Start as you mean to go on

NOEL WHITTAKER

Consider how you'll make the most of your money this financial year.

WELCOME to a new financial year, and the opportunity to lay some solid foundations for the year ahead. As always, the last year was a challenging one, and current market gyrations in the Eurozone indicate more challenges ahead.

Market movements are nothing new. What makes the coming year unique is a growing awareness of the immense challenges we will face due to the combination of an ageing population, and a world deep in debt.

Already this is manifesting itself in a change of attitude to the age pension. It was once regarded as a right – now it is regarded as welfare. When you add to this increasing calls to change the superannuation rules, it is becoming clear that those who don't provide for themselves are likely to be doing it tough in the future.

Gloomy as the outlook may be, experience tells us that those who make the best use of what they have are the ones most likely to cope. Far too many spend so much time worrying about their future that they never do anything tangible to protect themselves.

Interest rates are at historic lows and are almost certain to go lower. This may be great news for anybody paying off a loan, but makes it tough for many retirees who are nervous about growth assets such as shares and property. If you are one of these nervous souls, I suggest you talk to an adviser about making a small foray into managed funds that invest in local and international shares. You may have 30 years of living ahead of you, and you'll almost certainly run out of spending money if you stick with cash in the bank.

Take the time to get to know your superannuation. I am staggered by the number of young people who don't even know what their asset allocation is, and who are content to leave it in balanced or even conservative investment options. If you're under 45, it should be in a high-growth option, where you have the greatest chance of getting the best returns. And while you're looking at your superannuation statement, check out the insurance. It's usually a cost-effective way to be insured – just make sure that your cover is adequate.

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If you're over 55, you should be pouring as much money as you can into superannuation. Certainly, you need to keep cash available for emergencies, but there is no point in leaving money in bank accounts where the interest is fully taxable, when you can move it to super where income will be taxed at just 15 per cent. There is no entry tax on non-concessional contributions, and once you reach 60 you can make withdrawals tax-free as needed.

A major benefit of placing money into super is that Centrelink does not count it until you reach pensionable age. This is particularly appropriate if there is a large age difference between a couple.

This is also a good time to track down any unclaimed superannuation that is lying idle. A great start is the ASIC website moneysmart.gov.au, which provides detailed instructions on what to do. One of the great benefits of having all your superannuation in one place is that you will be more motivated to watch its progress, because the consolidated balance will be bigger and its earnings should be greater.

The start of a new year is the perfect time to think about finding yourself a financial adviser. Regulations, markets, investment products and strategies are continually evolving, and you need someone who can help you optimise your financial position. A good adviser will help you crystallise your goals and set in place specific strategies to reach them. Good advice doesn't cost – it pays.

Q In a recent article, you talked about "how your bank calculates interest charges". I would like to know what types of interest structures are currently available. Is there a system where I could take out a loan over 30 years, then if I repaid it within, say, five years, I would pay the least amount of interest.

A Loans work on a principal and interest basis, or an interest-only basis. If you opt for the former, interest is charged to the account on a monthly basis – if you choose the latter, interest may be charge annually in advance or on a monthly basis.

Q Would you please clarify the position about contributing to super after your 65th birthday if you are not working? I understood you could contribute until the end of the financial year as long as you turned 65 in that year.

A It is not quite that simple. To contribute after your 65th birthday, you must have worked at least 40 hours in 30 consecutive days during the financial year in which your 65th birthday occurs. Therefore, a person who was retired on July 1 could not contribute to super past their 65th birthday but a person who had passed the work test between July 1 and their 65th birthday would be able to contribute to their allowable limits until the following June 30, because they had already complied with the work test in that financial year.

Noel Whittaker is the author of *Making Money Made Simple* and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. Email: noelwhit@gmail.com.

Traps for the dying in easier superannuation access

By **JOHN COLLETT**

YOU may not realise it but most of the financial planning calculations you make or have made for you are based on an estimation of the date of your death.

Take super, for example. Most experts say you need enough to last you until a bit after you are statistically likely to die. Sometime in advanced old age. Somewhere in the misty future.

For those among us who have a clearer idea of when the grim reaper will visit, financial planning takes on a different complexion. Anyone diagnosed with a terminal illness faces a series of difficult choices, not least among them financial ones. And they and their immediate family need to be careful.

The extension of the time limit the terminally ill have to access their super is very welcome, but there are potential traps.

In the May 2015 budget, the government announced an extension of access of the terminally ill to their superannuation after lobbying by the Breast Cancer Network Australia and other organisations. Patients must have two doctors, including a specialist practising in an area related to the illness or injury, certify that they are likely to die within 12 months before they can have unrestricted access to their superannuation savings.

As a consequence of the change announced in the budget, the relevant regulations have been changed so access to super is extended to life expectancy of two years. The change took effect from July 1 this year.

The early access provision due to terminal illness applies also to self-managed super funds.

But those planning to access their super early are encouraged to seek independent financial and legal advice.

As Annemarie Gambera, an insurance lawyer with Slater and Gordon, points out, early access to superannuation could risk losing life insurance cover.

Those with terminal illnesses often suffer financial hardship as they typically stop working right when they need access to money to pay for their day-to-day expenses.

Naturally, they may want access to their money as they experience financial burdens and want to make the most of their time with their family.

Cancer patients, for example, can spend thousands of dollars a month on life-prolonging drugs not covered by Medicare.

Most superannuation fund members have life and total and permanent disability insurance through their funds.

It is very important to realise that the terms of the insurance policies are not being changed due to the change in regulations extending access to two years.

Someone with a terminal illness who cashes out their super within two years of their life expectancy, but is expected to live for more than 12 months, could lose their insurance benefit under strict interpretation of the rules of the fund; though, fund trustees do have discretion over individual cases.

You would expect that funds would point this out to fund members, but that cannot be assumed. And, with some funds, if the fund member stops working, the insurance cover is voided. That may be so even though the premium for the insurance continues to be paid from the savings in the super account. Many funds do have a grace period, where the insurance cover continues after the member has ceased working; typically 13 months.

Anyone planning to take advantage of early access to superannuation is urged to check out the implications of doing so.

There is help to those who are financially strapped. For example, Cancer Councils in NSW and in Victoria run referral services to financial planners, lawyers and other professionals providing their services for free to those who qualify.