we're in a pretty good place – with room for improvement.

* https://lottie.org/care-guides/which-country-has-the-best-elderly-care/

Thinking ahead? Let's talk about strategies for creating a positive financial future.

Important information:

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