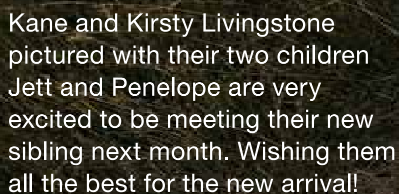
stonehouse

Newsletter

Winter 2021



Kane and Kirsty Livingstone pictured with their two children Jett and Penelope are very excited to be meeting their new sibling next month. Wishing them all the best for the new arrival!

It's June which means winter has officially arrived. As we rug up and spend more time indoors, it's a perfect time to get your financial house in order as another financial year draws to a close. And what a year it has been!

The local economic news in May was dominated by the federal Budget, and better-than-expected economic data. Australia's budget deficit is smaller than expected just six months ago, at $177.1 billion in April. This was underpinned by rising iron ore prices, up 22% this year, and higher tax receipts from more confident businesses and consumers.

The NAB business confidence and business conditions ratings hit record highs in April of +26 points and +32 points respectively. New business investment rose 6.3% in the March quarter, the biggest quarterly lift in nine years. Housing construction is also going gangbusters, up 5.1% in the March quarter while renovations were up 10.8% thanks to low interest rates and government incentives. Retail spending is also recovering, up 1.1% in April and 25.1% on a year ago. The ANZ-Roy Morgan weekly consumer confidence index rose steadily during May to a 19-month high of 114.2 points, well above the long-term average. As a result of the pick-up in economic activity, unemployment fell from 5.7% to 5.5% in April.

In response to all this, the Reserve Bank lifted its economic growth forecast to 9.25% for the year to June and 4.75% for calendar 2021. If realised, this would be the strongest growth in 30 years, albeit rising out of last year's COVID recession. The major sticking point remains wages. Wage growth was 0.6% in the March quarter but just 1.5% on an annual basis, below inflation. The Aussie dollar finished May at around US77c after nudging US79c earlier in the month.

End of Financial Year Reminders

It's coming up to end of financial year and there are a few items to consider for planning purposes:

1. Consider making extra superannuation contributions if appropriate for your situation.
2. The concessional contribution limit is $25,000 this financial year and will be increasing to $27,500 next financial year.
3. The non-concessional (after tax) contribution limit is $100,000 this financial year and will be increasing to $110,000 next financial year.
4. Contributions needs to be received and processed by your superannuation fund in the current financial year.
5. Speak to your adviser about other types of contributions such as unused concessional contributions.
6. If you have income protection, look out for the tax statement sent by your insurer which is needed for your tax return.

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Superannuation Contribution Limits to increase from 1 July 2021

Grant Enders
Financial Adviser

Recent announcements have confirmed that the annual concessional contribution (CC) and non-concessional contribution (NCC) caps will increase from 1 July 2021. These changes are highlighted in the table below:

Cap	2020/21 and earlier	From 1 July 2021
Concessional	$25,000	$27,500
Non-concessional	$100,000	$110,000

As a refresher, contributions are broken up into 2 distinct types being:

- Concessional Contributions – These are the contributions that receive some form of tax concession on the contribution. They include the compulsory contributions from your employer (SG), any salary sacrifice that you do and any extra contributions that you make that allow you to claim a tax deduction on your income tax at the end of the year.
- Non-Concessional Contributions – These are the after-tax contributions that you put in and would typically be the contribution of cash savings, proceeds from the sale of assets or inheritances and get no tax concessions at the point of contribution (hence the name Non-Concessional).

As noted above, each of these contributions have separate limits each financial year.

While Non-Concessional Contributions are frequently used as part of our strategy with clients to top up their super in the lead up to retirement, the one that most working clients focus on each year and target is the Concessional Contribution limit.

Concessional Contributions give you a tax saving each year, either in your regular pay or in your end of year tax return and hence are an important area for all clients to focus on in reducing tax and maximising your wealth. Many clients that we deal with attempt to maximise their contributions towards the current $25,000 limit each year.

On the back of these changes, all clients have an additional amount of $2,500 that can be added to their super each year through this tax effective mechanism.

Further to new tax limits many workers have access to unused concessional contributions that have been carried forward from previous years.

Carry Forward Concessional Contributions

Since the 1 July 2018, legislation has been in place which allows certain individuals to carry forward any unused concessional contributions for up to 5 years. To be eligible for this strategy, you must:

- Have concessional contributions under the $25,000 limit since the 2018/19 financial year;
- Have a total super balance (across all super accounts) that is under $500,000 as at the 30 June;

Once this is met, you have access to both the standard Concessional Contributions limit along with additional amounts from the unused portion of previous years.

As an example, Jim has made contributions to super (from his employer SG contributions and his own salary sacrifice) of the following amounts since 1 July 2018:

Financial Year	Contribution	Unused Contribution
2018/19	$10,000	$15,000
2019/20	$15,000	$10,000
2020/21	$25,000	Nil
Unused Total		$25,000

Assuming Jim's superannuation balance at 30 June 2021 is below $500,0000, in the year starting from 1 July 2021, he will have the ability to put up to $52,500 into super as a concessional contribution. This amount is made up of his new $27,500 limit for 2021/22 along with the $25,000 in unused contributions outlined above.

By implementing these strategies, Jim would be saving thousands of dollars in tax with his contributions taxed at just 15% instead of at income tax rates at or above 34.5% for most workers.

All clients looking to get the best out of their super should be seeking to review their salary sacrifice and contribution strategies now. Your Stonehouse Adviser can assist in making the most of these opportunities and ensure that they are implementing the necessary amendments that these changes require.

If you have any queries relating to these recent changes or would like to see how these changes may be of benefit to you, please contact your Stonehouse Adviser for assistance.

Changes to income protection insurance

Steven Putt
Senior Financial Adviser

What is income protection?

Also known as 'salary continuance insurance' or 'disability income insurance', income protection provides a portion of your income, for example 75% of your annual salary, if you are unable to work due to injury or sickness for a certain period. Income protection policies have a waiting period and a payment period. The waiting period is the time you must wait from when you make a valid claim, to the time you become eligible to start receiving payments. The payment period is the period you can be paid so long as you remain unable to work. Other terms and conditions apply depending on the policy, with all of these factors affecting the level of premiums you pay.

Why are changes being made?

Recently, the Australian Prudential Regulation Authority (APRA) announced that it is concerned that life companies have been keeping premiums at unsustainably low levels to compete for customers. APRA expects life companies to review and update their product offering with a focus on long term sustainability, whilst ensuring products continue to meet the needs of consumers.

Why do income protection premiums keep rising?

Some of the issues that have contributed to the challenges include:

- A highly competitive marketplace
- Generous policy terms and conditions and underwriting
- Increased insurer capital requirements
- Record low interest rates

Have any changes been made?

The first step in the significant changes was their direction to insurers to remove agreed value income protection policies from sale to new customers as of 1 April 2020.

Policies from 1 April 2020 have been offered on an indemnity only basis which require the policy owner to provide evidence of income to support the insured monthly benefit at the time of a claim.

While these polices are more restrictive than the previously available agreed value contracts, proof of income for these policies is generally based on the best 12 consecutive months of income, up to 36 months prior to disability.

What other changes have APRA announced?

The most significant change that will commence from 2022 will see insurers only able to offer new indemnity income protection policies, where the evidence of income is required at the time of claim, which will generally be based on the 12 months immediately prior to disability. There will likely be extensions available to this time frame for periods of unpaid leave (such as parental leave) of up to 12 months.

Additionally, at present the 'own occupation' definition exists to protect qualified professionals from being pushed into 'any occupation' if an injury or illness deems them unfit to perform their profession at the time they took out cover.

With APRA's regulatory changes, claims extending longer than two years will be subject to an 'any occupation' clause. Under this clause, the 'own occupation' definition this will only be applicable for the first two years of a claim and policyholders will no longer be able to claim if they can perform 'any occupation' after this point in time.

Previously, policyholders were measured against their 'own' profession and may have been able to claim indefinitely if they could only not perform it.

The impending changes will see that after two years, claims will be assessed on the ability to work in 'any occupation' based on training, education, and experience, and one that the disability wouldn't prevent anyone from performing.

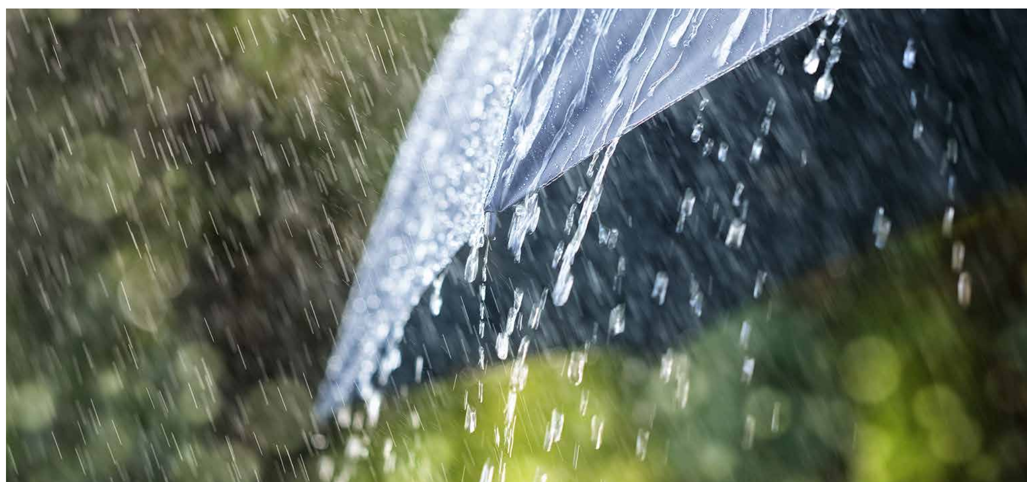
An 'any occupation' definition is a much broader definition and is more difficult to satisfy, so you might have to return to work in a *different* role. As a hypothetical example, a surgeon may have to return to work as a GP. The biggest change expected is the conditions you must satisfy to be considered totally or partially disabled.

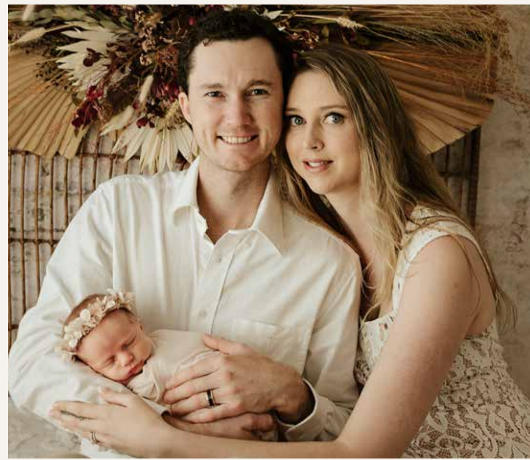
What happens to existing policies?

If you have an existing retail income protection policy which include a 'Guarantee of Renewability' in the policy wording, that is, the policy is automatically renewed each year, your policy will continue with no changes.

Are policies which meet APRA's new expectations available now?

Yes, life companies are starting to develop and release new income protection policies which meet the guidelines set out by APRA. However, the majority of insurers will launch these new policies with new Product Disclosure Statements, from 2022. In the interim it is best to speak to us to discuss the options available to you.





Dakota's early arrival

Our long term Implementation Officer Belinda Auld was recently blessed with her third granddaughter Dakota Lee Auld, daughter of her son Zack and his wife Emma. Dakota was so excited to meet everyone she arrived a little early but Belinda and family are loving to get to know her and cuddle time is the best. Congratulations to the whole family on the gorgeous arrival.

Newlife Care Charity Golf Day

Stonehouse was recently the Major sponsor for the Newlife Care Charity Golf Day held at beautiful Robina. The team had a great day out playing and running raffles for this great cause as Newlife Care's motto is 'Gold Coast People Helping Gold Coast People in Need.'

It was wonderful supporting such a great charity that provides such a vital service to the community including counselling and psychological services, food aid, disability support services, and provides support for people going through hardship and assistance to those who are experiencing or are at risk of homelessness.

Nick Webb, Andrew Stewart, Kane Livingstone & Declan Baker

Carl McMinn, Nick Webb, Keith Boardhouse & Martin Baker

Kane Livingstone, Declan Baker, Scott Stewart & Stephen Kamphuis

Jenna Wilson & Brooke Jebreen

Steven Ramsey, Hayden Whitworth, Andrew Stewart & Damon Sutherland