GTC FINANCIAL SERVICES

Total Financial Care

GTC Financial Services Newsletter April 2016

Welcome to the latest edition of our newsletter. We hope that you find the following articles to be informative - as we aim to help you make better financial decisions.

A few interesting facts about retirement

Given the financial demands of everyday life, planning your retirement may be a relatively low priority. You may also think that you have plenty of time to plan. But before you put off planning for your retirement any longer, here are some key facts you should consider.

Your retirement could last 30 years or more

A male currently aged 65 has a future life expectancy of 19 years and for females currently aged 65 it's 22 years[1]. But these are just the averages and they are increasing steadily. As these trends continue, your retirement could stretch to three decades, or maybe even longer.

You shouldn't rely on the age pension

The full single rate age pension only provides around 25% of average weekly male earnings. What's more, qualifying for the age pension may become more difficult in the future, given our population is ageing.

You shouldn't rely on an inheritance

Your parents may end up spending all their savings and may even need to downsize their home to help make ends meet. So, if you're relying on an inheritance to fund your retirement, you could be disappointed.

You might not have enough super either

With some of your money going into super through compulsory employer contributions, you're off to a good start. But assume that those employer compulsory contributions will mean you have enough super to get you through your retirement and you could be in for a nasty surprise. Research conducted by Rice Warner Actuaries revealed that Australia has a shortfall in super of close to $1 trillion[2], which means many Australians may not have enough super to fund their retirement.

Start planning now

Thankfully, with a bit of preparation, it's possible to plan for a long and comfortable retirement. Strategies like salary sacrificing into super, making lump sum contributions or using a transition to retirement strategy, are all smart strategies to consider to boost your super, and some of them generally have tax benefits too. It's also possible to use your super to start a pension that pays you a regular income. Some pensions even guarantee to pay you an income for the rest of your life, negating the risk of outliving your savings.

Talk to a retirement planning expert

The best way to see how your retirement savings are currently tracking, and find out what you could do now to increase your super for retirement, is to speak to a financial adviser. They can help you set realistic goals and put a plan in place to achieve them.

Source: NAB

[1] Australian Bureau of Statistics, November 2013[2] Rice Warner Actuaries, 'Longevity Savings Gap', Sep 2012

Is Salary Sacrifice Right For You?

If you want to give your super savings a boost by making personal contributions, one option to consider is using your pre-tax income. This is known as salary sacrificing and it can be a very effective way of growing your super balance, depending on your personal circumstances.

Boost your super and pay less tax

Salary sacrificing into super can not only help you grow your super savings but it can also provide you with favourable tax outcomes. This is why salary sacrifice contributions are known as 'concessional contributions'.

The contributions you make into super with your pre-tax income are only taxed at a maximum rate of 15%. This gives your super a boost as, with less tax applied to your contributions, you have more money to invest than you would if you were investing outside super. The end result is the potential for a bigger retirement nest egg.

The other key benefit of salary sacrifice is that it could reduce the amount of income tax you pay. This is because you only pay tax on your reduced salary, which may lower your marginal tax rate.

Is it right for me?

A salary sacrifice strategy isn't right for everyone. Generally speaking, you are most likely to benefit from salary sacrificing if you pay a marginal tax rate of over 15%. For this reason, there is little benefit of salary sacrificing if you earn less than $37,000 per year.

Another important consideration is whether you can afford to receive less salary each month. For this reason, a salary sacrifice strategy is ideally suited to people who are already receiving income from other sources beside their salary, such as rental income from an investment property or dividends from a share portfolio.

Setting up a salary sacrifice arrangement

To set up a salary sacrifice arrangement you first need to get your employer to agree to pay some of your pre-tax salary directly into super. When negotiating with your employer be aware that salary sacrificing could result in a lower Superannuation Guarantee amount being paid by your employer because legally, salary-sacrifice contributions are employer contributions.

For tips on how to set up a salary sacrifice arrangement with your employer visit the ATO's MoneySmart website: https://www.moneysmart.gov.au/superannuat and-retirement/how-super-works/super-contributions/contributing-extra-to-super#salary

Work out what's best for you

Before deciding whether or not salary sacrifice is right for you, make sure you know all the rules and consider the different ways to contribute more to super before you dive in.

Do you know a friend or a family member looking to improve their lifestyle? We would love to offer them a FREE initial appointment to explore their current financial position and aspirations.

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Three questions you should ask before borrowing to invest

Borrowing to invest, or gearing as it is otherwise known, can be an effective way of growing your wealth. However, it's not for everyone. If you are considering whether or not a geared investment strategy is right for you, start by asking yourself these three questions:

1. Am I prepared to invest for the long-term?

When it comes to any type of gearing strategy, it's important to have a long-term perspective. If you borrow to invest you need to allow enough time for the value of your investment to grow, otherwise it may not cover your costs of borrowing. This means you should not plan to touch the money you invest for at least five years or longer.

2. Am I comfortable investing in shares or property?

When it comes to borrowing to invest there are two main options; investment property or shares and managed funds. This is because these asset classes can provide the capital growth needed to cover the costs of borrowing and help you achieve a profit.

3. Am I able to meet the loan repayments?

When you borrow to invest, you are taking on debt and this debt needs to be repaid. If you don't have enough income coming in from other sources to meet the loan repayments, you may get yourself into hot water.

Considering your options

If you have answered yes to the above three questions, a geared investment strategy may be right for you. But before doing anything else, you first have to decide whether or not you would prefer to invest in shares or property.

Many people are more comfortable with the idea of borrowing to invest in property because they have used a mortgage to buy their home. However, this requires a large capital outlay. Overall, the benefits of gearing in property versus shares are:

- The value of your property investment will not fluctuate as much as the value of a geared share portfolio
- There are more tax deductions allowable for investment property, such as rates, repairs, depreciation of assets, etc.

Borrowing to invest in shares, or managed funds that primarily invest in shares, can also be an effective way to build wealth. But it is not

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