



The Harvest - Summer 2017

Happy New Year!

We ended 2016 on a high winning the AMP Financial Planning New Practice of the Year award for 2016 (Victoria). The AMP Financial Planning Adviser Awards recognise the great work performed by advisers and practices. The new practice of the year award category is for planners who have been working with AMP for less than 3 years.

2017 brings change to some important areas that could impact your retirement or your retirement plans:

- Age Pension payments will be different for many people from January
- Changes to the limits that you can contribute into super come into play on the 1st July this year.

We're always happy to talk you through these changes and how they impact you. Pick up the phone and give us a call.

The financial markets on the whole have behaved themselves throughout December and January, but issues like the potential conflict in the South China Sea and how Mr Trump goes running the largest economy in the world, leave many feeling uncertain about the future. We encourage you to speak to us about your concerns.

We'd love to hear your feedback on our newsletter, so please let us know what you think via the contact details below. If you have a particular topic you'd like to know more about please tell us and we can include this in future editions.

We look forward to hearing from you.

Mackenzie and Chris

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Looking ahead at 2017

The outlook for 2017 is in places easy, in other places hard and in one particular area, near impossible.

Let's start with the impossible. I am often asked for my view on the Australian dollar against the US, Euro and Pound sterling. I think I have got this right about once in my 35 years in the money industry. Ironically, this was a few years ago when I was doing a series of talks with AMP's Shane Oliver. The Aussie dollar was buying around \$US1.10. All the predictions were for it to go higher. My comment was that this was as high as I had seen it. It has been as low as US 50 cents to our dollar, and my view was that at a \$US1.10 for an Aussie dollar, I would at least buy enough US dollars to pay for 5 years of holidays that linked to the US dollar. This, with hindsight, was pure genius. Can I not mention the other times I was completely wrong?

Frankly, I and nobody else has the first clue. For example, I have been banging on that the UK economy has been recovering strongly over the last few years. That of course would cause me to want to hold pounds. Hang on, along comes Brexit and the pound plunges big time against our dollar. Currency punting is a mug's game. I just tend to watch our dollar as it hits historic highs and lows and use that as my guide. I tend to hold my global investments unhedged against the Aussie dollar, I figure currency can go either way.

An easy call is low interest rates. They will be at or around where they are now for 2017, and I suggest beyond. So for near retirees, like me, or retirees, this presents a major issue. Life is long, at least on average, so we all need to make our money last and it won't in a term deposit at under 3%. Even if you pay no tax, inflation will grab much of that 3% return.

So this takes us into the harder areas. Property and shares. It is bleatingly obvious that a growing population, an undersupply of housing where people prefer to live and very low interest rates make property in "population growth" areas, with public transport, entertainment, jobs, schools and decent coffee a very attractive investment. So to no one's surprise, property in these areas has exploded in value. Sooner or later it will go backwards for a while, but the growth in our population underpins rental demand and prices. So while I am not a seller, I am not an eager buyer.

Shares are also a hard call, but here I feel more comfortable. The average income return on shares is nearly 4% and usually comes with franked dividends. So while I hold some cash in term deposits as my "safety" money and I'll hang on to my property, I do have quite a decent exposure to shares, both here and globally. I regard shares as the best way to spread my risk outside of Australia and also into industries we just do not have here. Don't forget, our market is mainly banks, financial

services companies and resources. Sure, we have companies such as CSL and Sonic, both in the health sector, which operate quite significantly in the global market, but I do like many of the food, biotechnology and technology companies that are listed outside Australia. An international fund or ETF may be your best way to hold these investments, but I'll leave that to you and your adviser.

I appreciate my shares can and will at times, fall in value. At times the falls can be large. But I am not a seller, and I reckon the dividends, which is the bit that buys me food and so on, will not go away. So while I am broadly diversified as I should be as a 61 year old, I think my shares are likely to be my best asset class in 2017. And here we need to remember this is why I am diversified. I hold term deposits, residential and commercial property, local and international shares. I really doubt they will all do well in 2017, but I also doubt the whole lot will do badly!

– by Paul Clitheroe AM



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Super changes from July 2017

How will they impact you?

We cover some of the factors to be aware of given changes have just passed in parliament and are due to become superannuation law.

Earlier this year, the Federal Budget announcement included a proposal to introduce changes to super bigger than the likes of anything we've seen in almost a decade. Then, in September the government announced some significant adjustments to its proposal.

The revised proposed changes to super have now passed through both houses of parliament and are due to become part of Australian superannuation law. The new laws will generally affect individuals with relatively high super balances, and will change contributions rules and the tax breaks available in super with most taking effect from 1 July 2017.

Wealth accumulation limits

When it comes to converting super into an income stream pension account in retirement (where no tax is paid on earnings or withdrawals) individuals with relatively high balances—who at the moment are not limited on the amount they can accumulate—will be restricted to \$1.6 million in their pension accounts.

If you're already retired, the financial consequence of having more than \$1.6 million in your pension account is that after July 1, 2017 the excess will need to be taken out—either placed back into the super accumulation phase where earnings on it will be taxed at 15% or taken out of super completely. But speak with us before you decide.

Changes to transition to retirement rules

If you're an older Australian you may feel penalised by the removal of the tax exemption on earnings in a transition-to-retirement (TTR) pension as one of the appealing aspects of the TTR strategy lay in the pension account's tax-free earnings entitlement.

If you're using a TTR to boost your super while salary sacrificing some of your income, the removal of earnings' tax exemptions is likely to reduce the overall amount you end up accumulating in retirement unless you take other steps to grow your money, so be sure to speak with us about other opportunities.

Some leeway—no lifetime limit

While the government had proposed a lifetime limit of \$500,000 on after-tax contributions, the proposal was not passed in parliament. Even so, depending on your circumstances, you may need to bear in mind the overall cap of \$1.6 million mentioned earlier. Be sure to speak with us when it comes to planning how you'll contribute to your super.

New contributions caps for all

As expected, there will be caps placed on the amounts you're able to contribute to your super and the new caps will come into effect in July 2017.

After-tax contributions (also known as non-concessional contributions) will be capped at \$100,000 per year (or up to \$300,000 if you bring-forward the next two years and are under age 65). If you're planning to benefit from super's tax concessions by depositing money from an inheritance or the sale of an

asset, you may need to start planning now so be sure to come and speak with us.

You may still be able to take advantage of the current limits that offer the potential (if you qualify for the bring forward rule) to deposit \$540,000 before 30 June 2017—we can help you work out your options.

When it comes to before-tax (concessional) contributions, there are also new caps. So, if you make salary sacrifice payments for example you'll be limited to a maximum annual amount of \$25,000. This is considerably less than the current annual caps of \$30,000 if you're under 50 or \$35,000 if you're aged 50 and older.

There will no longer be a separate cap for those aged 50 and over. Everyone will be limited to pre-tax/before tax contributions limit of \$25,000 per year.

More super tax for more high earners

Until July next year, those earning more than \$300,000 will continue to pay 30% on their super contributions while everyone else pays 15%. From July 1 2017, the salary band will be lowered. That means people earning \$250,000 or more will pay 30% tax on their contributions.

A good time to follow up

We've covered some of the main points here but there are other changes that may also affect you. It's likely you'll have questions about the best course of action in the lead up to the changes and after they take effect.

Now is a good time to call us and set up a time to come in so we can look ahead and put plans in place to help you make the most of your money.



Can refinancing my home loan save me money?

By replacing your existing loan with a new one, you could take advantage of a better deal.

Even if you secured a competitive package when you first took out your home loan, it's worth reviewing each yearⁱ to ensure the interest rates, fees and features continue to meet your needs.

With interest rates also at an all-time low in Australiaⁱⁱ, now may be an opportune time to refinance as you may be able to pay off your home loan sooner.

What is refinancing anyway?

Refinancing is where you replace your existing home loan with a new one that's ideally more cost-effective and flexible.

It may involve changing your home loan product with your current provider, but often it will mean switching to a different lender who can offer you a better deal.ⁱⁱⁱ

Reasons to refinance

Some of the reasons you may look to refinance include:

1. You want to pay less.

If you can find a lower interest rate, you could save money and reduce your repayments. Even a 0.5% reduction on your interest rate could save you tens of thousands of dollars over the life of your loan.

2. You want a shorter loan term.

When interest rates are down, you may be able to reduce the term of your loan—from 30 to 25 years for instance—without too much change to your repayments, meaning you may be able to pay off your home loan sooner.

3. You want access to better features.

You may be looking for further cost savings and greater flexibility with the help of added features, such as unlimited additional repayments, redraw facilities, an offset account or the ability to tap into your home equity.

4. You want a better deal, more flexibility or security.

Converting to a fixed, variable or split-rate interest loan may provide you with these things.

5. You want access to your home equity.

Equity can be used to secure finance for big ticket items such as an investment property, renovations or your children's education. This can be risky though because if you don't make the repayments, you could lose your home as a result.

6. You want to consolidate existing debts.

If you have multiple debts, it could make sense to roll these into your home loan if you're diligent with your repayments. This is because interest rates associated with home loans are generally lower than other forms of borrowing.

Things to consider

Do you know what you want?

If you're looking to refinance, do you know what it is you're after—a lower interest rate, added features, greater flexibility, better customer service or all of the above? It's important to determine these things so when you're researching other loans, you know exactly what you're after.

Do the financial benefits outweigh the costs?

You might be able to save money over the long term by refinancing, but the upfront costs can still be expensive. For this reason, it's a good idea to investigate where costs may apply, or be negotiable—think discharge fees, registration of mortgage fees and break costs if you have a fixed-rate loan.ⁱⁱⁱ

Also think about application costs if you swap lenders—establishment fees, legal fees, valuation fees, stamp duty, and lender's mortgage insurance if you borrow more than 80% of the property's value.ⁱⁱⁱ

Have you spoken to your current lender?

Before you jump ship, it may be worth a chat with your current lender as they might be willing to renegotiate your package to retain you as a customer.

Has there been any change to your personal situation?

An application process if you want to refinance will apply. This means your lender will take into account things like your employment situation, additional debts you've taken on, or if you've got a growing family as all these things can impact your borrowing potential.

For more information

Refinancing can be a wise move if it can save you money, get your debt under control or give you more flexibility in achieving your goals.

It's important to evaluate the pros and cons if you are considering refinancing. These can be complex so you may wish to speak to us about your options.

i www.finder.com.au/how-to-review-your-home-loan

ii www.rba.gov.au/statistics/cash-rate/

iii www.finder.com.au/how-much-can-i-save-refinancing