Summer 2021/2022

Welcome to the latest edition of our client newsletter.

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition we discuss Investing on behalf of your kids and provide you with information on Life Insurance and How a transition to retirement pension works.

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.
In the meantime we hope you enjoy the read.

All the best,
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Investing on behalf of your kids

Investing on behalf of your children can help give them a financial leg up and introduce them to good financial practice at an early age.

However It's important to pick the right vehicle. Tax, social security and the appropriate structure will all affect your decision.

Whether it's birthday cash from proud grandparents, a slice of an inheritance, or you just want to set them up with something in their own name, many parents want to invest on behalf of their children.

The first thing to consider is why you want to invest. There's a plethora of products you could select, so think about which goals you're aiming to achieve. Setting something up to fund year-on year educational expenses might be quite different from a fund to establish a deposit on a first home, where the aim is a lump sum.

Once you're clear about your aims, it pays to bear in mind the effects of taxation.

Minors and tax

In Australia, children under 18 on the last day of the financial year (30 June) are considered minors as far as tax is concerned. Minors are generally taxed at penalty rates on unearned income such as interest, rent and dividends.

Minor penalty tax rates (2018-19)

Uneared income	Tax payable[1,2]
$0 - $416	Nil
$417 - $1,307	68% of excess over $416
Over $1,307	47% of the total income that is not excepted income

[1]Different tax rates apply to non-resident minors
[2]Medicare levy may also apply
Source: ATO

There are exceptions for certain children working full-time, with disabilities or who are entitled to a double orphan pension.

Further, the above minor penalty tax rates don't apply to amounts of excepted income received by children – these amounts will be taxed at adult rates. Excepted income includes income from employment, their own business, or from a deceased person's estate.

In whose name?

The most common approaches are to hold the investment in the child's name, or in the parent or grandparent's name, with them as a trustee. Whichever you choose, it helps to think upfront who will be liable for any tax and what the social security impacts might be.

For tax purposes, the ATO determines who has control of the assets, and therefore who pays tax on the income earned.

If the money to set up the investment is given without any conditions, such as pocket money, or earned and used by the child and no-one else, then income, and any capital gain or loss, is assessable to the child. It's the same if the investment is held under an informal trust agreement and the ATO is satisfied that the money belongs to the child. This applies in most cases where the money is a genuine gift.

However, if the money for the investment is provided by the parent and the parent uses the money as if it were their own, then they should declare the income on their return.

Note that children are not exempt from quoting a tax file number (TFN) and can apply for one at any age. Whichever investment vehicle you choose, make sure you supply the right TFN, if one is required.

Investment vehicles

These are some of the popular options parents turn to.

Bank accounts

Opening a bank account is usually the most straightforward. This doesn't require the child to sign a legal document and so can be registered with your child's name. However, if they are under 16, the bank will often require parental permission.

Managed funds

Managed funds and share investments generally require legal capacity, which doesn't apply to under-18s. Therefore, these are usually registered in an adult's name. The fund manager or share registry may allow for a name that reflects the intention, ie John Smith in trust for the late Jane Smith.

Insurance bonds

An insurance bond is a type of life insurance policy, with a range of investment options. It may be withdrawn in part or full at any time, although there may be tax implications. It can be established in the child's name for those aged 10 to 16 with parental consent. Anyone over 16 can invest without consent.

For children under 16, insurance bonds generally also offer a 'child advancement option', where a parent or grandparent invests on behalf of the child, with ownership passing at a nominated 'vesting' age. This might tie in with making funds available for education, home deposit or travel and so on.

Superannuation

Although it may seem odd for an under-18 more into skateboards, it's never too early to think about super.

Children can become members of a super fund, if the rules of the fund allow this. Generally, a parent or guardian needs to sign the application form and there are additional considerations if the child will be a member of a self-managed super fund (SMSF).

Because of its concessional tax treatment, super is a popular savings vehicle. However, depending on your purpose for setting up the investment, it may not be right for your child as they may not be able to access their funds until their own grandchildren have skateboards.

Social security

Where a parent or other adult holds investments on behalf of a child, Centrelink typically treats these as protective trusts. As a result, assets will most likely be attributed to the adults, up until they transfer to the child.

It's important to evaluate the pros and cons to get the right approach for your family. These can be complex, so please contact us to discuss the best way to set up an investment vehicle that meets your needs.

I'm young – do I need life insurance now?

Life insurance is usually not something people think about until they begin to accumulate assets, debts and dependants. And there can be a fair amount of information to sift through, including some little known and commonly misunderstood facts.

But you shouldn't leave it too late in life to think about your cover. By ensuring you have appropriate cover when young and fit, you could save yourself some hassle, and quite possibly some money, when you're older.

You probably already have life insurance

Did you know there's a good chance you already have some life insurance cover, as more than 70% of Australian life insurance policies are held inside super?[i] But what do you need to know about this type of life insurance?

Understanding insurance within super

There are some benefits to having insurance within your super. It's often cheaper[ii], because super funds purchase insurance policies in bulk. And if your premiums are deducted from your super, you won't be dipping into your take-home pay.

Paying insurance premiums via your super, however, could decrease your super balance if your premium is not being offset by contributions. And if you make a claim, you may need to pay tax on the benefits paid to you.

It's also important to recognise that the life cover provided by super funds is usually bought on a group basis, based on averages not individuals.[ii] If you – or your loved ones – need to claim on your policy you may find out you aren't covered for everything you hoped you might be.

Understanding stand-alone life insurance

The other option is to buy a stand-alone policy from an insurance company.

While this type of cover usually comes out of your take-home pay, it's tailored specifically to you and can be adjusted to reflect your changing circumstances – such as buying a home or having children – to ensure your insurance remains suitable to your needs.

And where does 'underwriting' fit in?

An important part of the process for obtaining this type of cover is called underwriting, which typically involves completing an application form, possibly followed up by a phone call, to collect personal details such as your age, gender, health and medical history, and lifestyle information.

Using this information, the insurance company can accurately assess your risk, and set your premiums to reflect this, so you should never pay more than you need to.

The benefits of buying life insurance early

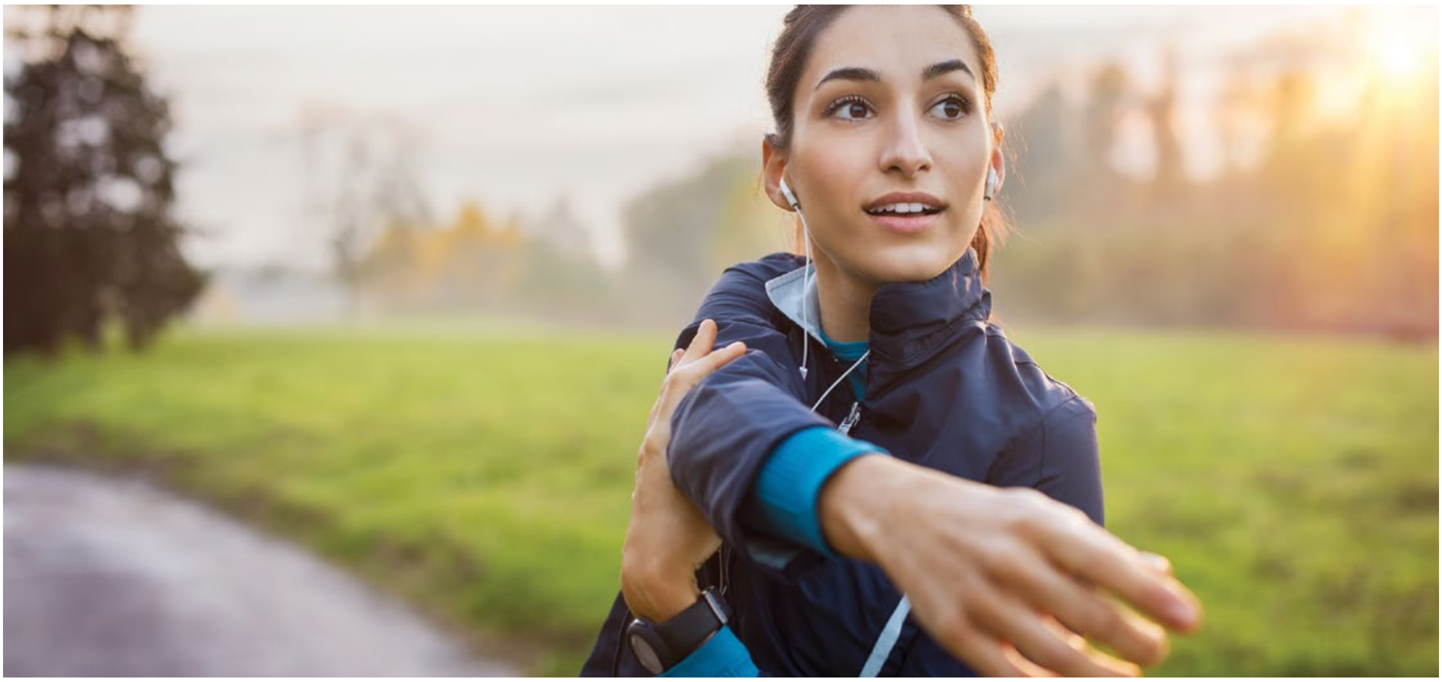
By buying insurance when you're young you're less likely to have exclusions applied, or to be declined cover, than you might be when you're older and your health has deteriorated. You're also less likely to have to pay higher premiums to cover particular health issues.

And once you've taken out stand-alone life cover, it will automatically renew each year regardless of changes to your health, until you either choose to cancel it or reach the maximum age under your policy.

Contact us if you would like to know more about life insurance.

i http://ricewarner.com/insurance-through-superannuation/

ii https://www.moneysmart.gov.au/superannuation-and-retirement/how-super-works/insurance-through-super



How does a transition to retirement pension work?

A TTR pension could allow you to withdraw up to 10% of your super savings each financial year whether you're still working full-time, part-time or casually.

Even if you're nearing retirement age, you mightn't want to leave the workforce just yet. You may want to save more money, or you might just enjoy the mental stimulation and interactions that come with having a job.

Whatever the reason, setting up a transition to retirement (TTR) pension could provide you with greater financial flexibility by enabling you to access a portion of your super each year while continuing to work full-time, part-time or casually.

Below we answer some commonly asked questions, such as when you can start a TTR pension, how it might create financial flexibility, how much you can withdraw and what the potential tax benefits may be.

At what age can I start a TTR pension?

A TTR pension enables you to access some of the super you've saved to date once you've reached your preservation age, which will depend on what year you were born.

See the table below to work out what your preservation age is.

Your preservation age

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 - 30 June 1961	56
1 July 1961 - 30 June 1962	57
1 July 1962 - 30 June 1963	58
1 July 1963 - 30 June 1964	59
1 July 1964 and onwards	60

How might a TTR pension create more financial flexibility?

If you're employed

By setting up a TTR pension, you could choose to work less, or continue working the same hours while salary sacrificing or making personal contributions into super (some which may be tax deductible). In both cases, you could use the income from your TTR pension to supplement any reduction in your take-home pay.

If you're eligible, you'll also be able to continue receiving super guarantee contributions, which your employer is required to make into your super fund.

If you're self-employed

A TTR pension works in the exact same way, except self-employed people may not be able to set up a salary sacrifice arrangement. This is where you get your employer to make additional contributions into your super fund out of your before-tax income, if you choose to.

What you can do as a self-employed person is make personal contributions into super, which may be tax deductible. If you happen to be an employee of your own company, you could however arrange to swap part of your pay for salary sacrifice contributions.

How much can I withdraw from a TTR pension?

A TTR pension doesn't allow you to withdraw your super as a lump sum. You can generally only do that once you've reached your preservation age and met certain conditions of release, such as retirement.

What you can access is between 4% and 10% of your super each financial year, but until 30 June 2022 you may withdraw as little as 2%. This figure was reduced to provide greater flexibility during the COVID-19 pandemic.

It's also worth noting that the income you receive is based on the amount you have in your super, so you won't be guaranteed an income for life. Also, by drawing down on your super, you may be reducing the amount you have left to fund your retirement.

How are TTR pensions taxed?

- Up to age 60, the taxable amount of your income from a TTR pension is taxed at your personal income tax rate, less a 15% tax offset.
- Once you turn 60, any income from your TTR pension is tax free.
- Investment earnings are subject to the same maximum 15% tax rate that applies to super accumulation funds.

What other things might I need to consider?

- Talking to your super fund, as not all funds provide TTR pensions
- Figuring out if you want to reduce your work hours
- Thinking about your income sources and calculating your income needs
- Finding out what your government entitlements are, as there may be implications by commencing a TTR pension
- Your investment options, as returns are tied to movements in investment markets, so may go up or down.

What happens when I do eventually want to retire?

Once you reach age 65 or advise your super fund that you've retired permanently, your TTR pension will automatically convert to an account-based pension, which may have more advantages.

An account-based pension will give you a regular income in retirement and you won't be limited to what you can withdraw, but there will be annual minimum withdrawal amounts.

If you're considering withdrawing your super as a lump sum down the track, there will also be issues and tax implications to think about.

Before deciding if a TTR strategy is right for you, speak to us to help you understand the possible benefits and implications for your particular circumstances.