



## August 2019

Welcome to the latest edition of our client newsletter,

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition we discuss;

1. Protecting Your Super package
2. Making the most of record-low interest rates
3. Can I go back to work if I've accessed my super?

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.

In the meantime we hope you enjoy the read.

All the best,  
David, JLC Financial Planning



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# Protecting Your Super package

## The ins and outs of the Protecting Your Super package

This year, the federal government introduced laws called the Protecting Your Super package. It's a big deal because it addresses important changes to superannuation that are here to stay. In fact, there's even been an industry-wide campaign about how it's time to check your super.

The package aims to protect Australians from super balances becoming eroded by fees and/or premiums in accounts that aren't being used. And, as a result, encourages us to start being more actively involved with our super.

### Why get involved in your super

It can be easy to set and forget or even lose track of our super. In fact, as at 30 June 2018, approximately 39% of Australians had more than one super account.<sup>i</sup>

And it's not uncommon to forget what benefits (like insurance) are included with the account after joining a super fund, as well as how much you're paying in fees and/or premiums. These fees or insurance premiums can then start to diminish any money in an account that's not being actively used.

### So, the PYS laws were designed to:

- make sure people don't continue paying for insurance cover they don't know about, and
- protect low balance super accounts from being eroded by fees.

## What's in the PYS laws?

The PYS laws cover three main areas:

1. Insurance inside inactive super accounts
2. Inactive super accounts with a low balance
3. Fee limits on super funds.

### 1. Insurance inside inactive super accounts

Many superannuation plans include insurance as part of their offer. It's often general cover that's provided to a set group of people (like employees who sign up to their employer's super plan).

Under the PYS laws, super providers are required to cancel the insurance in any super account that's considered inactive (meaning the account hasn't received any contributions or rollovers for 16 continuous months).

Before they cancel, your super provider must tell you that you're at risk of having your insurance cancelled and give you the opportunity to choose to keep your insurance. You can stop your insurance being cancelled by letting your super provider know in writing. If you have more than one super account that's at risk of being cancelled, you'll need to let them know in writing for each of the accounts.

Making a super contribution or rollover<sup>ii</sup> into an account that's considered inactive will also stop the insurance cancellation from going ahead – unless the account becomes inactive again for 16 months.<sup>ii</sup> Making regular contributions can prevent this. It's always important to consider your circumstances before making a contribution or rollover.

### 2. Inactive super accounts with a low balance

The PYS laws require super providers to transfer any accounts with a balance of less than \$6,000, and no contributions or rollovers for 16 continuous months, to the ATO. Some exceptions apply to this, including if you have insurance inside your super account.

If your super is transferred to the ATO, you'll be able to reclaim it from them. You can do this by logging into your MyGov account and using ATO Online Services.

The ATO may also transfer your super money into another super account you hold. This could happen if your other account has received a contribution or rollover within the current or previous financial year, and the balance after the transfer will be \$6,000 or more.

### 3. Fee limits on super accounts

Another way PYS laws protect super accounts from erosion, is by limiting fees charged by super providers. This includes:

- **Capping fees for accounts with low balances** – administration and investment fees will generally be capped at 3% pa for accounts with \$6,000 or less at year end.
- **Banning exit fees** – super funds are no longer allowed to charge exit fees, so you can now switch your super account any time without paying a penalty, although other fees may apply.<sup>ii</sup>

For any questions about how the Protecting Your Super package affects please contact us.

<sup>i</sup> Australians Tax Office (ATO) – Multiple Super Accounts data. Figures are based on member data reported by funds to the ATO for the year ending 30 June 2017

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<sup>ii</sup> Things to consider - contributions or rollovers.

Before requesting a rollover, you should check with your other fund(s) to determine whether there are any exit or withdrawal fees for moving your benefit, or other loss of benefits such as insurance, noting that you may not be able to obtain the same type or level of benefits after the rollover.

Contributions to superannuation are generally preserved and you cannot usually access your preserved benefits until you reach age 65 or have permanently retired after reaching your preservation age (between 55 and 60 years depending on when you were born). Government prescribed caps also apply on the amount of money you can add to superannuation each year on a concessional tax basis. There will be tax consequences if you make contributions exceeding these caps. For more information, speak with a financial adviser or visit ato.gov.au.





# Making the most of record-low interest rates

The Reserve Bank of Australia (RBA) took the cash rate to a record low of 1% in July, bringing mortgage rates to their lowest level in more than half a century. However, the low cash rate also means your money in the bank could be earning less interest.

## Why did the RBA cut rates?

Rate cuts are a way for the RBA to help stimulate the economy. The idea is, when the RBA lowers the official cash rate, banks may follow suit and lower interest rates on the loans they provide. When rates are lower, you pay less interest on your debt, freeing up money for you to spend elsewhere. You may also be more likely to borrow more money. This increased spending has a ripple effect through the economy, giving it a boost.

The RBA's recent rate cut was due to concerns about the way the economy has been slowing down. In Australia, the downturn in the housing market as well as the drought have both played a role in the slowdown. Globally, fears about the US trade wars has led investors around the world to be more cautious.

It's important to note that when the RBA cuts the official rate, there's no guarantee that the banks will do the same. For example, in recent times, some banks have only passed on part of the rate cut.

## Will interest rates stay low?

Head of Investment Strategy and Economics and Chief Economist of AMP Capital Dr Shane Oliver says rate cuts are "...a bit like cockroaches", adding, "If you see one there is normally another nearby."<sup>1</sup> He believes further rate cuts are on the cards for this year and next, which could see this low interest-rate environment lingering for some time.

## What could low interest rates mean for me?

When it comes to interest rate cuts, there is good news and bad news, depending on your financial goals. With that in mind, it's worth thinking about whether you need to make any changes to stay on track. Find out what low rates could mean for four common financial goals:

### 1. Paying off debt

If you have a variable rate loan, a rate cut can work in your favour, provided your lender passes on the cut.

The major banks lowered their interest rates on variable loans, either partially or in full, following the June 2019 rate cut. That means those with variable loans may now enjoy lower interest repayments. Fixed-rate loans won't change, as the rate has been locked in for an agreed time period.

If you have a variable rate loan, the low interest-rate environment can provide a good opportunity to start clearing debt. One strategy to consider is to keep your loan repayments the same despite the rate cut, so that you pay off more of your loan, faster. Or, you may consider using the money that you save on repayments to invest elsewhere to help grow your wealth.

It generally makes sense to pay off bad debt first (ie debt used to pay for day-to-day expenses like credit card debt that you do not get a tax deduction for in your tax return, rather than debt used to pay for an income-generating asset like an investment property). It also is usually a good idea to start with the debt with the highest interest rate first.

If you have a fixed-rate loan, it may be a good time to crunch the numbers to see if refinancing is worthwhile to take advantage of the lower rates on offer. In addition to calculating how much money you could save on repayments, it's important to factor in the break costs associated with the current loan, as well as any set-up fees associated with the new loan. It's important to consider your particular circumstances and goals before deciding what's right for you, so financial advice may help.

### 2. Buying a property

If you're in the market to buy a property, a reduction in interest will probably be welcome news. That's because lower rates will influence how much you can borrow and how much you can afford to repay on your loan.

While it may be tempting to borrow more, keep in mind that interest rates will eventually increase and so will your repayments. It's a good idea to check whether you can afford the home loan if rates were to go up.

### 3. Increasing your savings

A low-rate environment is generally bad news for savers with cash in the bank. With interest rates at record lows, the rates earned by some bank deposits are at their lowest level since the mid-1950s, prompting some investors to consider whether their money could be working harder for them elsewhere.

With little interest to be earned by keeping money in the bank, alternative options such as income-generating shares that pay attractive dividends may be worth a look.

Before making any changes, it's important to understand the risks involved. Shares, for example, are much riskier than keeping money in the bank. But they do offer the potential for much higher returns than a cash deposit.

Other options which may help your money to work harder for you include managed funds or property. Again, these investments carry more risk and can tie-up your cash for a period of time. Also be sure to understand any fees involved.

We can help you find suitable options.

### 4. Growing your super

The recent interest rate cut is a timely reminder to review how your superannuation is invested. With earnings from cash deposits at record lows, it's a good idea to check what portion of your super is invested in cash. Consider whether the amount of super you have in cash is still appropriate given the level of risk you're comfortable with and the time you have left until you retire.

Ultimately it comes down to what's important to you, what stage you're at in life and how much risk you're willing to take on for potentially higher returns. If retirement is still a while away, you may consider taking on riskier, higher growth investment options like shares or property that have the potential to help grow your super balance over time. However, if you're retiring soon, you may not be as willing to take on too much risk, as preserving your super balance may be a higher priority. Regular reviews of your super investments can help you to make sure you're still on track to a comfortable retirement.

We can help you make the most of this low interest-rate environment and stay on target to reach your goals.

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# Can I go back to work if I've accessed my super?

When you access your super at retirement your super fund may ask you to sign a declaration stating that you intend to never be employed again. But there may be compelling reasons why someone would subsequently return to work.

According to the Australian Bureau of Statistics (ABS) the most common reasons retirees return to full or part-time employment are financial necessity and boredom.<sup>1</sup> Regardless of your reason for returning to work, there are certain rules you should be aware of.

## What are the superannuation retirement rules?

You generally will only be able to access your super if you've reached your preservation age and retired, ceased an employment arrangement after age 60, or turned 65. If you're thinking about returning to work after retirement there are rules about super you may need to be aware of depending on your circumstances.

We look at some of the common situations below.

### I have reached my preservation age but am less than age 60

If you've reached your preservation age and wish to access your super, you would usually be required to declare that you're no longer in paid employment and have permanently retired.

If your personal circumstances have since changed, it is possible for you to return to the workforce, however your intention to retire must have been genuine at the time, which is why your super fund may have asked you to sign a declaration previously stating your intent.

### I ceased an employment arrangement after age 60

From age 60, you can cease an employment arrangement and don't have to make any declaration about your future employment intentions.

If you happen to be working more than one job, ceasing just one will meet the requirement and you can continue working in the other.

You can choose to access your super as a lump sum or in periodic payments (which you may receive via an account-based pension).

If you're in this situation, you can return to work whenever you like as you wouldn't have needed to declare permanent retirement before accessing your super.

### I'm 65 or older

When you turn 65, you don't have to be retired or satisfy any special conditions to get full access to your super savings. This means you can continue working or return to work if you have previously retired.

## What happens to your super if you return to work?

Regardless of which of the groups above you fall into, if you have begun drawing a regular income stream from your super savings, you can continue to access your income stream payments whether you return to full or part-time employment.

If you haven't actually accessed your super but have met one of the retirement conditions of release (and advised your fund of this) then your super will generally remain accessible if you return to work.

Meanwhile, it's important to note that any subsequent super contributions made after you return to work will generally be 'preserved' until you meet another condition of release (unless you are aged 65 or over).

### Can I access my super at 55 and still work?

In the past, Australians could access their super from as young as 55, but the preservation age is gradually increasing to age 60 and only people born before 1 July 1960 reached their preservation age at 55.

Regardless of your preservation age, you must meet certain criteria before you can access your super, as outlined above. However, if you're aged 60 or over, these criteria simply mean you need to end an arrangement under which you're gainfully employed.

## Rules around future super contributions

Your employer is broadly required to make super contributions to a fund on your behalf at the rate of 9.5% of your earnings, once you earn more than \$450 in a calendar month.

This means you can continue to build your retirement savings via compulsory contributions paid by your employer and/or voluntary contributions you make yourself.

However, if you're aged 65 or over, and intend on making voluntary contributions, you must first satisfy a work test requirement showing that you have worked for at least 40 hours within a 30-day period before you are eligible to make voluntary contributions in a financial year. Voluntary contributions can't be made once you turn 75 and the last opportunity is 28 days after the end of the month where you turn age 75.

## Effects of withdrawing super on your age pension

If you're receiving a full or part age pension, you'd know that Centrelink applies an income test and an assets test to determine what you get paid. Your super or pension account will be included as part of your age pension eligibility assessment.

Any employment income will also be taken into account as part of this assessment, so make sure you're aware of whether your earnings could impact your age pension entitlements.

For those eligible for the Work Bonus scheme, Centrelink will apply a discount to the amount of employment income otherwise assessed.

If you have further questions about how a return to work could impact your ability to access your super, speak to us.

<sup>1</sup> <https://www.abs.gov.au/ausstats/abs@.nsf/mf/6238.0>