AVENUES

THE VIRTUE OF (SALARY) SACRIFICE

When you make a sacrifice, you're usually giving something up with the expectation of future gain.

Salary sacrificing into your super is no different—you're giving up ready access to your money in your take-home pay. But in return you're boosting your retirement savings and saving on tax.

You can pay extra cash into your super from your pre-tax salary at the concessional 15% rate of tax[i] —up to a limit (or cap) of $30,000 for 2016/17 (or $35,000 if you were 49 or over on 30 June 2016). That's a considerable tax saving for most people on their usual marginal tax rate.

Meanwhile, to find out about the government's proposed changes to superannuation caps, check out AMP's budget round-up article. To find out more about annual limits visit the ATO website.

Get your regular payment in place

With a new financial year, it's a great time to get your salary sacrifice arrangement in place – on top of the regular super guarantee payments made by your employer. This way you'll be able to maximise your concessional contributions and minimise your tax burden over the course of the next financial year.

THE VIRTUE OF (SALARY) SACRIFICE CONTINUED

Boost super, save on tax

Let's look at how salary sacrifice could work in practice.

Judith, aged 50, is a teacher earning $80,000 a year. She currently puts $385 per fortnight into her online savings account (approximately $10,010 a year) and wants to start building up her retirement savings. She is considering whether to make:

- an after-tax contribution into superannuation of $10,010 a year, or
- an equivalent pre-tax (salary sacrifice) contribution.

After-tax contributions v salary sacrifice for Judith (2015/16)

Judith's income tax position:	After-tax contributions	Salary sacrifice contributions
Gross salary	$80,000	$80,000
Less salary sacrifice contributions	Nil	($15,238)
Reduced gross salary	$80,000	$64,672
Income tax, Medicare levy	($19,147)	($13,829)
Net salary	$60,853	$50,843
After-Tax contributions to super	($10,010)	Nil
Take-home pay after contributions	$50,843	$50,843
Net income tax saving		$5,318
Judith's super contributions position:		
Super Guarantee contributions (9.5%)	$7,600	$7,600
Salary sacrifice (pre-tax) contributions	Nil	$15,282
15% contributions tax	($1,140)	($3,439)
Total net concessional contributions	$6,460	$19,489
Plus non-concessional contributions to super	$10,010	Nil
Total net contributions for year	$16,470	$19,489
Additional net contributions into super		$3,019

In both scenarios, Judith's take-home pay is the same. But by salary sacrificing into super, Judith can increase her super contributions for the year by $3,019, even after taking the 15% contributions tax into account.

Salary sacrifice checklist

Salary sacrifice isn't without pitfalls. You'll need to make sure you don't unintentionally go over your contributions cap or reduce your other entitlements.

Here's a handy checklist to make sure that you've ticked all the boxes.

1. Make sure that you can salary sacrifice

- Does your employer allow salary sacrifice?
- Are you under age 75?

2. Complete your employer's standard salary sacrifice paperwork

You can't salary sacrifice income already earned.

- Plan ahead to sacrifice bonus and leave payments.

3. Make sure your other entitlements aren't affected

Check with your employer:

- how your super guarantee is calculated
- the definition of 'salary' used to work out your payments.

4. Monitor your concessional contributions cap

Check all concessional contributions for the financial year. These include:

- compulsory contributions paid by your employer – such as the super guarantee
- contributions from a previous role within that financial year
- pre-tax contributions on top of your super guarantee
- administration fees and insurance premiums paid by your employer
- contributions allowed as an income tax deduction – such as contributions you make if you are self-employed
- notional taxed contributions if you are a member of a defined benefit fund

5. Get the agreement in writing

- Every employer is different. Make sure you know when your contributions are paid within the financial year so you don't go over your concessional contributions cap.

6. Set up a notification

- Download the AMP app and set up an alert to notify you when your payments reach your account and when you are approaching your super cap.

So don't delay. Make sure you get your salary sacrifice arrangements in place to make the most of this financial year. You'll soon see the difference when you next look at your super balance.

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i Or 30% if you earn more than $300,000 a year.

WHAT'S WORTH MORE –YOUR BELONGINGS OR YOUR LIVELIHOOD?

At least one in five of us will be unable to work due to injury or illness in our lifetime, yet we're still more likely to insure our car than our most important asset–ourselves.

You might have the attitude 'she'll be right' but looking at the statistics, there is more chance of something going wrong than you might think.

Over 80% of Australians insure their car but less than a third of us have income insurance should we have an accident and be unable to work.[i]

How invincible are we?

It's estimated that at least one in five Australians between the ages of 21 and 64 will be incapable of working at some point due to an unforeseen accident, injury or illness.[ii]

Despite this, almost 95% of the population is underinsured, meaning we could be setting ourselves up for real financial difficulties should something happen.[ii]

Here are some national figures to put it into perspective:

- Every year 236,000 people of working age suffer a serious injury or illness[ii]
- 18 families in Australia lose a working parent every day of the week[ii]
- 50,000 Australians have heart attacks every year[iii]
- One third of women and a quarter of all men are diagnosed with cancer[iii]
- More than 1,600 people die on Australian roads every year, most aged 26 to 59[iii]
- A stroke occurs every 12 minutes across the country[iii]

Debunking the myths

The national Lifewise campaign set the record straight on a number of misconceptions believed to be part of the reason behind why Australia is underinsured as a nation. These include:

1. The government will look after me if something happens. Centrelink pays benefits, but it might not be enough to cover your current lifestyle.
2. Workers' compensation will cover me. This only covers incidents that occur during work hours or illnesses that are a direct result of your employment.
3. Life insurance is not affordable. For most Australians insurance is affordable and can be paid via monthly premiums. If you want a quick estimate, AMP's online calculator can help you crunch the numbers.
4. Life insurance companies don't pay claims. Insurers pay out almost $10 million every working day in claims.
5. I've already got enough insurance Research shows 60% of families with dependent children don't have enough insurance to cover household expenses for a year if the family bread winner were to pass away.

Types of cover available

Insuring yourself and your income can allow you to maintain your lifestyle and living arrangements, and give you comfort in knowing you can still meet your financial commitments—things like mortgage, rent, card repayments, bills, kids' education fees, and treatment and rehabilitation costs should you need it.

You can buy different forms of personal insurance through your super fund or via an insurance company. Here's a rundown of the four main types of cover available:

- Life insurance pays a lump sum on your death or the diagnosis of a terminal illness
- Trauma insurance pays a lump sum on the diagnosis or occurrence of a specific illness
- Income protection provides a replacement income of up to 75% of your regular income if you're unable to work due to illness or injury
- Total and permanent disability (TPD) pays a lump sum if you become disabled and are unable to ever work again.

What AMP's doing in this space?

In 2014, AMP paid more than $887.6 million in claims across its life, trauma, income protection and TPD policies. The age range of those making a claim varied from six years old to 88 years old.

The important thing to understand is why insurance might be necessary for your situation, whether that includes a partner or children, and how much you need so you are not under or over insured.

AMP's online calculators can help you estimate how much insurance costs and how much insurance you need.

Need help?

So if your goal is to retire early, how can you put in place a plan and make sure you'll have enough money to live on? Speak to us today.

By AMP Life Limited, originally published on 4 March 2016 on amp.com.au/insights

i www.lifewise.org.au/facts-research#sthash.fSaAIgeC.dpuf

ii www.lifeinsurancefinder.com.au/post/compare-life-insurance-australia/the-impacts-of-underinsurance-in-australia/

iii www.lifewise.org.au/insurance-101/understanding-the-risks

HILLROSS

HOME OWNERSHIP – IS IT STILL A REALITY IN AUSTRALIA?

For many Australians, deciding whether to rent or buy a home to live in is a choice, and over time their preferences around this will undoubtedly change or evolve. But for others it's more a matter of affordability.

Housing affordability in Australia

According to AMP Capital's chief economist Dr Shane Oliver, housing affordability has been declining over the last two decades, with the ratio of average home prices rising from a norm of around three times annual disposable income, to around six times across Australia, and this is much higher in a number of cities, including Sydney and Melbourne.

How does this compare with other countries?

The 12th Annual Demographia International Housing Affordability Survey (2016 edition: 3rd quarter 2015) which covers 367 metropolitan markets across nine countries, rated Sydney as the second least affordable housing market, next to Hong Kong.

In comparison, the third least affordable was Vancouver, with Auckland, San Jose and Melbourne coming in as fourth least affordable. San Francisco was fifth least, London 6th least affordable and San Diego and Los Angeles coming an equal 7th.

Home ownership decline and the reasons why

Home ownership too has been declining since the mid-1990s. The latest data

available from the ABS shows that households who owned their homes (with or without an outstanding home loan debt) accounted for 67.5% of all households in 2011/12 compared to 71.4% in 1994/95[i].

So, what has contributed to the decline in affordability that has been a major factor behind the decline in home ownership in Australia? We called on Shane Oliver to provide some insight.

He says a significant driver is the constrained supply of dwellings. While population growth has been solid, leading to strong underlying demand for property, the supply of dwelling has failed to keep up over the last decade. Land release controls are very stringent in and around Australian capital cities and development restrictions are quite tight, compared to say cities in the United States. Despite a surge in construction of apartments in the last year, Australia as a whole still has an overall shortfall of properties and this has driven prices higher.

Concerns around the impact of negative gearing, foreign buying and buying in SMSFs are really a sideshow compared to the fundamental failure of property supply to keep up with demand. He suggests that until we can address the supply issue, affordability is likely to remain relatively poor.

Shane suggests another driver may be a change in the attitudes of millennials who may be less motivated to buy their own home because of the financial commitment. In other words the love affair with home ownership may have faded a bit as younger generations prefer the flexibility that comes with renting. It's hard to disentangle this from the affordability issue though. Then there are social changes to consider, such as people partnering up later in life and delaying home ownership.

Is owning a home still one of your key goals?

Owning your own home has, and continues to be, a key goal for many Australians. Yet for others it's an unachievable dream or a dream that's been delayed for a while.

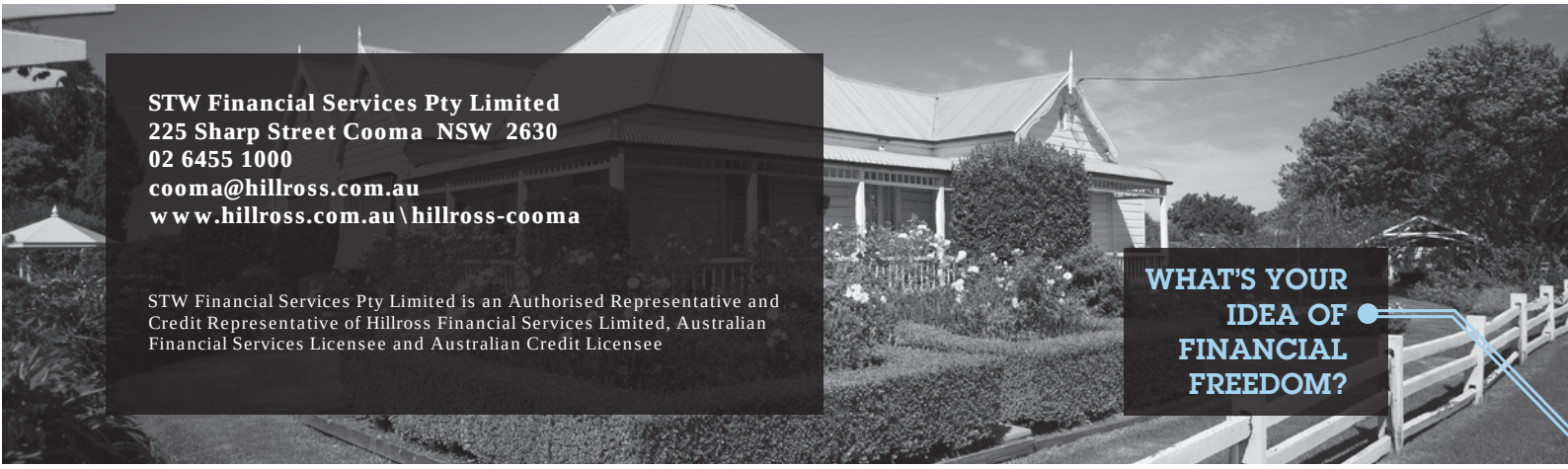
There are numerous other options though, including renting, staying at home for longer and saving up for an investment property, or saving to invest in assets other than property.

Need help?

Speak to us today and we can work out how you might still achieve the great Australian dream of owning a place to call your own.

By AMP Life Limited originally published on 27 May 2016. on amp.com.au/insights

i 4130.0 - Housing Occupancy Costs, 2013-14, Australian Bureau of Statistics



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