INSIDE

APRIL 2024

FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

The impact of natural disasters on property values and insurance

Australia's vast expanses and varied climates make us prone to natural disasters.

In recent years alone, we've experienced the devastating impacts of bushfires in the southern parts of the country, flooding along the Eastern Coast, as well as significant storm events and cyclones.

As you can imagine, the aftermath of a natural disaster typically involves a lot of clean-up and rebuilding for those affected.

However, there are also a number of flow-on effects from these events for those not directly affected that are of particular importance to homeowners and first home buyers.

Impact on Home Values

A natural disaster can drastically reduce the market value of affected properties, as property buyers become deterred by the high risk factor associated with the property or area.

This can also make it difficult for owners to sell their homes or vacant land, as the buyer pool willing to take on that risk reduces.

In some cases, properties in high-risk areas may become uninsurable, which can further impact value, sometimes causing these properties to become unsellable as purchasers are deterred by

the inability to insure the property.

Impact on Insurance

Following a natural disaster, insurance companies are inundated with claims for damages, which can take months, or even years, to process.

Property owners in affected areas may face increased premiums, regardless of whether or not the event directly impacted them, due to insurance companies requiring their underwriters to assess potential future risks to ensure a balanced risk portfolio across their entire insurance pool.

For example, in its 'Report on Home and Contents Insurance Prices in North Queensland', the AGA reported that North Queensland's home and contents insurance premium rates had increased by around 80 per cent over the period of its investigation. Throughout that time, North Queensland experienced Cyclone Larry, Cyclone Yasi, and the Mackay Storms. By comparison, premium rates across Australia increased by around 25 per cent for the same period.

Underinsurance or uninsurance is often the outcome, with homeowners either unable to afford the cover or justify the cost, presenting a substantial financial risk to homeowners if a natural disaster occurs.

Tips for Property Buyers

It is crucial to conduct thorough research, especially when considering buying a property in an area prone to disasters.

Know the Property History

Research the history of the property, including the surrounding area, to understand the risk for natural disasters:

- Research historical records of property damage in the area.
- Check with the local council for any risks in the area and any tools they might offer.
- Be familiar with the environmental factors that create risk for the area.

Read the Fine Print

Not all insurance policies are created equal, so it's essential to understand the terms and policy definitions of any insurance contracts, particularly for disaster prone areas:

- Discuss the appropriate levels of insurance coverage with an insurance agent,
- Research insurance providers and consider their options.

Also, by researching insurance coverage and obtaining quotes during your property due diligence, you can factor the actual cost into your budget to ensure you can afford cover and not be forced into uninsurance or underinsurance.

Risk Mitigation & Disaster Management

If you're looking to purchase a property in a high risk area, be aware of risk mitigation strategies to assist with reducing risk.

- Understanding your property's building materials and construction methods may help to protect your property.

- Understanding risk mitigation activities you could take to reduce your exposure. For example, in bushfire prone areas, being aware of hazard reduction activities such as fuel-reduction burning, removal of vegetation and maintaining fire lines.

Without appropriate insurance cover or a streamlined disaster management plan, the financial implications of natural disasters can have dire consequences.

Source:
Australian Government Actuary https://aga.gov.au/ "Report on home and contents insurance prices in North Queensland" (5 December 2014)

Click the link below to view our Cleaning Up After Storms video

https://www.youtube.com/watch?v=gWKaPziSSxw

How to shift into pension mode

When and how you can access your super to start an account-based pension.

If our working years can be regarded as the time when we aim to build up our superannuation savings, our retirement years can equally be regarded as the time when we aim to spend them. At least that's the objective for most Australians. Which generally leads to the question: how do I start accessing my super funds when I do stop working, or maybe even before I stop working? This article focuses on the basics, including the general eligibility rules around accessing your super and how to switch your super accumulation account to an account-based pension.

What age can I access my super?

To legally access your super for retirement purposes, you generally need to have met a condition

of release by reaching what’s known as your preservation age.
That’s slightly complicated. In the majority of cases it means you have already turned 60 and have either stopped working completely or are starting a transition to retirement income stream (see below).
However there’s a small opening that's about to close, allowing slightly earlier access. The preservation age also extends to people who are now aged 59 (born on or after 1 July 1963) and who will turn 59 on or before 30 June 2024. Those born after 30 June 1964 will need to wait until they turn 60.

How do I access my super?

Having reached your preservation age, you have the options of turning on a pension income stream, making a lump sum withdrawal, or doing a combination of both.
Importantly, to start accessing your super, and if you don’t want to take out a lump sum, you will need to open a pension account and transfer some or all of your super across. You may need to contact your super fund to find out their process, but it’s usually as simple as lodging a request with your fund by filling out a form and providing information such as where you want your pension payments to be made and some proof of identification.
You then decide how much you want to transfer, nominate the size and frequency of your pension account payments (there are minimum annual withdrawal amounts), and how you want the funds in your pension account invested.
There is a limit on the maximum amount that can be transferred as a tax-free retirement income stream from super to a pension account, known as the transfer balance cap. This is currently set at $1.9 million. The Tax Office keeps track of how much you transfer, and if you go over the cap it will levy an excess transfer balance tax.
If you have more than $1.9 million in super you have the option of keeping the excess in your super account and paying up to 15% tax on your earnings, or you can withdraw the excess as a lump sum. From 1 July 2025 a 30% tax rate will apply on earnings from super accounts with balances above $3 million.

How can I transition to retirement?

If you’re still working you have the option of drawing down on your super by starting a transition to an account-based retirement income stream (TRIS). This can enable you to reduce your current working hours and use your TRIS pension payments to top up your part-time income.
At the same time, as you’re still working, you will continue to receive compulsory super guarantee payments from your employer (which are taxed at the normal rate of 15%) into your super accumulation account.

What are the tax considerations in pension mode?

If you’re aged 60 or over and retired, any income earned on your pension assets is tax free and so are pension payments you withdraw.
It’s slightly different for those on a TRIS. If you’re 60 and over you pay no tax on your TRIS pension payments. If you’re under 60 and have a TRIS you are taxed at your marginal tax rate but receive a 15% tax offset on the taxable portion of your income stream. No tax is payable on the tax-free portion. Investment earnings in a TRIS are taxed at up to 15%.

What are the minimum pension withdrawal amounts?

There are restrictions on how much can be withdrawn tax free through a TRIS in a financial year if you’re under 65, until you’ve met a condition of release. The minimum withdrawal amount is 4% of your super balance and the maximum is 10%.
Once you’ve rolled over some or all of your super to an account-based pension you are required by law to withdraw a minimum pension amount each financial year, which is a percentage of your account balance based on your age. For new pensions, the minimum withdrawal amount is calculated on a pro-rata basis from when a pension commences to the end of the financial year.

The table below shows the required minimum withdrawal rates.

Age on 1 July of pension commencement and on each 1 July thereafter	Minimum withdrawal amount based on pension balance for 2024/2025
Under 65	4%
65 to 74	5%
75 to 79	6%
80 to 84	7%
85 to 89	11%
95 and over	14%

Source:
Australian Tax Office
Any amounts leftover in your pension account when you die will go to your nominated beneficiaries. Depending on the type of beneficiary (reversionary, spouse, dependant or non-dependant) the amounts can be paid as an ongoing pension stream until the account runs out or as a lump sum.

Consider getting professional advice

If you're wanting total financial flexibility in retirement, you could consider leaving part of your money in super, rolling over some of it into an account-based pension, and also withdrawing lump sums whenever you need to.
There are a range of benefits from adopting a combination of your options, although there may also be potential tax consequences for both you and your beneficiaries.
Managing the combination of a super accumulation account, an account-based pension, an Age Pension entitlement (if eligible), potential investment earnings outside of super, and irregular lump sum payments, can be highly complex.

Source:
https://www.vanguard.com.au/personal/learn/smart-investing/retirement/how-to-shift-into-pension-mode

How many assets can you have and still be eligible for the Age Pension?

There are two basic hurdles you have to pass before you become eligible for the Age Pension – the income test and the assets test.

Assets test.

What exactly is it? Well, the assets test sets out how many assets you can own and still be eligible for the Age Pension. Go above that limit and you may only get part payments or no payments at all.

Assets included in the assets test include:

- financial investments including shares and securities
- home contents, personal effects, vehicles and other personal assets
- managed investments and superannuation
- real estate
- annuities, income streams and superannuation pensions
- shares
- gifting
- sole traders, partnerships, private trusts and private companies
- deceased estates.

Centrelink also takes into account any assets you and your partner, if you have one, own overseas and any debts owed to you.

The following are the asset limits.

Limits for a full Age Pension

Your situation	Homeowner	Non-homeowner
Single	$301,750	$543,750
A couple, combined	$451,500	$693,500
A couple, separated due to illness, combined	$451,500	$693,500
A couple, one partner eligible, combined	$451,500	$693,500

Limits for a part Age Pension

Your situation	Homeowner	Non-homeowner
Single	$667,500	$909,500
A couple, combined	$1,003,000	$1,245,000
A couple, separated due to illness, combined	$1,183,000	$1,425,000
A couple, one partner eligible, combined	$1,003,000	$1,245,000

What's not included in the assets test is your primary residence and up to two hectares on the same title and some funeral bonds and prepaid funerals.

Some rural landowners also have exceptions if they meet certain conditions, including:

- they have reached pension age
- have lived there for the past 20 years or more
- pass the land use test.

The land use test is about not forcing people off their land to gain a retirement income. The Australian government does not believe older Australians on farms and rural residential areas should have to move from their principal home, where they have lived for a long time, to gain an adequate retirement income.

According to the Department of Social Security, the extended land use test is designed to enable people of Age Pension age with a long-term attachment to their land and principal home to stay in their home into their retirement. To do this, the person must make effective use of productive land to generate an income, given their capacity.

"If a person is eligible to have the extended land use test applied they can have the area of land adjacent to the principal home, that is more than two hectares and held on one title document, exempt from the assets test provided they are making effective use of the land," the ruling states.

If your eligibility for the Age Pension does rely on the assets test, it's worth noting the Department of Social Services reviews these limits and cut off points in March, July and September each year. If your asset level changes, say for example if you sell your principal home, you must let Centrelink know within 14 days.

You can let Centrelink know through your myGov account if you have one or through:

- the Express Plus Centrelink mobile app
- Centrelink phone self-service.

How to reduce your assets to pass the assets test

You can revalue your assets. Unless your vehicles and personal assets such as furniture and jewellery are of exceptional quality, chances are they are worth a fraction of their original value. Centrelink only considers 'market price', so you can value them at what you could expect to sell them for on Facebook marketplace or a garage sale. If you spend a little time online you will find even stunning antiques that are only selling for a few hundred dollars each.

As your principal home is exempt from the assets test you can pay for some renovations. This would transfer any cash you have into your house, increasing its value and decreasing your bank account.

You can gift money or assets. However, the government doesn't like you just giving money away to qualify for the Age Pension, there are some strict rules.

The maximum allowable value of the gift is the same if you're a single person or a couple. They are both:

- $10,000 in one financial year
- $30,000 over five financial years – this can't include more than $10,000 in a single financial year.

Centrelink doesn't just consider financial gifts, it also takes into consideration the value of gifts such as a car.

Three things to consider when switching your super

Understanding how your super works and ensuring you get the most from your fund are essential to achieve the retirement lifestyle you envision.

Three things to consider when switching your super

The superannuation guarantee is a percentage of your income put aside by your employer over your working life to help you fund your retirement.

It's easy to forget sometimes that superannuation counts as investing and is in fact one of the most important long-term investments Australians will ever make, particularly as super is now the second largest component of household wealth after property assets and still the foundation of retirement savings.

Understanding how your super works and making sure you are getting the most out of your fund is therefore essential to growing your wealth and ensuring you can live the retirement lifestyle you envision.

Choosing a super fund and investment option may seem daunting, or simply just not on your radar as retirement may seem too far in the future to think about now. The danger with this however is that if you don't select a super fund for your employer to pay contributions into, you could end up defaulting into a fund that is underperforming or end up with several funds on which you'll have to pay individual fees. This will impact your superannuation balance in the long run.

1. What kind of investor are you?

Consider first what kind of approach you'd like to take toward your super as this can then help inform which investment offer you select. For example, are you more of a hands-off investor who prefers to leave investment decisions like asset allocation and rebalancing to your super fund's investment experts? Or are you more hands-on and would prefer to mix and match investment options to build a super portfolio that's unique to you?

For those who prefer a hands-off approach, most super funds offer a MySuper default option that usually invests in a single diversified fund or a lifecycle offer. These default options are designed to be simpler, balanced, more cost-effective and less maintenance.

Vanguard Super's MySuper option for example is called Lifecycle and is designed to automatically adjust your investment mix according to your age, allowing you to set and forget.

Vanguard Super also offers a choice menu for more confident investors who would like to select from a range of single sector and diversified investment options to build their own portfolio according to their goals and risk tolerance.

2. Compare your options

As with all investing, doing your own research or consulting a licensed financial adviser is important. When selecting or switching super funds, there's a range of factors you could consider including investment options, investment performance, insurance, user experience, and importantly, fees.

There are a few tools online that can help you easily compare super funds and find one that best suits your circumstances. The MoneySmart website created by the Australian Securities and Investments Commission is a great place to start, as well as the Australian Tax Office's YourSuper comparison tool.

3. Understand your fees

The long-term impact of fees on superannuation balances can be significant if left unchecked. New research from Vanguard Australia revealed that 1 in 2 Australians don't know what they pay in annual fees.

According to an analysis conducted by the Productivity Commission, just a 0.5% increase in fees could cost a typical full-time worker around $100,000 by the time they retire.

That's why it's critical to not only understand your fees but also make sure your fund is low cost.

Source:
https://www.vanguard.com.au/personal/learn/smart-investing/retirement/three-things-to-consider-when-switching-your-super *https://www.vanguard.com.au/super/*
https://moneysmart.gov.au/
https://www.ato.gov.au/calculators-and-tools/super-yoursuper-comparison-tool

---

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

Phone: 1300 375 357

Email: admin@corefinancialservices.com.au

Perth: 45 Ventnor Avenue, West Perth WA 6005

Melbourne: Level 23, Collins Street, Melbourne VIC 3008

Sydney: Level 24, Three International Towers, 300 Barangaroo Avenue, Sydney NSW 2000

IMPORTANT INFORMATION:

This document has been prepared by Core Financial Services Pty Ltd ABN 91 607 163 646, AFSL 480009. Core Financial Services advisers are authorised representatives of Core Financial Services Pty Ltd. Information in this document is based on current regulatory requirements and laws, which may be subject to change. While care has been taken in the preparation of this document, no liability is accepted by Core Financial Services, its related entities, agents and employees for any loss arising from reliance on this document. This document contains general advice. It does not take into account your individual objectives, financial situation or needs. You should consider talking to a financial adviser before making a financial decision. Taxation considerations are general and based on present taxation laws, rulings and their interpretation and may be subject to change. You should seek independent, professional tax advice before making any decision based on this information. Should you wish to 'opt out' of receiving direct marketing material, please contact your financial adviser.