Poynter Hargraves

Super focused: Your annual super statement

As a superannuation fund member, you'll be receiving your annual statement soon from your super fund either electronically or through the mail.

Your statement is often a good touch point on how you're progressing with your retirement nest egg. Regardless of your current stage of life, it's important to review your statement, as superannuation plays a vital role in supporting you in retirement.

Before you file your statement away this year, take some time to consider the following.

Prior to receiving your statement, did you know your super balance?

An important part of goal-setting is knowing how you're tracking and the information provided on your statement can help.

Interestingly, a recent study*, found that 26% of Australians with superannuation did not know their superannuation balance whilst 42% had a rough idea and the remaining 32% knew exactly or almost exactly.

How close was your estimate?

Remember, superannuation is a form of saving. Just as you may know your 'everyday' and 'saving' bank account balances, it's also important to take an interest in your superannuation balance.

Are you receiving the correct amount of Super Guarantee (SG) contributions from your employer?

Your superannuation balance grows from contributions and returns less tax and costs.

SG contributions are a type of concessional contribution.

SG contributions are compulsory contributions made by employers on behalf of eligible employees into their nominated superannuation account at least every three months. The current minimum SG contributions rate is 9.5% of a person's ordinary time earnings (subject to a maximum contributions base).

It's important to check whether your employer is contributing the correct amount into your superannuation account not only from an employee entitlement point of view, but also because these contributions will help you grow your retirement nest egg overtime.

Your statement should list SG contributions in the transaction history.

Have you supplied your Tax File Number to your super fund?

Why is this important? If your super fund doesn't have your Tax File Number then they are required to:

- Tax concessional contributions at a higher rate than 15%. From 1 July 2017, the higher rate is 47%.

- Not accept non-concessional contributions, which also means that you are unable to participate in the Government's Co-Contribution scheme.

Your statement should list whether you have supplied your Tax File Number.

If you have not supplied your Tax File Number, your super fund will have information on how to update your member details.

In addition, if you provide your Tax File Number, your super fund may be able to claim additional tax from the three previous financial years back from the Australian Taxation Office and re-credit it into your superannuation account.

Did you receive statements from several different super funds?

If you have changed jobs over your working life, it's possible that along the way you may have accumulated several different superannuation accounts.

Multiple superannuation accounts normally mean multiple sets of fees and costs, as well as differing asset allocations in some instances – all of which can affect your superannuation balance overtime.

However, before you go rolling one superannuation account into another, in some instances it may make sense to retain multiple superannuation accounts – for further information please contact us.

Did you discuss your statement with your spouse/partner?

Planning for retirement as a couple is a collective journey. Although, you may differ in some aspects (e.g. risk tolerances, money personalities etc.), you are a team, working towards the goal of accumulating wealth for retirement. And for most households, superannuation is the second largest asset held^.

Talking about your personal finances can be a truly beneficial discussion about where you are, where you would like to be and how you are going to get there. And remember, your financial adviser is here to help along the way.

Moving forward

Reviewing your statement is important.

Superannuation is a tax effective investment vehicle that will help you accumulate wealth during your working life to support your lifestyle in retirement.

Going through the five questions above and other important information in your statement (such as your investment mix, nominated beneficiaries, personal insurances and fees) is a good discipline and can help you better understand where you are at with your superannuation.

Please contact us if you have any questions regarding your statement or how you are tracking towards your financial goals and objectives.

*ASIC and EY Sweeny. Australian Financial Attitudes and Behaviour Tracker: Wave 4 (September 2015-February 2016). Retrieved from: http://www.financialliteracy.gov.au/media/559536/australian-financial-attitudes-and-behaviour-tracker_wave-4.pdf

^Australian Government, Australian Bureau of Statistics. Household income and wealth levels. Retrieved from: http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/6523.0~2013-14~Main%20Features~Household%20Income%20and%20Wealth%20Levels~5

Income Protection: Indemnity and agreed value

A core provision of an Income Protection insurance policy is that it provides you with an ongoing monthly benefit payment in the event you are unable to work for a period of time due to sickness or injury.

The ongoing monthly benefit payment is usually up to 75% of your gross income, however some insurers may pay up to 85% (e.g. 75% paid to you directly and the remaining 10% paid to your superannuation account as a superannuation benefit). In addition, depending on how much you earn, the ongoing monthly benefit payment may be capped to an upper limit.

The ongoing monthly benefit amount is calculated from your pre-disability earnings.

How your pre-disability earnings are assessed will depend on the Income Protection insurance policy benefit type that was entered into with the insurer when cover was established.

There are two benefit types – indemnity and agreed value.

Indemnity value

An indemnity value benefit type requires you to state what your gross income is when applying for an Income Protection insurance policy.

The quoted ongoing monthly benefit payment on your Income Protection insurance policy is then based on this gross income.

In the **event of a claim** you are required to provide supporting documentation of your gross income. Your insurer assesses your pre-disability earnings by using the documentation to determine whether you are eligible for the ongoing monthly benefit payment on your Income Protection insurance policy.

If the determined ongoing monthly benefit payment is lower than the quoted ongoing monthly benefit payment on your Income Protection insurance policy, you will receive the lesser amount; this can occur if your gross income has reduced, or fluctuated over time, from the date you established the Income Protection insurance policy and prior to claim.

Overall, an indemnity value benefit type may be appropriate if you do not expect your gross income to reduce or fluctuate over time. Furthermore, the insurance premiums for this benefit type are generally lower than a comparable Income Protection insurance policy with an agreed value benefit type.

Agreed value

The main difference with an agreed value benefit type is that the ongoing monthly benefit payment is assessed and agreed at the start of the policy, and not at the time of claim.

An agreed value benefit type requires you to provide supporting documentation of your gross income when applying for an Income Protection insurance policy.

Your insurer assesses your pre-disability earnings by using the documentation to determine your ongoing monthly benefit payment.

This ongoing monthly benefit payment is agreed upon at the start of your Income Protection insurance policy, which means that you will receive this amount regardless of whether your gross income reduces, or fluctuates over time, prior to a claim.

Overall, an agreed value benefit type may provide certainty in regard to the amount you will receive in the event of a claim; this may be appropriate if you expect your gross income to reduce or fluctuate over time. However, with this certainty, the insurance premiums payable are generally higher than a comparable Income Protection insurance policy with an indemnity value benefit type.

Ownership structure

As with any type of personal insurance, consideration should be given to who or what entity should hold (and, fund) the Income Protection insurance policy.

Generally, premiums for Income Protection insurance policies are tax deductible.

There is the ability to hold an Income Protection insurance policy within superannuation; however, there may be legislative restrictions associated with this. You should be aware of the legislative restrictions, as well as other potential restrictions that may apply when dealing with specific superannuation funds. This is where seeking financial advice is of utmost importance.

What this means for you

The decision to hold an Income Protection insurance policy with either an indemnity or agreed value benefit type will depend on your individual circumstances and your preference for cover.

Income Protection insurance policies vary between insurers' so it's vital to refer to your Product Disclosure Statement and individual Income Protection insurance policy for further information.

If you'd like to know more about the benefit type relevant to your Income Protection insurance policy then please contact us.

The pitfalls of DIY Will kits

According to recent research, approximately 45% of Australians* pass away without a will, or 'intestate'.

The word intestate is derived from the Latin word *intestatus* meaning a person who passes away without a will.

Intestacy may result in inconvenience, delay, and expense during a difficult time in your life having just lost a loved one.

Intestacy may occur not only where a person fails to make a will, but also for other reasons, such as:

- The will didn't properly dispose of all their assets;
- The will was invalid due to it not being signed and witnessed according to the law;
- The person didn't have the mental capacity to make the will in the first place; and,

- The will was drafted poorly, and the legal rules governing will construction weren't followed.

When considering your estate planning, it may be easy to fall into the mindset that drafting a will is a simple Do-It-Yourself task, especially considering there are many cheap DIY options available online and through your local newsagency or post office. However, a recent analysis*^ completed by Choice, in consultation with several estate planning professionals, looked at numerous DIY will kits available and they settled on this summary comment:

"*Will kits can be an excellent research tool. Depending on your situation and skills, they can help you to write your will, but they can't adequately handle complex situations such as blended families or self-managed super funds. So we recommend you get some expert advice as well. Making sure your loved ones are provided for is far too important to leave to chance, and the consequences could be disastrous if you get it wrong*."

The main points that lead to this summary by Choice regarding DIY wills are as follows:

Will Kit 1

1. The will kit contained basic instructions, which may have resulted in confusion.
2. 'Issues relating to children, taxation, superannuation and executors' weren't appropriately covered off on.

Will Kit 2

1. There was no mention of taxation issues.

Will Kit 3

1. There was no space for witnesses (to the will) to sign each page, so the will may be considered invalid.
2. 'Discussion about who could challenge the will was not entirely correct'.
3. Superannuation issues weren't appropriately covered off on.

Will Kit 4

1. The summary regarding the distribution of superannuation was unclear.
2. There was 'no provision or explanation as to when it would be appropriate to seek tax advice'.

Will Kit 5

1. The will didn't appropriately deal with superannuation and taxation issues.
2. There were no clear instructions to seek professional advice if/when doubt arose from anything contained within the will kit.

As you can see by the above points, there appear to be common trends when it comes to DIY will kits i.e. formatting issues and the lack of informative information in certain areas, such as taxation and superannuation. In addition, many DIY will kits do not offer the capacity for establishing testamentary trusts (to protect assets after your passing or for tax-related purposes), nor are they able to be amended with a codicil (an additional document that allows you to change details in your will such as an Executor or a beneficiary changing their name).

By seeking professional advice from your estate planning professional, in conjunction with your financial adviser and accountant, you can limit the chance of leaving behind a partial or fully intestate estate, as well as make sure the will that is drafted reflects your full intentions and the individual complexities of your personal finances, such as personal insurances, investments, superannuation, and taxation considerations.

It is a good habit to review your estate planning situation and needs at least every five years, or if a major event happens.

*NSW Government, NSW Trustee & Guardian. Retrieved from: http://www.tag.nsw.gov.au/wills-faqs.html

*^Choice. (2016). DIY will kit reviews. Retrieved from: https://www.choice.com.au/money/financial-planning-and-investing/financial-planning/articles/will-kit-reviews