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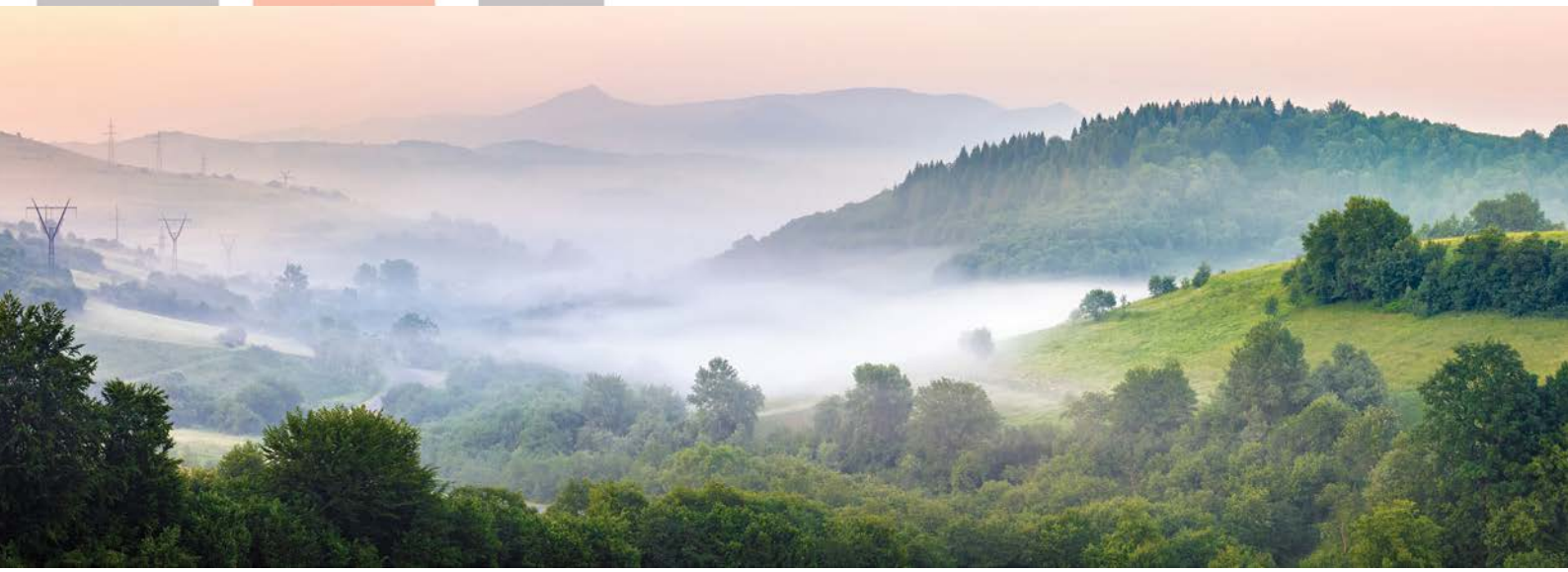

July 2017

July is here and the good news is that the shortest day and longest night are behind us. It's also the start of the new financial year which is always a good time to reflect on your financial progress over the past 12 months and plan your strategy for the year ahead.

Australia's economic performance defied the odds in the 2016-17 financial year, notching up more than 25 years without a recession – a global first. Annual economic growth eased from 2.4 per cent to 1.7 per cent in the March quarter, reflecting the unwinding of the mining boom, adverse weather events and geopolitical instability. Consumer confidence also eased as annual wages growth slowed to around 2 per cent, just above the annual inflation rate of 1.7 per cent. The ANZ/Roy Morgan consumer confidence rating fell 4.3 per cent over the year to 111.8 at the end of June. However, there are positive signs for the future with home building at record levels, infrastructure spending on the rise across the country and unemployment at 4-year lows, down from 5.7 per cent to 5.5 per cent in May.

Local investors also have reason to celebrate, with Australian shares up close to 13 per cent in the year to June, their best performance in three years. The Aussie dollar has traded within a narrow band between US72c and US78c all year, to close around US76c. The cash rate remains at a record low of 1.5 per cent and while the Reserve Bank appears content to sit on the sidelines for now, most commentators expect the next move will be a modest rate rise. in at the lower end of the Reserve Bank's 2-3 per cent target band, due to a soft jobs market and low wages growth.

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Time to review Transition *to* Retirement Pensions

Amid the major reforms to superannuation that took effect on July 1, some significant changes to the tax treatment of your Transition to Retirement Pension (TRIP) may have flown under the radar. Some individuals will be affected more than others, so if you have a TRIP or are thinking about starting one, now is the time to review your strategy.

The Government's super reforms were designed to improve the sustainability, flexibility and integrity of the system. According to the Tax Office, the changes to TRIPs were designed to ensure that they're not used primarily for tax purposes.[i]

What is a TRIP?

A TRIP allows you to access up to 10 per cent of your super in the lead-up to retirement. The idea is that you can supplement your employment income while you continue to work full or part-time. The tax benefit comes from replacing employment income taxed at your marginal rate with concessionally-taxed income from super.

When combined with salary sacrifice, a TRIP strategy also allows you to boost your super without sacrificing some or any of your after-tax income.

As you would expect with super, there are strict rules around eligibility. For starters, you must have reached preservation age; this is currently 55 is you were born before 1 July 1960, rising to age 60 for everyone born after June 1964. Then there are maximum (10 per cent) and minimum (4 per cent) amounts you can withdraw from your TRIP account balance each financial year. And you can't withdraw your money in a lump sum, it must be received as an income stream unless you retire, turn 65 or satisfy another condition of release.

What are the changes?

The main change relates to the taxation of earnings on investments used to fund your TRIP. From July 1, earnings on these investments are no longer tax free. Instead they are now taxed at the 15 per cent rate that applies to earnings from assets held in the accumulation phase of super.

The good news is that payments you receive from your TRIP will continue to be taxed as they were previously. That is, payments are tax free if you are aged over 60, or taxed at your marginal rate with a 15 per cent tax offset if you are aged between 56 and 60.

Another of the super reforms will limit the appeal of TRIPS for high income earners. That's because the income threshold at which individuals begin to pay contributions tax at the higher rate of 30 per cent, instead of the normal super rate of 15 per cent, has been lowered from $300,000 to $250,000.

New limits on concessional (before tax) super contributions may also limit the potential benefit of the popular salary sacrifice strategy when combined with a TRIP. From 1 July, the maximum concessional contribution (including Super Guarantee payments and salary sacrifice arrangements) is $25,000 a year for everyone. Previously anyone over 49 could contribute up to $35,000 a year this way.

What should I do?

While TRIPS are still a tax effective way to manage your finances in the leadup to retirement, the new rules mean some people could be better off pursuing other strategies. In some cases, high income earners who already have a TRIP and satisfy a condition of release, such as retiring or changing jobs after turning 60, may be better switching it off or converting to a normal account-based pension.

At the very least, if you have a TRIP or are thinking of starting one and you haven't already done so, you should review whether it's still be the best option for you going forward. The new super rules are complex and their impact will depend on your overall financial situation so it's important to seek professional advice before you act.

If you think you may be affected or you would simply like to discuss your options in the leadup to retirement, don't hesitate to give us a call.

i https://www.ato.gov.au/individuals/super/super-changes/change-to-transition-to-retirement-income-streams

There's nothing quite like the joy of spending hours on end playing with a puppy. Or the sensation of sheer freedom taking a horse out for a gallop. Or the feeling when your cat settles on your lap and starts purring like a tractor. Pets become part of the family in no time. You might not even realise it's happened until someone refers to the dog as 'the baby' or 'your sister'.

In fact, there's one aspect of pet ownership in Australia that's more like child-rearing than many of us would like to admit. In the first year of life, parents spend about $7,488 on their (human) babies. Costs for the first year of pet ownership can reach $5,200.[i]

That sounds like a lot, until you start writing it all down. The first cost is actually purchasing or paying the adoption fee for the pet. Then there's microchipping, council rego, multiple vet costs, accessories, and training. Ongoing costs can include things like food, litter, treats, grooming, walking and boarding when you go away on holiday. Many people only consider food when planning their ongoing pet budget, figuring that it's the only true must-have. In truth, it can be just a small portion of the annual bill. It is estimated that over the average lifespan of a dog, owners will spend more than $25,000 per animal.[i]

Spoiling our 'fur babies'

If you think the above mentioned costs sound like a lot, consider what some people spend on treats, accessories and 'experiences' for their furry pals. A world apart from basic kennels, luxury 'pet hotels' offer pampered pooches and felines exclusive suites with full sized beds, swimming pools, spa treatments and regular Skype calls with the owner – for up to $100 per day. The rise of designer pet boutiques like Dogue says something about the way pets have shifted from working animals to fashion accessories. At these high-end stores, you can pick up a dapper bowtie for $60, a designer bed for $180, high tech raincoat for $150, or a Swarovski crystal collar for $70.

Looking after their health

While it's possible to forego the luxury treats, keeping your pets in good health is an essential, but sometimes significant, expense. Many cat, dog and bird breeds have common health problems that can crop up sooner than expected, and get worse as the animal ages. These include breathing disorders, joint disease, and even cancer. These problems may require surgery or medical intervention that can cost several thousand dollars to resolve. A hip replacement can cost $6,000. Canine cancer treatment may cost $10,000-$20,000, once diagnostics, surgery, chemotherapy and follow-up care are factored in.[ii]

Growing uptake rates show Aussies are increasingly using pet insurance to mitigate unexpected vet bills.[iii] Insurance is available for accidents only, accidents and illness, or all vet bills including routine care. The monthly premium can vary depending on variables like breed and age.

If you decide that you don't want to take up insurance it's important to make sure that you can manage to cover unforeseen medical emergencies.

Worth the expense

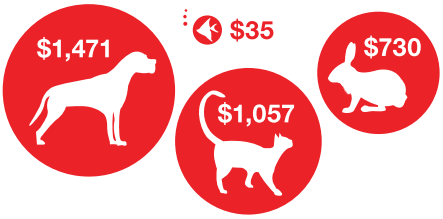
All in all, any loving pet owner would agree – having a pet is well worth the cost. They can provide endless entertainment, companionship for older people, life lessons in caring for kids, a great reason to exercise, and unconditional love. We all want to give our furry friends a full life and budgeting for both the ongoing and unexpected costs can ease the strain.

i https://www.moneysmart.gov.au/life-events-and-you/life-events/getting-a-pet/the-cost-of-a-pet

ii http://www.smh.com.au/environment/animals/top-treatment-for-pet-patients-20120913-25uwe.html

iii http://www.ibisworld.com.au/industry/default.aspx?indid=623

The cost of pets annually*



* Average yearly spend according to RSPCA, Myhouserabbit.com

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Achieving your dream of early retirement

Spending more time with your family. Picking up a brand new hobby. Exploring exotic destinations for longer than your scant weeks of annual leave would allow. However you paint it, retirement is a beautiful goal to work towards. And starting early means you've got more time and energy to enjoy it.

Early retirement has become a popular financial goal for Aussies from a wide variety of different backgrounds and circumstances. A 2016 global survey found that out of 17 countries surveyed, Australia has the one of the highest proportion of people wanting to retire early. In fact, 75% of Aussies aged 45+ wanting to retire within the next five years – as much as fifteen years before pension age.[i]

Unfortunately, most cannot afford it. There's a big disconnect between those who want to retire early, and those whose finances will allow them to stop work.

What do early retirees have in common?

Those who successfully retire early aren't just lucky, or from wealthy backgrounds. A US-based study found that early retirees fostered habits and abilities that allowed them to build their wealth sustainably over time.[ii]

The first is the mindset and discipline necessary for saving. Consistently choosing to save rather than spend – plus compound interest – means real wealth is built over decades.

Speaking of decades, early retirees are more likely to have set long-term goals and focused on them. There's a psychological reason that this is difficult for many people. Our brains are hardwired for instant gratification, and it doesn't just affect our propensity to snack or hit the sales. Anything we can see, or at least visualise strongly, is much more attractive than anything that's too far in the future to picture.

Of course, good habits in both these areas are less effective if they're not shared by your spouse. A spender can undo much of the good work of a saver, even if their finances are not completely intertwined.

Then, there's the advice factor. That study also found that those who retired early were more than twice as likely to have worked with a financial professional.

How to work towards a comfortable early retirement

Do you want to retire with time to enjoy your golden years? There are plenty of ways you can start building towards an early retirement.

1. Make a plan

Your plan should be holistic and consider all your circumstances, including children and grandchildren, and spending changes in retirement. Of course, we're happy to help you map out a plan that's right for you.

2. Establish goals

If you're one of the aforementioned 'instant gratification' types, try breaking down your savings and investment goals in to bite-sized pieces. Instead of looking at one benchmark (likely in the millions of dollars), look at multiple small goals, and ascribe them labels. For example, call your first chunk of retirement savings your 'renovate/move house fund'. Nickname your salary sacrifice 'retirement travel fund'. Feeling like you've achieved goals will help keep you on track.

3. Invest wisely

Don't allow your investment decisions to be driven by trends. Get to know your own risk appetite and tolerance. And always make sure that any individual investment is right for your personal circumstances and life stage.

4. Manage your debt

It's not fun or glamorous, but paying off debt should be a top priority. Every time you divert a dollar from paying off debt, you're effectively charging yourself interest that you'll have to deal with later in life. It's harsh, but you won't be able to retire comfortably whilst still making debt payments.

5. Set up multiple income streams

It's important to consider possibilities and entitlements beyond your super, such as government benefits. By starting early, you may also be able to build other income sources such as cash-positive property or a share portfolio.

Want more help on making your early retirement dream a reality? Contact us to arrange an appointment.

i http://www.smh.com.au/money/australians-dream-of-early-retirement-but-cant-afford-it-20160225-gn3hph.html

ii http://www.allianzusa.com/lovefamilymoney/insights/common-traits-for-workers-that-retire-early/