

# PortfolioWatch

Quarterly newsletter – Autumn 2018

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for first home buyers  
and downsizers

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Apt.

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# Super opportunity for first home buyers and downsizers

Whether you're buying your first home or you're ready to downsize, you may be able to use your super to help make the most of your money. These two new schemes support the Government's goal of reducing pressure on housing affordability in Australia.

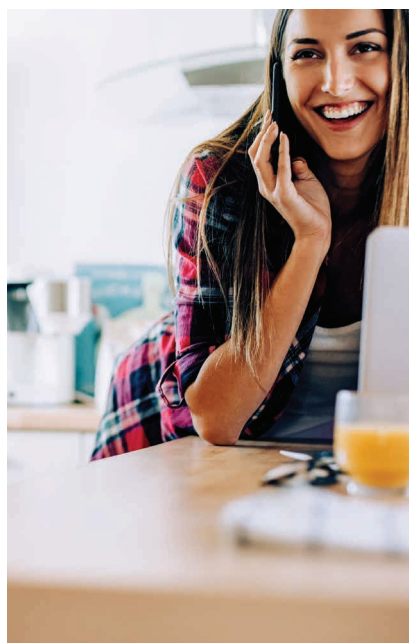
## First home buyers

The 'First home buyer super saver scheme' allows you to save for a deposit for your first home using your super account. The benefit of saving within your super is the concessional tax treatment of super which can help you save faster compared to a traditional savings account.

### How does it work?

From 1 July 2017, you can make your own concessional and non-concessional contributions into your current super account to save for your first home. There is no need to open a special super account.

From 1 July 2018, you can apply to the ATO to release these contributions, along with the earnings on the contributions, to fund the purchase of your first home when you're ready.



### Who is eligible?

To be eligible you must:

- be 18 or over at the time of applying for the release of your money from super
- have never owned property in Australia, including a home or investment property
- live or intend to live in the property for at least six months of the first 12 months after purchase
- not have withdrawn an amount under this scheme before.

Money that can be released from your super account includes:

- your non-concessional (after-tax) contributions
- your concessional contributions, such as salary sacrifice contributions and personal deductible contributions minus 15 per cent contribution tax
- the associated earnings on the above contributions.

**Note:** The non-concessional contributions must be released before any concessional contributions. Also, super guarantee contributions, spouse contributions and government co-contributions cannot be released.

### How much can you save?

The maximum amount you can contribute is:

- up to \$15,000 from any one financial year, and
- a maximum of \$30,000 in total across all years.
- This means a couple saving for a first home could contribute up to \$60,000 together.

While the non-concessional contributions can be paid tax-free, all associated earnings plus any concessional contributions in a withdrawal will be taxed at your marginal tax rate. But, with a 30 per cent tax rebate from the government this considerably reduces your overall tax liability.

### Benefits

This scheme can benefit you if you make salary sacrifice or personal deductible contributions by:

- reducing your tax liability
- helping you budget via 'forced savings', and
- taking advantage of the investment returns which are usually higher than a bank account.

If this scheme interests you, please speak to your financial planner to find out whether it's right for your circumstances.

## Downsizers

After 1 July 2018, if you're over 65 and sell your home, you can now put some of the money you receive into your super.

### How does it work?

You can use the money from the sale of your house to make a 'downsizer contribution' to super of up to \$300,000 or \$600,000 for a couple.



### Who is eligible?

You are eligible to take advantage of this scheme if you are aged 65 or over.









Unlike the non-concessional contributions, the good news is that you don't need to be working and there are no age limits to making downsizer contributions. Also, the total super balance test of \$1.6 million and the \$100,000 non-concessional contributions cap restrictions don't apply which makes it a great option if you want to contribute more to super and are currently ineligible because of these restrictions.

*If you are considering selling your property and are interested in contributing to your super you should hold off selling until after 1 July 2018 as a property sold before this date is ineligible.*

### What types of properties are included?

The property must be located in Australia. It does not need to be your current home – it can be your, or your partner's, former home as long as you or your partner have owned it for more than 10 years and lived in it at some point in your life. An investment property that neither of you have lived in is not eligible. But, the property does not need to be owned by both members of a couple for both of you to make a contribution of up to \$300,000 to your super. Unfortunately, the sale proceeds from a houseboat, caravan or mobile home cannot be used.

For Tom and Hazel it's time to downsize their \$700,000 home to a smaller \$500,000 home. After 1 July 2018, for the first time, they have the opportunity to boost their super with the remaining \$200,000.

OUTCOME BEFORE/AFTER 2018					
BEFORE 1 JULY 2018			AFTER 1 JULY 2018*		
☑ AGE PENSION			☑ AGE PENSION		
					
\$500k	\$220k	\$50k	\$500k	\$20k	\$250k
	Bank account or other investment	Small super balance		Bank account or other investment	Bigger super balance
☒ Don't meet super age test ☒ Don't meet super work test ☒ Cannot take advantage of super			☑ Super age test N/A ☑ Super work test N/A ☑ Can take advantage of super through an account-based pension including nil tax on earnings up to \$1.6m		
					

**Note:** If your family home is currently exempt from the Centrelink assets test and you sell it and put the money into super – your age pension entitlement could be affected.

If downsizing and contributing to super is something you're interested in, please contact your financial planner to discuss your particular circumstances in detail.

# Unique Australian adventures await

The year 2018 is well underway, bringing with it a renewed sense of adventure. So where will your holidays take you this year? Europe? South America? Or why not explore somewhere closer to home?

Domestic travel is growing in popularity, with a recent report<sup>1</sup> from Tourism Research Australia (TRA) stating that the number of domestic overnight holiday trips increased six per cent to reach 37.1 million at the end of 2016. The number of nights and the amount spent both increased by nine per cent, reaching 145.3 million and \$30.7 billion, respectively.

Also, a survey of over 55 travellers<sup>2</sup> found that Australians aged over 55 preferred domestic to international travel with 92 per cent travelling within Australia in a 12-month period compared to only 8 per cent going overseas.

So why travel closer to home? The TRA report found that a continued love affair with Australia's great outdoors has a part to play, with one in four trips including a visit to the beach.

It seems that many Australians are using their travel opportunities to explore the very unique and beautiful destinations on their very own doorstep. Keen to join them? Here are just a few suggestions to help get your holiday plans off to an adventurous start.



## **Pumphouse Point** **Lake St Clair, Tasmania**

Thanks to the vision of Simon Curren, Chairman of the Tourism Council of Tasmania, an unused five-storey pumphouse built in 1930 on Lake St Clair didn't go to waste. After securing the lease in 2004, Curren spent 10 years creating the type of luxury accommodation that will leave you breathless. A night spent in the Pumphouse itself will see you sleeping while suspended over water. There are rooms over three levels and they feature relaxing lounge areas, a help-yourself bar and a decadent bath, all sitting out on a beautiful glacial lake.



## **Longitude 131** **Uluru, Northern Territory**

Adopt the spirit of a pioneer and relax after a day exploring in a canopied pavilion, redesigned for the modern traveller. This accommodation is 'glamping' at its best. The tents are fitted out with custom-designed furniture, a rain shower, in-suite bar and floor-to-ceiling windows that offer private, unparalleled views of Uluru itself. An expansive balcony, which opens up from the end of the bed, features a daybed and fireplace, ideal for lounging and lapping up the kind of breathtaking atmosphere you'll only find in Australia's red centre.

<sup>1</sup> Tourism Research Australia – Travel by Australians, 2016

<sup>2</sup> Destination NSW – Over 55s Travel to NSW, May 2015.





## **The Enchanted Love Cave** **Blue Mountains, New South Wales**

Designed by sustainable builder Lionel Buckett, this unique destination set high above the treetops in Australia's iconic Blue Mountains. It is an ideal escape for you and your significant other to spend a night in a cave.

Set on a natural rock platform that boasts an endless panoramic view of the forested valley below, the cave's glass doors are designed to make you feel as though you're floating above the trees. And while it might be called a cave and made of stone, it's not without its mod-cons – including a modern slow-combustion fireplace and spa.



## **El Questro Homestead** **The Kimberley, Western Australia**

The El Questro Homestead boasts a nine-suite hideaway, each with its own private deck, floor-to-ceiling windows showcasing the surrounding landscape overlooking the Chamberlain River. Some suites even offer an outdoor, freestanding bath, so you can gaze up at the stars while you soak.

You can choose to explore the property's almost 700,000 acres via foot, four-wheel drive, helicopter, boat or horseback and you'll have a personal tour guide on hand to ensure you don't miss a thing. And then, settle in for the night with a locally-sourced three-course dinner with matched wines.



## **Southern Ocean Lodge** **Kangaroo Island, South Australia**

Located on Kangaroo Island's south west coast, the Southern Ocean Lodge is a South Australian icon. The luxury lodge nestles atop a secluded cliff, commanding breathtaking views of the Southern Ocean and the island's wilderness.

The lodge is within easy distance of the island's main attractions. But, with an on-site wellness spa and locally-sourced food and beverages on offer, you won't need to travel far for the ultimate luxury experience.

With options like these,  
it's easy to see why holidaying  
where you hail from is growing  
in popularity.



**Food for thought:**  
five more adventures...

1. Journey to the centre of the earth at Hancock Gorge, Western Australia.
2. Fly over Lake Eyre in flood, South Australia.
3. Take a train trip across the desert on The Ghan, from Darwin to Adelaide.
4. Walk in ancient footprints at Lake Mungo National Park, New South Wales.
5. Wonder which planet you're on at The Pinnacles Cervantes, Western Australia.

Contact your financial planner to make sure you're financially ready for whatever adventure comes your way.

# Investment market review Quarter ended 31 December 2017



## Australian shares

The Australian stock market ended the year on a high, up 7.7% over the December 2017 quarter.

It outperformed many of its global peers even though the near-term outlook for domestic growth is not as strong as other advanced economies. Broad-based price momentum in commodity markets drove index gains, providing a refreshing boost to the local market after a lacklustre September quarter. All sectors ended the quarter in positive territory, with energy well ahead of the pack thanks to a surge in oil prices. The banks posted a relatively modest result after the announcement of a Royal Commission into the banking sector.



	1 year (%)	5 year (% pa)	10 year (% pa)
Australian shares	11.9	10.1	4.0



## Listed property trusts

Real estate investment trusts (REITs) delivered a 5.7% total return in 2017, underperforming the broader S&P/ASX 200 Index by 6.1% in the sector's first year of underperformance since 2013.

The vast majority of REITs delivered positive total returns, with the exception of retail property giants Scentre Group (down 4.8%) and Vicinity Centres (down 3.3%). Within the S&P/ASX 200 REITs Index, the top performers were Abacus Group (up 44.6%), Charter Hall Group (up 34.5%) and Goodman Group (up 21.9%), which all benefited from buoyant transaction markets. Australian REITs underperformed wholesale property funds (+12.2%) and direct property (+12.0%), and most major global REIT markets except Japan (-4.9%) and the US (+3.9%). Europe and Asia (except Japan) REIT markets outperformed Australia. Pricing metrics softened slightly in 2017, with the sector closing at a 24.5% premium to net tangible assets (NTA), a 17.4x price earning (P/E) multiple and a 4.8% dividend yield.



	1 year (%)	5 year (% pa)	10 year (% pa)
Listed property trusts	6.4	13.4	1.8



## International shares

Global shares delivered another quarterly gain, with the MSCI World Index rising 5.4% over the period. Within that, emerging markets jumped 7.1% to outperform their developed-market counterparts, which rose 5.1%.

US markets forged ahead, outstripping its string of record closes it set in the September quarter. Gains were bolstered as President Trump finally signed into law the comprehensive tax reform bill which will see the corporate tax rate slashed from 35% to 21%. Broadly positive economic data supported the US market, as the US Federal Reserve reiterated that the US economy was in robust-enough shape to handle the unwinding of its US\$4.5 trillion balance sheet. The Dow Jones Industrial Average spiked at 10.3% and was the best-performer of the US market indices, with the NASDAQ Composite Index, up 6.3% and the S&P 500 Index rising 6.1%.



	1 year (%)	5 year (% pa)	10 year (% pa)
International shares	13.3	18.1	6.3



## Fixed interest

The Australian yield curve flattened marginally over the quarter with the spread between long-term rates and short-term rates narrowing once again.

At the end of the December quarter the Australian 10-year bond yield ended at 2.63%, down from 2.84%. The Australian three year bond yield ended the quarter at 2.12%, down from 2.15%. The US yield curve also flattened, although the move was notably more pronounced than that of the Australian yield curve. The US two-year bond yield ended the December quarter at 1.88%, up from 1.48% at the end of the previous quarter. The US 10-year bond yield ended at 2.41%, up from 2.33%.

	1 year (%)	5 year (% pa)	10 year (% pa)
Fixed interest	3.7	4.2	6.2



## Cash

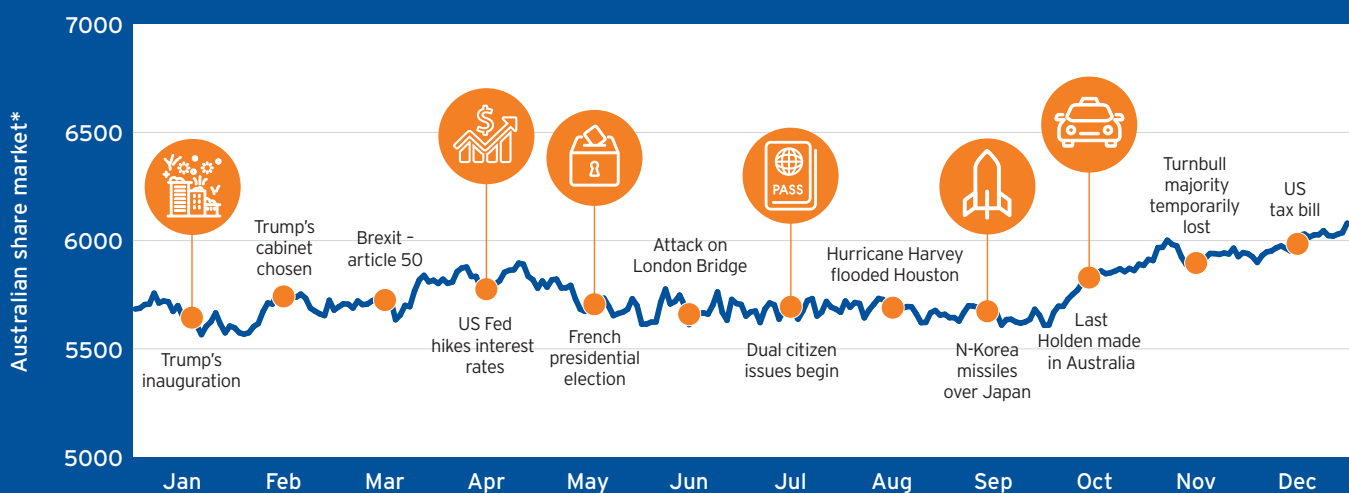
The Reserve Bank of Australia left its cash rate unchanged at 1.50% throughout the quarter, while the US Federal Reserve Bank hiked rates by 25 basis points, taking its funds rate to a 1.25 – 1.50% target range.

They also took the opportunity to announce that the cap on its balance sheet run-off will double to \$20 billion per month as of next quarter, unwinding its US\$4.5 trillion balance sheet.

	1 year (%)	5 year (% pa)	10 year (% pa)
Cash	1.7	2.4	3.6

## Events around the world in 2017

Australian share market movements and some of the social, economic and political events that shaped the 2017 calendar year.



\* S&P/ASX 300

# Fair's fair for blended families

A blended family can have a huge impact on your finances – whether it's buying a home with your new partner or ongoing child support. But, one of the most important areas that is often overlooked, is the impact of a newly formed family structure on your estate plan.

One of the biggest concerns is making sure your family fortune doesn't end up solely with your step-children and leave your children without an inheritance. A fair solution means your wishes are less likely to be challenged and your beneficiaries are left stress-free.

## Case study



### Jack and Irene

Jack and Irene are married and have children from previous relationships. Together they have a family home and a self-managed super fund. In the event of one of their deaths, they want to ensure that the surviving partner would be able to live in the family home and have access to a lifetime super pension. They also want their respective super balance to pass to their own children when they die.

The way their affairs are currently structured, on Jack's death the family home and super would pass to Irene, and then on Irene's death, all assets would pass to Irene's biological children – leaving Jack's children with nothing. Similarly, if Irene dies first, her assets would currently pass to Jack and on his death to Jack's biological children only.

Their estate planner recommended some changes to their estate plan.



#### Their home

Jack and Irene's home ownership was changed from joint tenants to tenants-in-common. This way, they each have a separate 50 per cent interest in the property that can be dealt with individually in their Wills. They also set up a testamentary life interest trust in their Wills which allows a 'right of residency' or, in other words, allows the survivor to be able to remain in the property for the duration of their lifetime.

After both of their deaths, the property would be distributed as set out in their Will, allowing ownership of the property to be passed equally to their respective children or as they determine is fair.



#### Their super

Jack and Irene's super was converted from a self-managed super fund (SMSF) to a small APRA fund (SAF) which is essentially an SMSF with a professional trustee. In an SMSF, the members of the fund are also the trustees of the fund. In a SAF, the services of an independent professional trustee company are employed so that, in the event that there are family disputes, the instructions of the deceased are carried out.

Their estate plan stipulates that when one of them dies the survivor receives a pension from the deceased's super. When they have both passed away any balance of Jack's super will be paid to his children. Any balance of Irene's super will be paid to her children.

As a result of the planning they have put in place, Jack and Irene have been able to ensure that the survivor is able to live comfortably and after they have both passed away their respective families will inherit their remaining wealth.

\* Source Australian Executor Trustees.

**If you have a blended family and need help arranging your estate plan call your financial planner.**

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