Tailor-Made Winter Newsletter

It is not so much the cold that has christened winter this year but rather the rain. Hopefully we can enjoy some clear blue skies in the coming weeks but just in case we have provided some excellent reading material if you are stuck indoors.

The RBA uses interest rates as its tool to impact the economy but it is interesting to note that only 30% of households have mortgages and thus the impact on younger people who often have home loans is much more severe. We encourage you to read the article on the "The Australian Intergenerational Wealth Divide" as it is very relevant for a lot of our retired clients and also for the South Coast area with many homes being short term rented impacting the supply of housing.

We have also included a good update on the changes coming into effect on 1 July as well as "What you should know about creating your will and estate plan". We recently learnt of a client's situation whereby their relative did not have a Power of Attorney or Enduring Guardianship in place. After suffering a shocking stroke it has placed enormous stress on the family trying to make decisions not just financial (how do we stop direct debits coming out of his bank account?) but also how can we negotiate for them to get into a Care facility?

Just to keep you up-to-date we will be using the term "Independent Financial Advice" to describe our services more frequently in the future. We believe it is critical that people understand we are one of the very few Financial advice businesses that are owned by the Advisers who work in the business, receive no commissions and have no relationship with product providers.

Please feel free to reach out to Ben, John, Peter or Ed with any questions or to the very helpful Tailor-Made client services staff.

All the best,

Tailor-Made Team.

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The Australian intergenerational wealth divide

AMP Deputy Chief Economist Diana Mousina looks at the issues that have led to the increasing wealth divide between older and younger Australians

Comparing wealth inequality has long been a popular debate in Australia, from popular slogans like “OK Boomer” to generalisations about the “smashed avo eating” millennial and Gen Z generations.

Around 70% of household wealth1 is tied to the value of our homes. In the short term, changes in household wealth can have implications for savings and spending. And in the long term, household wealth can affect retirement savings, reliance on the aged pension and living standards.

The wealth debate has extended into the impact of recent interest rate hikes.

First, let’s look at how higher rates have had different impacts on Australian households.

Winners and losers

Interest rate changes always affect households with a mortgage the most and 30% of Australian households have a mortgage.

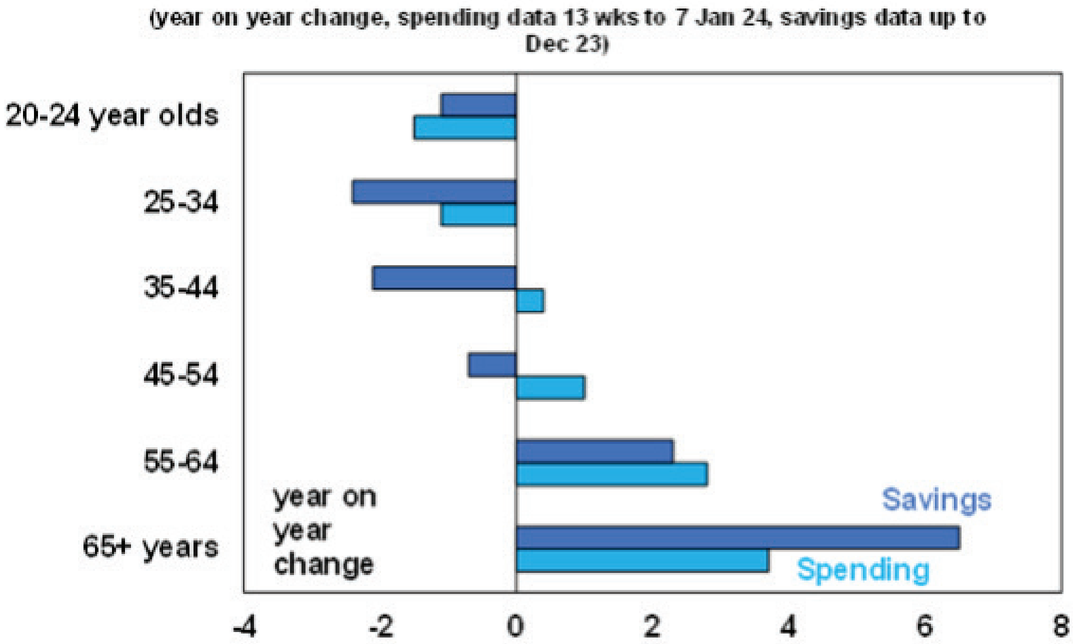
Younger households are more likely to have taken out large mortgages in recent years at low rates, which now need to be serviced at higher rates, eating into their disposable income.

Older households’ disposable income hasn’t been hit as much because they tend to have less debt and can draw down on their savings to fund spending.

The chart below shows savings for younger households have fallen and spending growth has also been low. This reflects the fall in disposable income for younger households paying off mortgages as interest rates rise.

Meanwhile, older households have been increasing their savings and spending, with higher rates meaning higher savings rates.

Spending and Saving across Households



Source: CBA, AMP

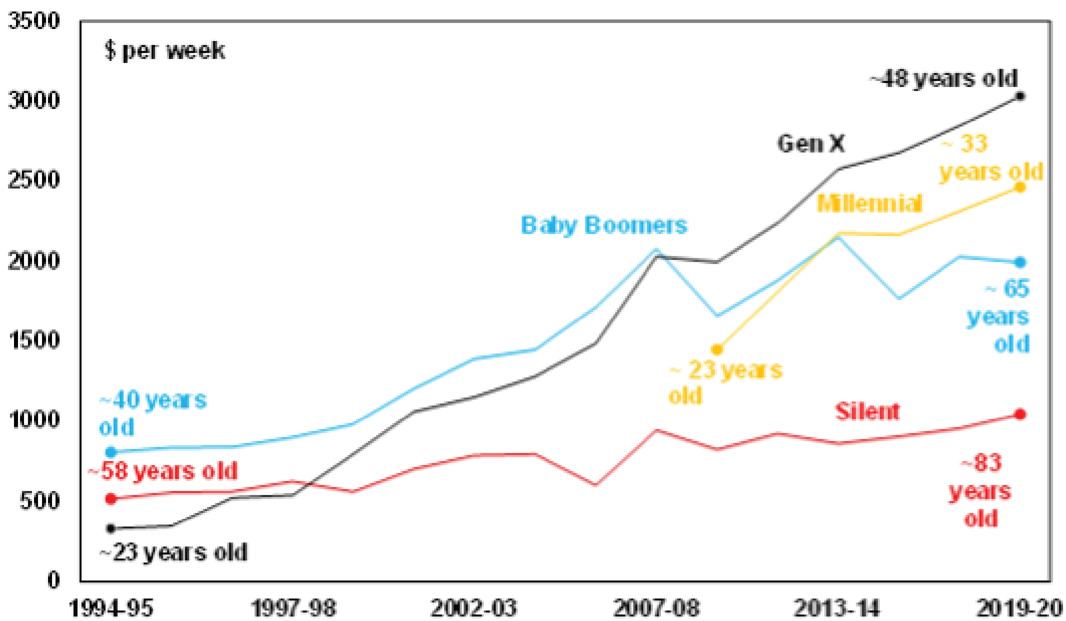
Older generations understand the different conditions their children and grandchildren are facing. Recent AMP research showed 80% of Australians aged 65 and over believe their children face similar or harder financial challenges than they did.

Household income and wealth through time

To understand the current spending and savings habits of different generations, it's useful to take a step back and look at the backdrop of income and wealth across different household age groups.

The chart below looks at household income. Gen X incomes started exceeding Baby Boomers from 2008, as they entered the peak point of their career and experienced higher incomes. Millennial incomes now also exceed Boomers and will exceed Gen X in under a decade when Millennials reach middle age.

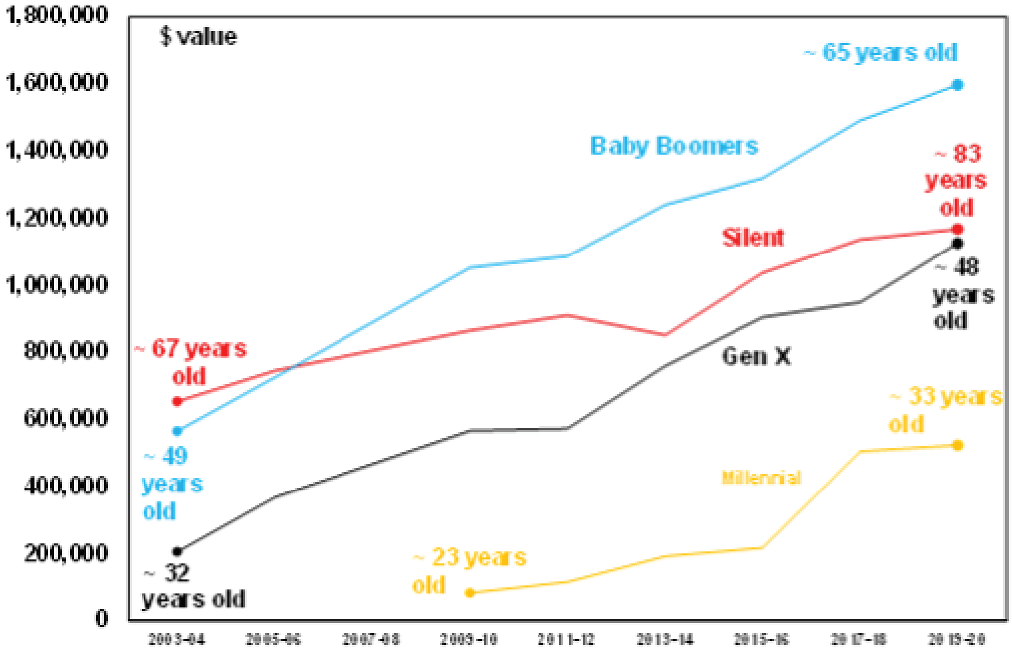
Australia average household income by generation



Source: ABS, AMP

The next chart looks at household net worth. Each generation has enjoyed an increase in wealth over time. But the growth in Boomers' wealth has been higher than other generations, which has increased the wealth gap.

Average Net Worth of Households By Generation



Source: ABS, AMP

So why have Boomers done so well? It's really been down to good luck in asset prices, driven by the 40-year decline in interest rates that has lifted shares and home prices.

• **Home prices** have grown around 8% over the last 30 years – it used to take 6 years to save for a 20% deposit while now it takes nearly 11 years.

• **Australian share prices** have increased by over 9% over the same period.

• The **superannuation guarantee** has increased from 9% in the early 2000s to 11.5% this year, which is a form of forced saving.

The favourable treatment of housing as an asset (through the capital gains tax discount, negative gearing and exclusion of the family home from the aged pension test) has also helped to lift home prices, as has the chronic undersupply of housing in Australia.

But it's not all doom and gloom…

Younger Australians are entering the labour market when conditions are tight, which should mean easier access to work although youth unemployment has been rising. Flexible work means more job opportunities. And high wages growth also means that starting incomes for young people are attractive.

The younger generation also seems to be taking on riskier investments, reflecting the more secure economic environment they've grown up in. Gen Z are much more likely to hold cryptocurrencies, international shares and exchange traded funds. This allows for large potential upside but also more downside if things go wrong.

The solution to the wealth divide? Make housing more affordable

The increasing divide in wealth between older and younger households is difficult to address because it mostly involves good luck for Boomers which can't be undone. But what can be solved by policy is addressing housing affordability by increasing supply.

Improving housing supply can be done through:

- encouraging older households to downsize
- releasing more land
- speeding up approvals
- encouraging growth in regional centres
- investing in regional infrastructure.

Call us for a chat

Whatever stage of life you're at – working or retired, Millennial or Boomer – we can help you make the most of your money.

This article has been written by Diana Mousina, Deputy Chief Economist at AMP.

Current as at June 2024

1 The conflicting priorities facing retirees and the 'never leave home' generations (amp.com.au)

Super and tax - what's changing on 1 July 2024

Here's a quick rundown of the latest law changes

They say nothing is certain in life except two things – death and taxes.

Australians can probably add a third – the knowledge that come the end of financial year, the rules around superannuation and taxation will inevitably change. It can be hard keeping up with all the latest super and tax rule tweaks so here's a quick guide to everything you need to know about what's changing on 1 July 2024.

First, some good news.

Your employer will contribute more towards your super…

If you're a PAYG employee, your compulsory super guarantee (SG) payment will go up by half a percentage point to 11.5%.

…and you can tip more in as well

There are annual caps – or limits – on how much money you can contribute towards super, both in terms of pre-tax 'concessional' contributions and after-tax 'non-concessional' contributions.

Both these caps are going up, so if you have any spare funds, you'll be able to move more of your money into super's low-tax environment.

- The **concessional cap** is increasing from $27,500 to **$30,000** a year.
- The **non-concessional cap** is increasing from $110,000 to **$120,000** a year.

This means if you have less than $1.66m in your super on 30 June 2024, you might be able to bring forward three years of non-concessional contributions (NCC) up to $360,000.

If you're lucky enough to have more than $1.66m in your super, these bring-forward rules change – see the table below.

Your total super balance (TSB) at 30 June 2024	NCC cap in 24/25	Bring-forward period
<$1.66 million	$360,00	3 years
$1.66m-$1.78m	$240,000	2 years
$1.78m-$1.9m	$120,000	Standard NCC cap
>$1.9m	Nil	N/A

What this means for your super strategies

While the higher concessional cap will allow you to sacrifice more salary into super, the increased SG rate will reduce some of your extra capacity. So, it could be a good time to **review any existing salary sacrifice arrangements you have with your employer.**

Turning 60 in 2024/25? Here's what you need to know

Your preservation age is the age you can start to access your super. It's between 55 and 60, depending on when you were born.

So, if you're born after 1 July 1964 and you're turning 60 in the 2024/25 financial year, you'll be able to access your super for the first time. It's been a long haul, but you've finally made it…congratulations!

- You'll be able to **withdraw larger lump sums if you're retired** without worrying about the low-rate cap of $235,000.
- You'll enjoy tax-free pension income payments, regardless of whether you have a transition to retirement (TTR) or retirement income stream.

If you're still working, you won't have full access to your super until you reach 65. But you can start accessing your super with a TTR strategy which allows you to draw regular income up to 10% but doesn't allow lump sum withdrawals.

You'll pay less income tax

The Government's long-awaited 'stage 3' tax cuts are coming into effect on 1 July 2024. While there have been well-publicised changes – lower income earners will receive a higher cut than originally proposed, while higher income earners will receive a lower cut – the bottom line is that all personal income taxpayers will pay less tax.

Your tax cuts from 1 July 2024

Taxable income	Tax payable 2023/24	Tax payable 2024/25	Tax cut
$40,000	$4,367	$3,713	**$654**
$60,000	$11,067	$9,888	**$1,179**
$80,000	$18,067	$16,388	**$1,679**
$100,000	$24,967	$22,788	**$2,179**
$120,000	$31,867	$29,188	**$2,679**
$140,000	$39,667	$35,938	**$3,729**
$150,000	$43,567	$39,838	**$3,729**
$160,000	$47,467	$43,738	**$3,729**
$180,000	$55,267	$51,538	**$3,729**
$190,000	$59,967	$55,438	**$4,529**
$200,000	$64,667	$60,138	**$4,529**

Source: https://treasury.gov.au/tax-cuts/calculator

What this means for your EOFY tax strategies

Before 1 July 2024 you'll still be paying a higher rate of tax. So, you might like to think about **bringing forward any tax deductions** by:

- making personal deductible contributions to your super using any unused amounts from 2018/19
- prepaying any deductible expenses such as income protection premiums and investment loan interest where possible.

After 1 July 2024 you'll be paying a lower rate of tax. So, you might like to think about **deferring any taxable income from:**

- selling an asset that generates a capital gain
- receiving an employment termination payment or leave entitlement
- applying for a First Home Super Saver Scheme release
- making a taxable super withdrawal, such as total and permanent disability under age 60.

We can help

Everyone's circumstances are different. Chat to us about how to make the most of the super and tax changes for your personal situation.
Current as at May 2024

What you should know about creating your will and estate plan

If you want to protect your family and assets, it's worth documenting what you'd like to happen if you can't make your own decisions later in life or if you pass away.

If you've got people in your life who you love and assets you'd like to be distributed in a certain way, you might be at a point where you're thinking an estate plan would probably make good sense.

What is an estate plan?

An estate plan involves drawing up a will, but also much more. It involves formalising how you want to be looked after (medically and financially) if you're unable to make your own decisions later in life, as well as documenting how you want your assets to be protected while you're alive and distributed after you pass away.

How does an estate plan help?

You can make your wishes known

One of the benefits of a solid estate plan is you can formalise your wishes in writing. This can help if someone challenges what you said you wanted after you pass away, or if you're unable to speak for yourself.

You could minimise disagreements

Unfortunately, disputes can happen when assets need to be distributed among people when no clear guidelines have been set. Being prepared with an estate plan could go a long way in preventing such disagreements should family members need to divide assets among themselves or make other hard decisions on your behalf.

You may improve tax consequences for your heirs

As the distribution of assets (including your income) can come with different tax obligations, a good estate plan could minimise any tax that your heirs may need to pay.

If they decide to sell something they've inherited, for instance, they may need to pay capital gains tax depending on what type of asset it is.

Considerations when creating an estate plan

Do you want your will to be legally binding?

A solicitor or estate planning lawyer can help you draw up a will that is legally binding and covers what you'd like to happen with your assets, children (if you have any) and funeral when you pass away.

It's important this document is kept up to date and that any changes to your situation (marriage, divorce, separation or otherwise) are accounted for, so those who matter most are taken care of.

While it's also possible to draw up your own will (there are various kits available online), these may not be adequate in complex situations, which is why engaging an estate planning professional, even if you think your situation is relatively simple, will generally be worthwhile.

Keep in mind, if your will is deemed invalid, your estate will be distributed according to the law in your state, which may not align with your wishes, and claims could be made by unintended recipients.

Who are your nominated super and insurance beneficiaries?

You might assume that how and in what proportions you want your super to be distributed can be included in your will, but this isn't necessarily the case.

You'll need to nominate your beneficiaries with your super fund and you'll also want to make sure you're across how long different nominations are valid for.

If you don't make a nomination, the super fund trustee could use their discretion to determine who your super money goes to. Meanwhile, if you have insurance outside of super, you'll also want to make sure you've listed your beneficiaries on your insurance policy and that those beneficiaries are also kept up to date.

Will you appoint an enduring power of attorney to make decisions if you can't?

There may come a time when you're unable to make legal or financial decisions on your own because of advanced age or medical issues. Granting power of attorney means you assign someone to make these decisions on your behalf should a situation like this arise.

For this reason, it's important to choose someone you trust, as they'll be responsible for looking after your bank accounts, ongoing bills, and even selling your house if you need to move into a care facility.

It's also worth noting that you may be able to appoint a different type of power of attorney depending on what tasks you'd like this person to carry out on your behalf. For example, you may want your son or daughter to make general lifestyle decisions for you, while you appoint a financial adviser to make financial decisions.

Have you chosen an executor to help carry out your wishes when you're gone?

Generally, an executor is the person legally in charge of managing and distributing your estate, according to the terms set out in your will, with the assistance of a solicitor.

When you nominate an executor in your will, which your solicitor should also have a copy of, it's important to let your family know, to avoid disputes after you pass away.

The executor should also have a good understanding of their duties and where your will and other important documents are kept. You may also want to let your family know where this information is stored.

The executor will typically be responsible for things like making funeral arrangements, ensuring your debts are paid and bank accounts closed, and collecting any life insurance.

They'll also usually need to apply to the court for a grant of probate, which is a legal step that's required before your estate can be distributed. A grant of probate certifies that your will is valid.

Estate planning can be a complex process and there could be legal and tax implications if you don't set things up correctly and understand the fine print.

For these reasons, it's important to speak to a legal professional and us before making any decisions and signing on any dotted lines.