June 2024

# Your money, your future.

## Financial Planning Newsletter

FINANCIAL SNAPSHOT

# Saving for your child's future

As every parent knows (even before they become one), raising a child isn't cheap. And those expenses don't necessarily stop once they reach 18. Parents often hope to help their adult children with significant financial milestones in life too.

We look at some of the main expenses for parents, how you can start saving for your child's future and the different ways to go about it.

## What do you need to save for?

### Education

Probably the biggest single expense parents think about is education. In 2023, 16% of students across Australia were attending an independent school according to the ABS1. And with the national average cost of having a child in a private school for 13 years starting in 2024 is $316,944 – or $24,380 a year, it can pay to start planning early.

### Weddings

Granted, not everyone will get married. But with the average cost of a wedding sitting between $36,000 - $51,0003, it's no small expense. Couples might find themselves having to choose between paying for a wedding or saving for a house deposit, so a monetary contribution from the parents is often gratefully received.

### House deposit

Helping adult children with a down payment on their first home is something 32% of parents are doing, a 2020 report from Mozo revealed. And they're gifting an average of $73,5224. It could be something to consider when saving for your child's future.

### Unexpected costs

Life is not always plain sailing. Parents can find themselves helping grown-up children with unforeseen medical bills, periods of unemployment, meeting mortgage payments or dealing with the financial aftermath of a divorce or separation. Putting money aside for unplanned costs can mean you don't have to dip into your savings or end up working for longer.

## When should I start saving for my child's future?

In most cases, the earlier the better. The sooner you start planning for future costs, the more time you have to save, and potentially benefit from things like compound interest – where interest is paid in regular intervals, building on top of earlier interest paid.

Once you've worked out how much you need to save and by when, the next step is to understand your current position.

## What's a good way to save money for my child's future?

It depends on your financial situation, how long you have to save or invest, the level of risk you're comfortable with and if you want to have the option of being able to access your savings at any time. Here are some options you could consider. When weighing up what's right for you, remember to take into account all fees, charges and costs.

### Savings accounts

For time-poor first parents, a regular or high-interest savings account could be a good place to start. Set up regular, automatic payments and keep it separate from your other current or savings accounts, so it doesn't get accidentally used for something else. Then when you're ready to do some research, you can think about another option for those savings.

Things to consider

- Generally, you can access the money whenever you need.

- There may be minimum or maximum deposit and withdrawal limits.
- Low-interest rates can equal low returns.

## Term deposits

This option offers guaranteed interest rates, provided you save your money for a set period. With a term deposit, you won't be able to access the money ahead of time without incurring a fee, so if you think you'll be tempted to dip into the savings at any time, it's one to reconsider.

Things to consider

- Your money will be locked away for an agreed period.
- There may be minimum or maximum deposit limits.
- It's likely you'll have to pay a fee if you want to access the money sooner.
- Low-interest rates can equal low returns.

## Growth or investment bonds

Depending on your financial situation, a growth or investment bond could be a tax-effective way to save for your child's future. They let you invest on behalf of a child (or a grandchild). Ownership of the bond is then automatically transferred to the child at a date in the future, set by you.

Things to consider

- Your money will be locked away for an agreed period, usually a minimum of 10 years.
- There may be minimum or maximum deposit limits.
- You'll need to think about tax implications.
- The expected rate of return.

## Education saving plan

Some providers offer savings plans specifically designed for education. There might be potential tax benefits, and they often have features designed to maximise education savings depending on which stage of schooling you're saving for.

Things to consider

- Depending on the plan, your money could be locked away for an agreed period.
- There may be minimum or maximum deposit limits.
- You may need to pay a fee to access the money early.
- There could be tax implications.
- The expected rate of return.

## Family trust

A family trust may be a suitable way to save for your child's future. How the tax benefits may compare to other options depends on the ages, taxable income and number of family members in the trust. Generally, you'll need a financial adviser or accountant to help you set it up.

Things to consider

- There can be significant costs to establish a family trust.
- There are strict guidelines and rules set out by the ATO.
- Tax treatments are complicated and will require the help of an accountant or financial adviser.

**If you're a parent who wants to save for your child's future, we can help you with an appropriate approach to provide for their future needs.**

1 https://www.abs.gov.au/statistics/people/education/schools/latest-release#students

2 Private school fees in Sydney are highest, and parents nationally are paying nearly as much in extra costs as they do in tuition fees (afr.com)

3 Moneysmart

4 https://mozo.com.au/home-loans/articles/bank-of-mum-and-and-dad-report-2020

# 3 ways your retirement income can shrink and what you can do about it

Here's what you can do to help you make the right choices and enjoy your retirement.

## 1. Paying down a mortgage

Many people may need to pay down a mortgage in retirement as a result of a combination of elevated house prices and delayed household formation.

According to the Retirement Income Review[1], the average age at which owner-occupiers finally pay off their mortgage increased by 10 years – to 62 – between 1981 and 2016. Indeed, more than 50% of owner occupiers aged 55-64 still carry some mortgage debt.

Older mortgage holders don't just have to deal with a constant drain on their lifestyle income. They're also more vulnerable to economic shocks – such as rising rates – and the financial and psychological stress this causes.

Paying off debt in retirement has a whole range of downstream effects.

- It may leave less money to invest in growth assets to support income for longer in retirement.
- It means lending or gifting money to children carries more risk – if it can be achieved at all.
- And it's a reason many older Australians stay in the workforce after their preferred retirement age.

On current trends, all these stresses are likely to affect a wider range of retirees in the future.

AMP Head of Technical Strategy John Perri says, "More retirees are retiring with home loan debt and that limits their options. Ideally, advisers would help clients accelerate home loan repayment while they're working. Or help them strategically salary sacrifice into super so they can take a tax-free lump sum on retiring (aged 60 or more) and use that money to clear debt."

Sometimes eliminating home loan debt is not necessarily the best thing to do. If retirement savings are earning 6% tax free and mortgage debt costs 3-4%, it may make sense to gradually reduce your debt rather than deplete your retirement capital.

## 2. Experiencing a catastrophic market event

Sequencing risk is one of the most dangerous risks for retirees. That's the possibility a GFC/COVID style event smashes such a large hole in your capital that it permanently shrinks your potential retirement income. Proponents of lifetime income streams argue the ability to 'exchange' a chunk of retirement capital for a lifetime income is a useful counterweight to sequencing risk.

Government enquiries like the Retirement Income Review suggest many retirees limit their lifestyle spending due to the Fear of Running Out (FORO) and/or lack of clarity around their future spending with most only drawing the minimum legislated rate.

## 3. Gifting or leaving money to your children

Many retirees place a premium on passing on capital or a property to their children. That sacrifice also happens before death, with many retirees gifting home deposits or school fee cash to their children.

Reducing the lifestyle effect of those capital drawdowns requires judgement. "With some clients I'm trying to convince them to be more selfish, to think less about their kids' lifestyle and more about their own," say Clinton Smith of Abound Financial & Lifestyle. "If you die and leave a two-million-dollar property, your kids are going on all the holidays you didn't."

Yet retirees – and their advisers – must consider the whole board when it comes to helping the next generation without trimming their own sails. In some situations, that's considering the impact of inheritances. At other times it's shuffling the components of a clients' portfolio for maximum effect.

That might mean planning to use up all financial assets but leaving the family home to the next generation. Or ring-fencing a lifetime income stream and allocating your account-based pension and other assets to fund bequests and gifts.

1 Retirement Income Review

# How to boost your retirement savings as super and tax laws change

If you're looking to maximise your superannuation in the lead-up to retirement, it's a good idea to be up to speed on any legal updates that could affect the super and tax landscape.

With super caps going up and tax cuts coming in, there are some **big changes on 1 July 2024** that could help you boost your retirement savings.

Here's how it's all going to work.

## Super caps are going up

There are annual caps – or limits – on how much money you can contribute towards super, both in terms of pre-tax 'concessional' contributions and after-tax 'non-concessional' contributions.

Both these caps are going up, so if you have any spare funds you'll be able to move more of your money into super's low-tax environment.

- The **concessional cap** is increasing from $27,500 to **$30,000** a year.
- The **non-concessional cap** is increasing from $110,000 to **$120,000** a year.

## Time to tweak your salary sacrifice plan

If you're a PAYG employee, your compulsory super guarantee (SG) payment will go up by half a percentage point to 11.5% from 1 July 2024.

While the higher concessional cap will allow you to sacrifice more salary into super, the increased SG rate will reduce some of your extra capacity. So it could be a good time to review any existing salary sacrifice arrangements you have with your employer.

## How to play catch up with your super

There are special rules that allow you to pay even more into your super – useful if you're playing catch-up before retirement.

With **concessional contributions** if you have less than $500,000 in your super on 30 June of the previous financial year, you can carry forward unused amounts from up to five previous years. So if you didn't contribute the full amount in 2018-19, this is your last chance to use any unused amounts from that financial year – the opportunity will expire on 30 June 2024.

## How to make large contributions to your super

With **non-concessional contributions** if you have less than $1.66m in your super on 30 June 2024, you can bring forward three years of contributions up to $360,000.

The rules can be a bit complex so if you come into a windfall from selling an asset or receiving an inheritance, it's worth chatting to your financial adviser about the best way to increase your retirement savings.

## Tax cuts are coming in

The Government's long-awaited 'stage 3' tax cuts are coming into effect on 1 July 2024. While there have been well-publicised changes – lower income earners will receive a higher cut than originally proposed, while higher income earners will receive a lower cut – the bottom line is that all personal income taxpayers will pay less tax.

## Your tax cut from 1 July 2024

| Taxable income | Tax payable 2023/24 | Tax payable 2024/25 | Tax cut |
|---|---|---|---|
| **$40,000** | $4,367 | $3,713 | **$654** |
| **$60,000** | $11,067 | $9,888 | **$1,179** |
| **$80,000** | $18,067 | $16,388 | **$1,679** |
| **$100,000** | $24,967 | $22,788 | **$2,179** |
| **$120,000** | $31,867 | $29,188 | **$2,679** |
| **$140,000** | $39,667 | $35,938 | **$3,729** |
| **$150,000** | $43,567 | $39,838 | **$3,729** |
| **$160,000** | $47,467 | $43,738 | **$3,729** |
| **$180,000** | $55,267 | $51,538 | **$3,729** |
| **$190,000** | $59,967 | $55,438 | **$4,529** |
| **$200,000** | $64,667 | $60,138 | **$4,529** |

So **before 1 July 2024** when you're still paying a higher rate of tax, you might like to think about **bringing forward any tax deductions** by:

- making personal deductible contributions to your super using any unused amounts from 2018/19
- prepaying any deductible expenses such as income protection premiums and investment loan interest where possible.

And then **after 1 July 2024** you'll be paying a lower rate of tax. So you might like to think about **deferring any income from:**

- selling an asset that generates a capital gain
- receiving an employment termination payment or leave entitlement
- applying for a First Home Super Saver Scheme release
- making a taxable super withdrawal, such as total and permanent disability under age 60.

### Your financial adviser can help

The good news is that if you're a taxpayer you'll have more disposable income that will help soften some of the cost-of-living pressures we're facing.

So If you're lucky enough to have some spare funds, you might like to talk to your adviser about ways to use the extra income, such as paying down non-deductible debt or boosting your super.


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