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NAVIGATING THE 2024 SUPER AND TAX LANDSCAPE

20 ESSENTIAL QUESTIONS ANSWERED

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BY WEALTH ADVISER

Question (1): What changes were made to the superannuation guarantee (SG) payment on July 1, 2024?

The superannuation guarantee (SG) payment for PAYG employees increased by half a percentage point to 11.5% on July 1, 2024. This means employers are now required to contribute a higher percentage of an employee's salary to their superannuation fund, boosting retirement savings for workers across Australia.

Question (2): How have the concessional and non-concessional contribution caps for superannuation changed?

Both concessional and non-concessional contribution caps have increased. The concessional cap rose from $27,500 to $30,000 per year, while the non-concessional cap increased from $110,000 to $120,000 per year. This change allows individuals to contribute

BEFORE YOU GET STARTED

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more money to their superannuation funds within the low-tax environment.

Question (3): What are the new rules for bringing forward non-concessional contributions based on total super balance?

The new rules for bringing forward non-concessional contributions are based on an individual's total super balance (TSB) as of June 30, 2024. Those with less than $1.66 million can bring forward three years of contributions, totaling $360,000. For TSB between $1.66m-$1.78m, the bring-forward period is two years with a $240,000 cap. TSB between $1.78m-$1.9m allows only the standard $120,000 cap, while those with over $1.9m cannot make non-concessional contributions.

Question (4): What changes occurred for individuals turning 60 in the 2024/25 financial year regarding superannuation access?

Individuals born after July 1, 1964, and turning 60 in the 2024/25 financial year can access their superannuation for the first time. They can withdraw larger lump sums if retired without worrying about the low-rate cap of $235,000. Additionally, they will enjoy tax-free pension income payments, regardless of whether they have a transition to retirement (TTR) or retirement income stream.

Question (5): How did the 'stage 3' tax cuts affect personal income taxpayers from July 1, 2024?

The 'stage 3' tax cuts, effective July 1, 2024, reduced income tax for all personal income taxpayers. While the cuts were adjusted from the original proposal, with lower income earners receiving a higher cut and higher income earners a lower cut than initially planned, the overall result is that everyone will pay less tax. The exact amount of tax reduction varies based on income level.

Question (6): What are some strategies to consider regarding the new superannuation and tax changes?

Given the changes, individuals should consider reviewing existing salary sacrifice arrangements with their employer due to the increased SG rate and higher concessional cap. For those nearing retirement, it may be beneficial to explore catch-up contributions to maximize retirement savings while minimizing tax. Additionally, with lower tax rates, individuals might consider deferring taxable income from sources such as capital gains, employment termination payments, or taxable super withdrawals.

Question (7): How do catch-up concessional contributions work, and what are the eligibility requirements?

Catch-up concessional contributions allow individuals to use unused concessional contribution cap amounts from previous years, accruing for up to five years. To be eligible, one's total super balance must be less than $500,000 on June 30 of the previous financial year. Unused cap amounts can only be carried forward from July 1, 2018. This mechanism allows individuals to make larger concessional contributions in years when they have the financial capacity to do so.

Question (8): What types of contributions are considered concessional contributions?

Concessional contributions include compulsory SG contributions made by employers, voluntary salary sacrifice contributions made by employers on behalf of employees from their before-tax income, and voluntary tax-deductible contributions made by individuals directly into their super fund, which they then claim as a tax deduction.

Question (9): What is the time limit for carrying forward unused concessional contribution cap amounts?

Unused concessional contribution cap amounts can be carried forward for up to five years before they expire. This allows individuals to take advantage of years when they may have extra funds to contribute to their superannuation, even if they were unable to maximize their contributions in previous years.

Question (10): How do the super bring-forward rules differ from catch-up concessional contributions?

The super bring-forward rules apply to non-concessional contributions for individuals under age 75 at the start of the tax year. They allow eligible individuals to make up to three years' worth of non-concessional contributions (up to $360,000) in a single income year. In contrast, catch-up concessional contributions apply to the concessional contribution cap and allow the use of unused cap amounts from the previous five years, subject to a total super balance limit of $500,000.

Question (11): What are the potential benefits of using catch-up concessional contributions?

Catch-up concessional contributions offer flexibility for individuals who have had interrupted income or haven't been able to contribute as much to super as they'd like. They provide an opportunity to top up super at a more convenient time, potentially maximizing retirement savings while minimizing tax. This strategy can be particularly beneficial for those approaching retirement or looking to optimize their tax situation.

Question (12): What is the current annual concessional contributions cap?

The current annual concessional contributions cap, as of

July 1, 2024, is $30,000. This represents an increase from the previous cap of $27,500, allowing individuals to contribute more to their superannuation through concessional contributions each year.

Question (13): How can individuals approaching retirement potentially benefit from catch-up contributions?

Individuals approaching retirement can use catch-up contributions to potentially maximize their retirement savings while minimizing tax through the superannuation system. This strategy provides flexibility to make larger contributions in years when they have higher income or available funds, helping to boost their super balance before retirement.

Question (14): What are the consequences of exceeding superannuation contribution caps?

Exceeding concessional and non-concessional super contribution caps may result in additional tax and penalties. It's important for individuals to be aware of their contribution limits and to carefully manage their contributions to avoid these potential consequences.

Question (15): When can individuals typically access their superannuation funds?

Typically, individuals can access their superannuation when they reach their preservation age and meet a condition of release, such as retirement. For most people, the preservation age is 60. However, full access to super for those still working is generally not available until age 65.

Question (16): How does the preservation age affect access to superannuation?

The preservation age is the age at which an individual can start to access their superannuation. It ranges between 55 and 60, depending on when the person was born. For those born after July 1, 1964, the preservation age is 60. Reaching preservation age allows access to super, but full access may still be restricted if the individual continues working.

Question (17): What options are available for individuals who have reached their preservation age but are still working?

Individuals who have reached their preservation age but are still working can start accessing their super through a transition to retirement (TTR) strategy. This allows them to draw regular income up to 10% of their super balance annually, but does not permit lump sum withdrawals. Full access to super is typically not available until age 65 for those still working.

Question (18): How do the new tax cuts affect different income levels?

The new tax cuts, effective July 1, 2024, benefit all income levels, but the amount varies. For example, someone earning $40,000 will save $654 in tax, while someone earning $100,000 will save $2,179. Higher income earners, such as those earning $200,000, will save $4,529. The cuts are designed to provide tax relief across all income brackets.

Question (19): What considerations should be made when deciding to defer taxable income after July 1, 2024?

Given the lower tax rates after July 1, 2024, individuals might consider deferring taxable income from various sources. This could include delaying the sale of assets that would generate a capital gain, postponing the receipt of employment termination payments or leave entitlements, delaying applications for First Home Super Saver Scheme releases, or deferring taxable super withdrawals such as total and permanent disability payments for those under 60.

Question (20): How do the changes in superannuation and tax rules impact financial planning strategies?

The changes in superannuation and tax rules offer new opportunities for financial planning. Strategies may include increasing salary sacrifice arrangements to take advantage of the higher concessional cap, utilizing catch-up contributions to maximize super balances, and timing income and deductions to optimize tax outcomes. For those nearing retirement, the changes may influence decisions about when to access super and how to structure retirement income streams. It's important to review existing financial plans in light of these changes to ensure they remain optimal for individual circumstances.

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- *Super and Tax Changes From 1 July 2024 – What You Need To Know*

CPI may understate the rising costs of retirement

BY HARRY CHEMAY

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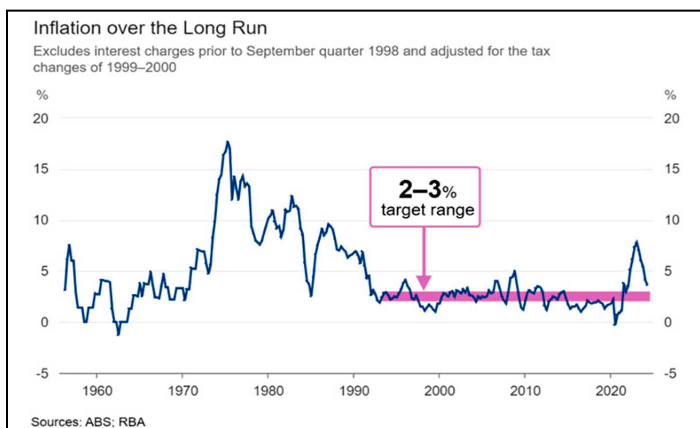
The post-lockdown resurgence of the Australian economy between 2021 and 2023 brought with it a confluence of inflation-inducing effects.

Consumer inflation, as measure by the Consumer Price Index (CPI), started to trend up in early 2021, rose past the RBA's target band of 2% - 3% p.a. by mid-year, and would go on to register an astonishing 7.8% for calendar year 2022. The RBA responded to the inflationary threat by lifting interest rates 13 times between May 2022 and November 2023, resulting in the current cash rate of 4.35%.

If CPI is used as a measure of inflation policy success, this intervention appears to have worked, with the latest CPI coming in at 3.6% year-on-year for the March 2024 quarter, almost back within the RBA's target band, as the below chart indicates.



But what if CPI isn't the most appropriate measure of how Australians actually experience cost-of-living pressures, given their personal consumption patterns?

CPI – a blunt measure of cost-of-living

The CPI has been measured by the Australian Bureau of Statistics (ABS) using the same basic methodology back to at least 1960.

It aims to measure changes in the price of a fixed quantity (basket) of goods and services acquired by consumers in metropolitan private households (what the ABS terms 'the CPI population group').

Prices are tracked across thousands of items that are aggregated into one of 11 groups, these being:

Consumer Price Index (CPI) Groups	Current Weighting (%)
Food & non-alcoholic beverages	17.15
Alcohol and tobacco	6.98
Clothing and footwear	3.40
Housing	21.74
Furnishings, household equipment and services	8.43
Health	6.43
Transport	11.42
Communication	2.14
Recreation & culture	12.55
Education	4.34
Insurance & financial services	5.43

Source: ABS, Consumer Price Index, Weighting Pattern, 2024

The weightings in the CPI basket above are meant to be representative of the consumption pattern of the 'typical'

Australian household.

Except it's a big ask for one basket of good and services to accurately reflect the consumption preferences of disparate households that may differ by geography, age, income and, importantly for retirees, connection to work (sources of income).

In truth the CPI is not a measure of the changing purchasing power of households with differing consumption patterns. The ABS itself concedes the point, noting that :

> ***"At the end of the day, the CPI is most useful as an indicator of price movements, whether it be for specific items, a particular city, or the economy as a whole. The CPI is not a precise measure of individual household price experiences."***

Thankfully, the ABS has other inflation gauges that are better at assessing cost-of-living changes across differing household types.

Selected Living Cost Indices

To overcome the known limitations of the CPI in measuring household purchasing power, the ABS progressively introduced a series of Living Cost Indexes from 2000 onwards.

Whereas the CPI measures the change in price of a fixed basket of good and services, these cost-of-living indexes measure the change in the minimum expenditure needed to maintain a certain standard of living.

The ABS publishes four distinct 'Analytical Living Cost Indexes' (ALCIs) based on household type that, in aggregate, account for 90% of Australian households, these being:

- employee households (income principally from wages and salaries);
- age pensioner households (income principally from the age pension or veterans affairs pension);
- other government transfer recipient households (income principally from a government pension or benefit other than the age pension or veterans affairs pension); and
- self-funded retiree households (income principally from superannuation or property, and where the defined reference person is 'retired').

In addition, a Pensioner and Beneficiary Living Cost Index (PBLCI) is also maintained, this index effectively blending the middle two above, to cover households whose principal source of income is from government pensions and benefits.

According to the ABS, these five indexes are "specifically designed to measure changes in living costs for selected population sub-groups and are particularly suited for assessing whether or not the disposable incomes of households have kept pace with price changes".

How do LCIs track cost-of-living changes?

The CPI and LCIs share the same overall design and calculation methodology, both tracking price changes across the same 11 groups.

The key difference between the two relates to the cost of housing. The LCIs include interest charges on mortgages but exclude new house purchases. The CPI includes the cost of new house purchases (i.e. new builds) but does not include interest charges on mortgages.

That, as it turns out, causes the CPI and LCIs to diverge in dynamic interest rate environments (as was the case between mid-2022 and the end of 2023).

While headline CPI rose 3.6% for the year to 31 March 2024, the equivalent household inflation for the different household types is provided in the table below.

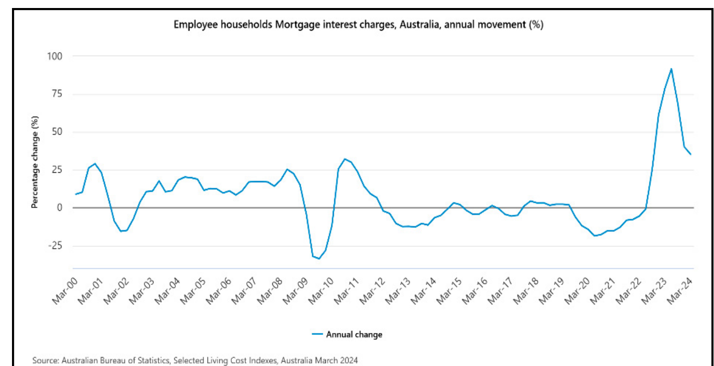
	Change from previous quarter (%)	Annual change (%)
Pensioner and beneficiary LCI (PBLCI)	1.3	3.9
Employee LCI	1.7	6.5
Age pensioner LCI	1.1	3.3
Other government transfer recipient LCI	1.4	4.4
Self-funded retiree LCI	0.7	3.4
Consumer Price Index (CPI)	1.0	3.6

Source: ABS, Selected Living Cost Indexes, Australia (March 2024)

Self-funded retiree households experienced an increase in their cost-of-living, but slightly below the headline CPI rate, as did age pensioner households.

Other government transfer recipient households (typically of working age) and employee households fared worse than CPI, with the latter seeing their cost-of-living surpass CPI by 2.9 percentage points over the year.

The main driver of this divergence has been interest charges. The current weighting for this expenditure is almost 12.5% for employee households, as compared to just over 1% for self-funded retiree households and 1.6% for age pensioner households.



Source: ABS, Selected Living Cost Indexes, Australia (March 2024)

With mortgage interest charges rising 35.3% during the past year (easing from a peak of 91.6% during the June 2023

quarter compared to a year earlier), the current cost-of-living crisis for many home-owning Australians, particularly those in their thirties and forties, could perhaps be better described as a 'cost-of-mortgage crisis'.

Current sources of cost-of-living stress for retirees

Below is a selection of spending categories from the age pensioner and self-funded retiree LCIs, displaying the percentage change in index values over two years, from the start of 2022 to the end of 2023.

Employee households are included, indicating how working-age households have fared in comparison to retiree households.

Change in Living Costs 2022-2023 (%)	Employee Households	Age pensioner Households	Self-funded retiree Households
Food & non-alcoholic beverages	11.0	10.7	10.5
Housing	13.8	9.4	13.8
Health	7.8	2.7	5.7
Transport	7.4	7.4	7.4
Recreation & culture	8.9	10.5	9.9
Insurance & financial services	72.7	26.8	26.1
All groups	**14.8**	**9.5**	**9.9**

Source: ABS, Selected Living Cost Indexes, Australia (March 2024, Table 2)

The two retiree groups within the LCI may have had broadly similar overall cost-of-living experiences over the past two years, but with distinct differences across specific expenditure items.

The main ones being insurance premiums and mortgage interest charges.

Self-funded retiree households tend to hold more, and higher premium, insurance products. Insurance premiums have soared across house, home and contents, landlord and motor vehicle insurance over the past year, some at the highest rates since the LCIs were first introduced.

Age pensioner households, by contrast, have been more impacted by the sharp rise in interest charges since mid-2022, particularly those still servicing mortgages, but also credit cards and personal loans.

Should CPI be used in retirement planning?

Inflation is central to any conversation on retirement, because its pernicious effects erode purchasing power over time and, with it, one's standard of living.

So central is inflation risk to retirement that it makes its presence felt right across the superannuation sector, from investment return objective setting (CPI plus targets) to retirement income forecasting (inflation-adjusting projected balances for 'today's dollars').

The Retirement Income Covenant, a requirement for all APRA-regulated super funds since July 2022, also explicitly names inflation as one of three key risks that members face in retirement, and that trustees must address in building retirement solutions.

But it's patently clear that the CPI is not best placed to be a measure of inflation as experienced by households, especially once in retirement.

A lot of that is due to the CPI no longer measuring mortgage interest charges.

Some 14% of homeowners aged 65 and above now still carry a mortgage. Australians may therefore increasingly be subject to mortgage rate shocks, of the kind experienced during 2022 and 2023, well into retirement.

Add to that the sharp rises in private market rental over the past 12 months and, for the 18% of those over 70 who don't own the roof over their heads, rent inflation can impact far more than its weighting in the CPI might indicate.

The changing, increasingly tenuous, nature of housing in retirement therefore warrants a rethink of CPI as the best measure of retiree cost-of-living pressures.

In fact, the base rate of Age Pension (itself indexed to Male Total Average Weekly Earnings) already indexes its half-yearly increases to the higher of CPI and the PBLCI.

A case can therefore be made for self-funded retiree and age pensioner retiree households to have the relevant ABS living-cost-indexes applied to their circumstances in other areas, such as inflation indexation for retirement income products.

As the saying goes: 'what gets measured gets managed'.

With the CPI we're not measuring what truly counts in retirement; maintaining a dignified standard of living irrespective of the specific cost-of-living pressures we may encounter along the way.

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The Importance of Home Ownership in Achieving a Comfortable Retirement

BY WEALTH ADVISER

Introduction:

Retirement planning is a critical aspect of financial well-being for Australians. As the population ages and life expectancies increase, ensuring a comfortable and secure retirement has become more important than ever. While factors such as superannuation and the Age Pension play significant roles in retirement planning, home ownership has emerged as a crucial element in achieving a comfortable retirement. This article will explore the current state of home ownership among retirees in Australia, the financial and emotional benefits of home ownership, the challenges faced by non-homeowners, and the importance of innovative retirement income solutions that provide certainty.

The current state of home ownership among retirees in Australia:

According to the Vanguard report "How Australia Retires," 71% of retired Australians own their homes outright, while 8% own a home but still have a mortgage to pay (Shrimski, 2024). The report also reveals that 18% of retired Australians are renting their homes, with the percentage of retirees renting or having a mortgage significantly higher (31%) for those who are not in a relationship compared to those with a partner (8%).

The retirement confidence levels among these groups vary significantly, with only 16% of outright homeowners feeling slightly or not at all confident about funding their retirement, compared to 57% of renters expressing the same sentiment. This suggests that renters are more than three times as likely to have relatively low retirement confidence compared to those who own their homes outright.

The financial benefits of home ownership in retirement:

Owning a home outright in retirement offers several financial benefits. Firstly, it eliminates the need to pay rent, which can be a significant expense, especially in areas with high housing costs. This allows retirees to allocate more of their income towards other essential expenses, such as healthcare and leisure activities. As the Vanguard report notes, housing costs such as rent and mortgages impact retirement wealth (Shrimski, 2024).

Secondly, homeowners have the potential to access the equity in their homes to fund retirement expenses. As Andrew Boal (2024) points out, "Given the amount of wealth stored in home equity in Australia, one could reasonably

argue that the home is just as important as superannuation and the Age Pension when considering retirement outcomes." Strategies such as downsizing or using home equity release products can provide retirees with additional funds to support their desired lifestyle.

The Vanguard report also highlights that 27% of working-age Australians view their family home as a place where they want to live but also believe it can potentially fund aged care or unexpected expenses if needed, with 28% of retired Australians sharing this belief (Shrimski, 2024). This demonstrates the potential for home equity to serve as a financial safety net in retirement.

Furthermore, home ownership offers emotional and psychological benefits. The Vanguard report reveals that 34% of working-age Australians and 41% of retirees view the family home as a place where they want to live until they die, demonstrating a strong emotional attachment (Shrimski, 2024). This sense of security and stability can contribute to overall well-being in retirement.

Challenges faced by non-homeowners in retirement:

Retirees who do not own their homes face several challenges. Renting in retirement can be a significant financial burden, as it reduces the amount of income available for other essential expenses. This is particularly problematic for retirees who have limited superannuation or other savings. The Vanguard report notes that working-age Australians who believe they are unlikely to own a home when they retire are more likely to not have a clear plan for retirement (55% vs. 33% who expect to own a home) and are also more likely to have relatively low retirement confidence (55% vs. 23%) (Shrimski, 2024).

Non-homeowners also have limited access to home equity as a financial resource. Without the option to downsize or use home equity release products, they may struggle to fund unexpected expenses or maintain their desired standard of living. This can lead to a lower quality of life in retirement and increased financial stress.

To improve retirement outcomes, renters can consider strategies such as increasing their superannuation contributions, investing in other assets, or exploring affordable housing options. Policymakers can also play a role by addressing the financial disincentives to accessing home equity, such as removing or refunding some of the frictional costs associated with downsizing (Boal, 2024). Additionally, policymakers should consider measures to improve equity in the system for renters, making renting more affordable, especially in retirement.

The importance of certainty in retirement:

Justine Marquet (2024) highlights the importance of certainty in retirement, as retirees face concerns such as running out of money, facing unexpected health and aged care costs, and maintaining a comfortable standard of living. Uncertainty about these factors can significantly impact the quality of life in retirement, both financially and emotionally. Marquet notes that the upheavals of recent years, such as market volatility, inflation, and the cost of living, have influenced retirees' financial confidence and led to a diminishing drawdown of savings.

To address these concerns, Marquet suggests that innovative retirement income solutions, such as investment-linked lifetime income streams, can provide certainty, flexibility, and the ability to access capital when needed. These next-generation solutions can help retirees achieve a better quality of life without increasing the likelihood of outliving their savings. A 2022 Actuaries Institute report noted that combining traditional products with innovative solutions could lead to a remarkable 30% increase in retirement income (Marquet, 2024).

Conclusion:

Home ownership plays a vital role in achieving a comfortable retirement in Australia. Outright homeowners enjoy greater financial security, lower housing costs, and the potential to access home equity to fund their desired lifestyle. In contrast, renters face significant challenges, including higher housing costs and limited access to home equity as a financial resource, which can lead to lower retirement confidence and a reduced quality of life.

To ensure a comfortable retirement for all Australians, individuals should prioritize home ownership as a long-term financial goal. Policymakers should also consider measures to support home ownership and improve retirement outcomes, such as addressing the financial disincentives to accessing home equity, promoting affordable housing options, and improving equity in the system for renters. Furthermore, innovative retirement income solutions that provide certainty, flexibility, and accessibility can help retirees achieve a better quality of life in their golden years.

As Australia's population ages and the superannuation system matures, it is crucial to recognize the importance of home ownership in retirement planning and take proactive steps to support it. By doing so, we can ensure that all Australians have the opportunity to enjoy a comfortable and secure retirement, regardless of their homeownership status.

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Q&A: Ask a Question

Question 1

My mum told me that part of her income that is funding retirement comes from market linked annuities. What is a market linked annuity? How is it different to a traditional annuity?

Traditional annuities offer a stable, guaranteed income stream and are ideal if you are looking for predictability as you are shielded from market volatility. Conversely, a market linked annuity is an income stream where your annual income moves up or down to reflect changes in the value of a selected investment option. They are a good investment option if you are seeking growth tied to a particular market performance, however they usually come with greater risk as returns are subject to market fluctuations.

When deciding between both options it's crucial you weigh up factors like your comfort level with risk, time horizon, desired income stability, and financial goals. Please consult with your financial adviser to evaluate if an annuity is suitable based on your overall financial plan.

Question 2

What impact, if any, will the upcoming US elections have on my investments?

Essentially, election outcomes can influence investor confidence and market volatility, particularly if the results are unexpected or perceived to affect economic stability. This can be viewed as either a risk or an opportunity depending on your investment strategy and how you look at it. US policy decisions on trade, regulation can directly impact Australian industries that rely heavily on exports to the US. Fluctuations in the US dollar can also impact currency exchange rates which can negatively impact the competitiveness of Australian companies exporting to the US.

While the Australian market is primarily influenced by domestic matters, developments in the US can shape market sentiment which has a ripple effect on the Australian market and industries. You should talk to your financial adviser who will assist you in monitoring these dynamics and the impact on the Australian share market and your investments.

Question 3

Everything I read on the news is always talking about how inflation is rising. I am invested in bonds. What is the impact of inflation on Bonds?

Typically, bonds pay a fixed rate of return. However in times of high inflation, the interest payments and principal value will diminish as inflation will start to erode the real value of money over time. This problem becomes even worse when inflation rates exceed the bond's yield resulting in negative returns. Inflation poses multifaceted risks to bonds, including purchasing power erosion, potential declines in bond prices, and shifts in investor strategies to mitigate inflationary impacts. Understanding these dynamics is crucial for bond investors and you should consult your financial adviser who can assist you with managing these risks in challenging economic times.

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