INSIDE

APRIL 2021

FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

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What recent changes to insurance through Super could mean for you

While we're focused on paying the bills, saving for the future or setting up the life we dream of, it is easy to miss some of those other changes which can have an important impact on our lives.

Recent changes to the law that affect the way Australians are provided with life insurance through their super could place some members at risk of finding they're without cover, only when they go to make a claim.

Understanding what these changes are can help you identify whether you're likely to be affected, and what your options are if you feel insurance through super is right for you.

What are the changes?

The changes to legislation on 1 April 2020 affect when cover starts for new members and how long their cover remains in place. This follows prior changes on 1 July 2019 that means members may lose cover if their account becomes inactive.

When it comes to understanding the impact of these changes, its helpful to break them down by the different ways individuals may be affected.

If you're under 25 years when you join – If you are under 25 years and join a super fund for the first time from 1 April 2020, cover may not automatically be provided. You will need to have at least $6,000 in your account, in addition to being 25 years old, before cover may be automatically provided.

If your balance is less than $6,000 when you join – Even if you are 25, or older, when you join a super fund for the first time from 1 April 2020, you'll need to have at least $6,000 in your account before insurance cover may be automatically provided.

If you have an existing super account before 1 April 2020 - If you're an existing super fund member, and have an account balance that doesn't reach $6,000 at least at some point between 1 November 2019 and 31 March 2020, your insurance cover may be cover switched off on 1 April 2020.

If your super account hasn't had contributions in the last 16 months – Since 1 July 2019, any super account which hasn't received contributions for 16 months in a row is considered 'inactive'. As a result, cover will be switched off every time this happens, unless you've told your fund you want to keep it in place.

Feel free to contact your super fund if you would like cover switched on or to remain in place.

So why have things changed? - These changes are designed to help prevent insurance premiums from unnecessarily reducing retirement savings in super. However, they may result in some members who want to be covered, not having insurance in place. There are some exceptions to these changes, for example, if your super fund classifies you as working in certain dangerous occupations. Source: TAL

Vehicle benefit FBT treatment changes under COVID-19

The special circumstances that coronavirus has thrown our way looks like having some very practical outcomes on certain areas of fringe benefits tax. One of the most prevalent and well-established categories of fringe benefits centres on the provision and use of vehicles. The parking of a car, for instance, is a benefit that comes with very specific conditions regarding the taxable values that attract FBT.

A work car park closes.

If, on a particular day, a business's office is closed due to COVID-19 and therefore the work car park is also closed, the employer will not have provided a car parking benefit as there will be no car space available for use by an employee for more that four hours between 7.00am and 7.00pm on that day.

The time during which the work car park is closed will not form part of the availability periods used to calculate the taxable value of a car space under the statutory method.

Closure of nearby commercial parking stations

If all the commercial parking stations within a one-kilometre radius of a business premises are closed on a particular day due to COVID-19, there will be no car parking benefits provided.

Reduced rates at commercial parking stations

If, on for example 1 April 2020, the lowest fee charged by all the commercial parking stations within a one-kilometre radius of a business premises for all-day parking was less than $9.15, the employer will not have provided a car parking benefit. For example, this may occur where all the commercial parking stations have discounted their all-day parking rate due to COVID-19.

Car returned to employer's business premises.

An employer won't provide a car fringe benefit where a car is not supplied for an employee's private use or taken to be available for an employee's private use.

During a period of COVID-19 restrictions, a car that has been provided to an employee is not taken to be available for the employee's private use if all the following apply:

- The car is returned to the business premises.
- The employee cannot gain access to the car.
- The employee has relinquished an entitlement to use the car for private purposes.

The ATO says some factors that indicate a car is not taken to be available for an employee's private use during these restrictions include where:

- The employer requests that the car be returned to the business premises.
- The employee does not have physical access to the car.
- The business consistently enforces a policy that an employee cannot gain access to the car.
- If the employee has made a choice to surrender the car, they cannot change that choice and obtain the ability to access the car.
- The car is returned to the business premises and the employer applies the car to a different purpose (although a separate car benefit may arise if the car goes to another employee who applies it for private use).

Garaging work cars at an employee's home

An employer may have been garaging work cars at employee's homes due to COVID-19.

The employer may not have an FBT liability depending on:

- The type of vehicle
- How often the car is driven, and
- The calculation method they choose for car benefits.

Logbooks

A business's employee's driving patterns may have changed due to the effects of COVID-19. If an employer uses the operating cost method, they may have an existing logbook. They can still rely on this logbook to make a reasonable estimate of the business kilometres travelled. They can also choose to keep a new logbook that's representative of business use throughout the year. Source: Butler Settineri

Simple steps to help your children learn about finance.

Children are never too young to start learning about finance. By starting with the basics, you can help build the foundations for financially literate and confident kids.

Instilling good financial literacy in kids can go beyond the basics of budgeting and saving. Teaching children to be smart with money is a skill that will help them throughout their life. Whether it's introducing the concept of money to primary school students or teaching insurance to high school students, there are plenty of resources to help with teaching children about money.

As the OECD's International Network on Financial Education Stated: "Many 15-year-olds [..] are likely to face growing complexity and risks in the financial marketplace as they move into adulthood."

Understanding risk is an essential part of making informed decisions. One thing we have learnt from 2020 and its economic uncertainty, is that financial literacy is crucial for helping plan for our financial future.

How to teach children about money and insurance

So, here's how to teach your children the ABCs – or in this case, the TALs – of insurance.

T is for talk about it

Numerous studies have shown that kids money habits are formed before they get to high school and that their parents are often their most influential teachers – both via direct conversation and modelling.

It is important to be transparent with our children because they understand, and worry about, more than we give them credit for.

In fact, a survey of 20,000 Australian children found that 43% worry a lot about their future. The second most common concern was about family (39%), followed by health (37%).

Talk about the different things you might want to protect, such as your home, car, income, and health. Teaching children about the protections you have put in place can help alleviate worry and stress they might have.

A is for act.

Budgeting and saving form the foundations of understanding finances. You can start by introducing your child to the 50/30/20 rule that they can apply to their pocket money or part time salary. 50% of their money goes towards things that they need such as food or board, 30% goes towards what they want such as a sweet treat and 20% goes towards saving for something special.

Once you have taught your child about budgeting and they finally managed to buy that item they had been saving for, it's time to give your child a solid introduction to how insurance works. To help them understand risk and insurance, start by asking them how many weeks' worth of pocket money it would take for them to replace the item – example their phone or games console – if it got lost, stolen or broken.

Now talk about how they can protect it: make sure it's stored in a safe place.

Finally, explain that, even if they do their very best, sometimes things go wrong.

As a learning exercise, sit with your kids and help them work out how much it would theoretically cost if they were to put aside a small amount of money each week to make sure some of their possessions – within a certain price range – could be fixed or replaced if anything bad happened outside their control.

L is for learn the lingo.

Once your child understands the basics of insurance and the rationale behind it, you can start discussing different types of insurance and how it's there as a safety net for unpredictable times.

Teenagers and older children can start to see how different factors can affect premiums that could influence their own health and lifestyle choices. Learning the language around money and insurance can help demystify finance for younger people. When teaching insurance to high school students, try explaining the meaning of terms such as assets, risks, excess, and liability to familiarise children with common phrases around finance and insurance.

If your child – like many – is worried about what would happen to them if you got really sick or died, discuss the various policies that you have in place to protect you.

For example, your Income Protection Insurance is to make sure their school fees are paid if you get sick or hurt and couldn't work for a while.

Your Life Insurance policy would provide your family with a lump sum payout if you were to die or become terminally ill.

Below we have compiled a short list of resources to help you explain key terms and principals.

- Financial Basics Foundation resources: this Australian not-for-profit has a module on insurance and managing risk. You can register as a parent to access it free of charge.

- ASIC's Money Smart website has insurance and life insurance factsheets suitable for young adults.

- Games: there are several board games- including Monopoly and The Game of Life – which will introduce your children to financial risk concepts. Source: TAL

Should you wish to discuss any aspect of the information contained in this document, please contact your Financial Planner

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