MONEY MATTERS.

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STAYING IN TOUCH.

It's a rapidly changing world out there, so being adaptable and flexible gives you a distinct advantage in many areas of life.

This principle is particularly true in your financial planning. Life will often take many twists and turns with career changes, family circumstances and even changes in your own personal interests and pastimes. This invariably means that your financial goals and priorities may change from year to year.

Our article on refreshing your financial plan for the new year provides guidance on the need to keep your plan focused on your goals as they change, as well as the need to deal with the changing financial and legislative environment. Your Matrix adviser can be a key part of this process too, by providing experienced and qualified advice.

Our review of the rapidly changing superannuation and retirement legislation will dig deeper on this issue to help you decide what you may need to act on.

Change may also be something you are considering in regard to your career. Our article on mature age study may provoke some further thought on this and perhaps open the door to a more fulfilling lifestyle.

I hope this edition provides some food for thought.

Regards,

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REFRESH YOUR FINANCIAL GOALS.

A financial plan should never be a 'set and forget' exercise, but rather a dynamic and flexible tool that adapts to your changing circumstances and goals. The start of a new year is a great opportunity to refresh your goals, so here are some tips to get you inspired.

Revisit your bucket list

Start by re-examining what it is that motivates you and what dreams and wishes you have for the future? This could include travel goals, leisure pursuits, family activities, lifestyle assets or retirement income. These things are what drives your financial plan, so it is important to re-appraise them regularly.

Make each goal concrete

The next step is to make sure you are clear on the dollar amounts, timeframes and priority of each objective. Setting these parameters ensures that the things you desire are tangible goals and not just idle wishes.

Your Matrix adviser can really add value to this process, so it may help to get them involved to help you articulate each goal and offer objective counsel on structuring the financial aspects to reach them.

Reviewing the context of your plan

It is important that the financial context of your plan is also reviewed to make sure you are maximising opportunities and taking into account external issues. This could include factors such as:

- how you are managing debts;
- your monthly budgeting;
- how well you are savings;
- maximising tax saving opportunities, such as salary sacrificing;
- legislative changes; and
- reviewing your insurance risk exposure.

Meshing the plan together

Your financial plan is unique to you, so you want to ensure it grows and develops along with your evolving perspectives and aspirations and remains a true reflection of your personality.

Your financial planner is ready to work alongside you in this process. Think of them as a financial coach that helps you 'read the game', point out opportunities and ensure that you play to your strengths. Their experience and know-how can make a critical difference to the effectiveness of your plan and that can translate into a major difference in final outcomes.

PROTECTING THE VALUE OF A HOMEMAKER.

When it comes to personal insurances and protecting the family unit financially, most of the focus is usually on the value of the breadwinner. A deeper analysis, however, shows that a homemaker's contribution is sometimes undervalued and consequently left underinsured.

A significant proportion of families still choose to have one partner remain as a full time homemaker. While they may not be generating income, it is important to recognise their value when planning financial security strategies.

Defining the homemaker's role is the first step

To understand just how valuable a homemaker is in practical, emotional and financial terms, just think of the all the functions that they perform.

Children tend to be a major focus for many homemakers, whether it is driving them to school and other activities, helping with homework, or providing a listening ear and a source of guidance and encouragement. Beyond the children, the homemaker often fulfils many practical functions in running the home, such as shopping, cleaning, washing, gardening and home maintenance. There is also the need to provide food for the family.

Managing the household budget is also often left to the homemaker and this requires time and attention to ensure bills are paid, banking is done and spending is kept in check.

What if they are not around to do it all?

It is relatively simple to calculate the financial worth of a breadwinner, based on their income earning potential. The impact of a losing homemaker, however, is not quite as easy to quantify in dollars and cents.

The reality is that a homemaker also faces risks of misfortune. Illness may strike at any time, a car accident or fall could cause injury and there is also the possibility of premature death. If such an event occurs then the family could be left with very real and significant challenges in trying to replace what the homemaker was doing.

What would the family do to adjust?

There are different options for how the family can cope with the loss of a homemaker's contribution. One scenario is for the breadwinner to leave work or work part-time so that they can take on the homemaker's role. This may be the most desirable option if there are young children involved. Another approach may be to employ hired help, such as a housekeeper.

A combination of both these options may also work, perhaps with the help of family and friends.

Whatever choice is made, it may cost a significant amount of money, either in foregone income or in hiring help, to replace the homemaker.

What can be done?

While homemakers are not eligible to take out income protection, there are other protection options that have the potential to offer substantial financial security.

Trauma insurance can offer a cash lump sum payment that is available on diagnosis of a range of specified major health conditions. Depending on the policy this may include heart attack, stroke and cancer. These funds could be used to allow the breadwinner to reduce working hours, leave work altogether or to pay out debts.

Life insurance may provide lump sum cover in the case of premature death or terminal illness, as defined in the relevant policy and the sum insured can be as much as is needed to give the surviving partner the freedom to make their own choices about how children will be cared for and how the home will be managed. Total and permanent disability (TPD) insurance can be added to the life cover to provide a similar lump sum of cash in certain specified circumstances if the homemaker suffers an injury or illness that prevents them from ever being able to carry out their role.

If you want to properly quantify and insure the value of the homemaker in your situation, your Matrix adviser is ready to help.

THE WINDOW OF OPPORTUNITY LOOMS.

A range of superannuation changes are proposed to commence from 1 July 2017. While at the time of writing they are yet to be passed into law and may still change, you may want to discuss concerns on these issues with your Matrix adviser.

Non-concessional (after tax) contributions

Under current rules, an annual cap of $180,000 (or up to $540,000 for those under 65) applies to non-concessional contributions, such as personal super contributions made from after-tax income and your own savings.

From 1 July 2017, this may reduce to $100,000 per year, with the ability to bring forward future year contributions still available for those under 65. Non-concessional contributions will not be allowed if your total superannuation balance exceeds $1.6million.

Any excess non-concessional contributions over these limits will need to be refunded or harsh penalty tax rates of up to 47% plus Medicare Levy may apply.

Concessional (before-tax) contributions

For concessional contributions, (such as Super Guarantee contributions, tax deductible contributions and pre-tax salary sacrifice contributions), the contributions cap will reduce to $25,000 per year for everyone from 1 July 2017. There will no longer be a higher cap for those 50 and over. Commencing from 1 July 2018, if your superannuation balance is less than $500,000, you will have the ability to carry forward any unused concessional contribution cap over a rolling five year period.

Currently, if you earn over $300,000 per year (total income plus non-excessive concessional contributions), you are required to pay a tax of 30% on concessional contributions. This income threshold will reduce to $250,000 from 1 July 2017 resulting in more high income earners being required to pay the 30% rate.

Restrictions lifted on who can claim super tax deduction

From 1 July 2017, there will be no employment restriction placed on who can claim a tax deduction for personal superannuation contributions, (so this opportunity is no longer restricted to the self- employed).

$1.6 million limit on transferring superannuation to a retirement income account

From 1 July 2017, a cap of $1.6 million will be placed on the amount of superannuation that you can transfer to a superannuation income stream (e.g. account based pension) where there is no tax on the earnings. The balance of your superannuation will be required to remain in an accumulation account where earnings are taxed at a maximum rate of 15% or must be withdrawn.

If you already own a superannuation pension with a balance greater than $1.6 million, you will be required to transfer the excess amount back to superannuation or withdraw the funds by 1 July 2017.

Transition to retirement pension changes

A Transition to Retirement (TTR) pension can be commenced with preserved superannuation funds once you reach preservation age even if you are still working. From 1 July 2017, the current tax exemption on earnings generated within a TTR pension will be removed. Instead, the tax rate on earnings will be 15%.

The tax treatment of income payments received from a TTR pension will not change (e.g. tax free income for those 60 and over).

Income threshold increases for spouse contributions

The tax offset for contributions to superannuation on behalf of your spouse earning less than $13,800 p.a. is proposed to increase to $40,000. The maximum tax offset of $540 per year will be available where the spouse's income is less than $37,000 p.a.

Super tax offset available for low income earners

A Low Income Superannuation Tax Offset will apply from 1 July 2017 which will replace the existing Low Income Superannuation Contribution. This tax offset (up to a maximum of $500), will be used to reduce the contributions tax on concessional contributions and is available if your adjusted taxable income is less than $37,000.

Additional death benefit payment abolished

From 1 July 2017, the additional payment that is sometimes available when a death benefit lump sum is received (known as the anti-detriment payment), will be abolished.

Members of Defined Benefit Schemes

The Government has announced that they will also make changes for members of defined benefit schemes and constitutionally protected funds to ensure that the new super reforms broadly apply to these groups as well.

Work test to still apply for those 65 to 74

There was a proposal to abolish the work test that currently applies to those between 65 and 74, which required them to be gainfully employed for at least 40 hours in a 30 day period to make personal contributions to superannuation. This proposal has now been withdrawn.

Your Matrix adviser is ready to answer any queries you may have on any of these issues.

NEVER TOO OLD TO LEARN.

Many people who reach middle age will often discover a hunger for a new challenge in their career direction, but is it too late to take the plunge?

In days gone by, having the same job for life was quite commonplace. Not so today. Career flexibility and job hopping are the new norm for those who are starting out on their working life. But that doesn't mean that those who are not so young are excluded.

Potentially, there is nothing stopping you from revitalising your skills and knowledge in a new area and making the switch to a new career. Mature aged students often have the advantage of a broader world view, a clearer sense of purpose and a more stable lifestyle and these can be big pluses when it comes to excelling in a new field of study.

Universities and TAFE colleges are now quite attuned to the needs and aspirations of mature age students and many will offer the flexibility you need to fit study around your existing work and family commitments, such as online study options, weekend or summer intensive programs and evening classes.

They also offer support services to help mature age students make the transition back into the classroom.

Of course it is not just the career changers who can benefit from rekindling their learning abilities. If you are simply looking for a new challenge and some mental stimulation, embarking on a course on a topic that interests you may be the solution.

You only live once, so if you have the urge for a new direction, consider giving mature age study a try.

MARKET UPDATE.

CASH

Cash rates have stabilised at low levels. The RBA has lowered overall cash rates in order to support the post mining boom adjustment of the Australian economy. The RBA has cut the target cash rate twice this year by 0.25%, in May and then in August, bringing it to a new historical low of 1.5%. The RBA then left the rate unchanged at its September and October meetings. The market is expecting the RBA to continue to sit pat over the coming months with another cut possible later in 2017.

BONDS

Bonds did well in the first half of this year as investors fretted about a slowing Chinese economy overwhelming the tepid recoveries in Europe and the US; and dragging the world into recession. With the help of Chinese fiscal and monetary stimulus these fears receded and the demand for safe haven assets like government bonds lessened.

Meanwhile the US economy continued to move towards full employment, causing increased speculation that the US central bank would begin to raise interest rates. These two factors saw very low bond yields around the world creep up slightly recently and the bond rally flatten out over recent months. However, returns over a longer time periods still look very respectable for a defensive asset class.

AUSTRALIAN EQUITIES

Chinese stimulus has led to a lift in construction activity and a resulting increased demand for commodities like iron ore. This has helped the mining company heavy Australian share market to outdo international shares over the 12 months to the end of September.

INTERNATIONAL SHARES

The rebound in commodity markets has driven an appreciation of the Australian dollar this year. This has meant currency hedged international shares investors have done better than unhedged. Infrastructure and property stocks experienced a mild correction over the September quarter. With central banks around the world pushing bond yields to extreme lows investors have sought out alternatives.

Defensive high dividend stocks like infrastructure and property are prime examples of these "bond proxies". With some of the heat coming out of the bond rally over the September quarter, the bond proxies also gave up some ground. Emerging markets were the best performing asset class over the September quarter, with compelling valuations attracting interest.

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