SHERLOCK WEALTH

Your success is our passion

Prepare for Life

Summer 2022-23

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Stepping stones TO REACH YOUR GOALS

The calendar turns over to a fresh, brand new year, full of promise, so how do we keep these promises we make to ourselves and get to the end of the year with our resolutions intact and goals realised?

We all start out with good intentions when we set our objectives for the year to come, but motivation notoriously wanes with time and has the potential to sabotage our chances of achieving our dreams.

While many studies reinforce the notion that willpower struggles after only one month, a study tracking respondents over the course of a full year suggested that at around the three month mark half of resolutions fall over, increasing to a failure rate of around 82% by years end.[i]

Monthly micro goals

One way to deal with our waning motivation, instead of setting one daunting goal to be achieved over the period of a whole year, is to come up with a series of monthly, smaller goals. That will give you 12 'mini goals' which ideally need to be achievable on a daily basis. The theory is that if you follow the same pattern for around 30 days, you'll be establishing this pattern as a habit that you are likely to continue into the future. Each successive month will see you build on that success.

Working towards an end goal

Part of the key to making this approach work, is to ensure that all your monthly micro goals are working towards an overarching end goal. Your micro goals need to follow a theme.

This is where you can come back to your New Year's resolution and base your theme on what you want to achieve for the year. Say your theme for the year is around career aspirations – for example achieving that promotion. Your first month could simply be setting aside some time each day to network and meet people within the organisation – improving your interpersonal skills. The next month might be focused on exploring tools to improve your productivity… and so on as you work your way through each successive month.

If your priority is to work on your health and wellbeing, and end the year capable of running ten kilometres, it's also important to set some micro goals that get you there. Again, you can start small – a way of working incrementally towards your goal might be to start by drinking more water, then a month dedicated to getting more incidental exercise in your day, then a month focused on improving your diet and losing a little weight, working slowly up to lacing up your boots, hitting the track and increasing your endurance.

Smaller goals add up with time

We are calling them micro goals for a reason, it's important to not bite off more than you can chew. The key is how they add up. Viewed alone these smaller goals may not seem like a lot, but the shorter duration makes it a lot more likely you'll stick at them, developing good habits that will hopefully accrue, rather than fade over time. The fact that you are in effect starting afresh every month also gives you a much better chance of success.

Add some support into your plan

Don't be afraid to put in some processes to help you get there – it can be a good idea to use online apps to aid or track your progress. It can also help to dangle the carrot and build in some rewards for when you get to the end of each month successfully. Tell friends and family what you are working on and celebrate your successes with them.

By the end of the year, you can look back with satisfaction at each little milestone as a personal win and you'll have stepped towards, and finally reached an overall goal that may have seemed intimidating unless broken down into manageable chunks.

So what are you waiting for? Get out that calendar and pencil in a goal a month to reach your dreams this year.

i http://www.richardwiseman.com/quirkology/new/USA/Experiment_resolution.shtml

Unwrapping the joys & pitfalls of giving

Christmas is a time of giving, when thoughts turn to family and to helping those less fortunate. To gift in a meaningful way that maximises the benefits, it's important to consider tax.

While Australia doesn't have a gift tax, there are tax considerations nonetheless for both the giver and the recipient.

Buying a toy for your grandchild is one thing but many parents wish to help their adult children or grandchildren with more substantial gifts such as a home deposit or a car. If you receive a Centrelink age pension now or are within five years of retiring, that "gift" will be counted as an asset and could affect your pension.

Helping family

Gifting with the potential to impact your Age Pension entitlements comes in many guises. It might be donating 10 per cent of your salary to your church, buying a car for your daughter or selling her a rental property you own for less than market value.

If you gift more than $10,000 a year or a total of $30,000 over a five-year period, then the excess will be counted as an asset by Centrelink for five years, when it assesses your eligibility for an aged pension.

Your gift won't just count in the assets test but deeming may also be applied under the income test. Deeming rules are used to work out how much income you earn from your financial assets, irrespective of their actual earnings.[i]

Deeming rates have recently fallen to 1 per cent for a certain level of your total financial assets, and 3 per cent above that level. Even so, this can easily eat into your retirement income.

Example: several gifts within 5 years

Date	Gift	Amount that is within the annual Gifting Free Area	Amounts within last 5 year's annual Gifting Free Areas
1 May 2009	$8,000	$8,000 (Less than $10,000)	$8,000
1 June 2010	$13,000	$10,000 (Maximum)	$18,000
1 April 2011	$7,000	$7,000 (Less than $7,000)	$25,000
1 May 2012	$10,000	$10,000 (Maximum)	$35,000

Source: Dept. of Human Services https://www.servicesaustralia.gov.au/gifting.

How do the gifting rules work?

Say you lend your daughter $50,000 to buy a home two years before you retire. Centrelink would view the first $10,000 as an allowable gift and it would make no difference to your situation. However, it would treat the remaining $40,000 as a deprived asset subject to the gifting rules.

What's worse, if your daughter were to repay $40,000 in two years, then not only would the original $40,000 be counted in the assets test and deemed under the income test but now the $40,000 she repays would be added to this sum. That's $80,000 treated as an asset and deemed to earn income.

Can you afford to give?

Clearly, it's wonderful to give with a warm heart and help relatives when they need it and you can see the joy it brings. Even so, you need to be very mindful of the repercussions for your own wellbeing.

Are you sure you won't need the money to finance your retirement? Life expectancy has increased greatly so that many people can now expect to live well into their 80s and beyond.

It may be that you don't qualify for a pension on retirement, but what if you give away a sizeable sum and then need to fall back on the pension sooner than anticipated? If the help were needed within five years of your gift giving, then the amount would be subject to the gifting rules.

Of course, if you are not in receipt of a Centrelink pension nor expect to be, then you can gift away to your heart's content, provided you have the means.

Tax implications for children

It's not just the giver who can run into problems. You need to be mindful of any repercussions for the recipient of your generosity. It's natural to want to give money to your grandchildren, perhaps to help kickstart a savings plan for their future, but there are tax implications if they're under 16.

If they earn less than $120 in interest from a savings account, then the financial institution will not withhold tax; if they earn between $120 and $240 the financial institution will withhold tax at 47 per cent if you don't provide their date of birth or a tax file number. If they want a refund, then they will need to lodge a tax return.

Depending on your circumstances, we may be able to help you find a more tax friendly investment to suit the needs of both you and your young family members.

Giving to charity

Giving to charity is often top of mind at Christmas too. Any donation over $2 is tax deductible but this has no bearing if you are retired and not paying tax. Of course, the reason for giving should never be predicated on tax considerations, although it may be handy.

A tax deduction only applies if the charity is a deductible gift recipient (DGR) endorsed by the ATO or listed by name in the tax law, so you need to check that the charity has DGR endorsement.

Giving to those in need or to those you love can be a rewarding experience no matter what time of year, but it's important to understand the implications for both giver and receiver.

If you would like to know more about how gift giving will impact on your financial wellbeing and that of your family, then give us a call.

i https://www.humanservices.gov.au/individuals/topics/deeming/29656

MORTGAGE VS SUPER

With interest rates on the rise and investment returns increasingly volatile, Australians with cash to spare may be wondering how to make the most of it. If you have a mortgage, should you make extra repayments or would you be better off in the long run boosting your super?

The answer is, it depends. Your personal circumstances, interest rates, tax and the investment outlook all need to be taken into consideration.

What to consider

Some of the things you need to weigh up before committing your hard-earned cash include:

Your age and years to retirement
The closer you are to retirement and the smaller your mortgage, the more sense it makes to prioritise super. Younger people with a big mortgage, dependent children, and decades until they can access their super have more incentive to pay down housing debt, perhaps building up investments outside super they can access if necessary.

Your mortgage interest rate
This will depend on whether you have a fixed or variable rate, but both are on the rise. As a guide, the average variable mortgage interest rate is currently around 4.5 per cent so any money directed to your mortgage earns an effective return of 4.5 per cent.[i]

When interest rates were at historic lows, you could earn better returns from super and other investments; but with interest rates rising, the pendulum is swinging back towards repaying the mortgage. The earlier in the term of your loan you make extra repayments, the bigger the savings over the life of the loan. The question then is the amount you can save on your mortgage compared to your potential earnings if you invest in super.

Super fund returns
In the 10 years to 30 June 2022, super funds returned 8.1 per cent a year on average but fell 3.3 per cent in the final 12 months.[ii] In the short-term, financial markets can be volatile but the longer your investment horizon, the more time there is to ride out market fluctuations. As your money is locked away until you retire, the combination of time, compound interest and concessional tax rates make super an attractive investment for retirement savings.

Tax
Super is a concessionally taxed retirement savings vehicle, with tax on investment earnings of 15 per cent compared with tax at your marginal rate on investments outside super.

Contributions are taxed at 15 per cent going in, but this is likely to be less than your marginal tax rate if you salary sacrifice into super from your pre-tax income. You may even be able to claim a tax deduction for personal contributions you make up to your annual cap. Once you turn 60 and retire, income from super is generally tax free. By comparison, mortgage interest payments are not tax-deductible.

Personal sense of security
For many people there is an enormous sense of relief and security that comes with having a home fully paid for and being debt-free heading into retirement. As mortgage interest payments are not tax deductible for the family home (as opposed to investment properties), younger borrowers are often encouraged to pay off their mortgage as quickly as possible. But for those close to retirement, it may make sense to put extra savings into super and use their super to repay any outstanding mortgage debt after they retire.

These days, more people are entering retirement with mortgage debt. So whatever your age, your decision will also depend on the size of your outstanding home loan and your super balance. If your mortgage is a major burden, or you have other outstanding debts, then debt repayment is likely a priority.

All things considered

As you can see, working out how to get the most out of your savings is rarely simple and the calculations will be different for everyone. The best course of action will ultimately depend on your personal and financial goals.

Buying a home and saving for retirement are both long-term financial commitments that require regular review. If you would like to discuss your overall investment strategy, give us a call.

i https://www.finder.com.au/the-average-home-loan-interest-rate
ii https://www.chantwest.com.au/resources/super-members-spared-the-worst-in-a-rough-year-for-markets/

We hope you enjoyed our latest edition of Prepare for Life.

Please contact our office if you would like to discuss anything in this edition.

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