INSIDE

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FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

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Compensation payments: Avoiding contribution issues

Superannuation fund trustees who receive compensation from financial institutions and insurance providers must consider how receipt of these payments may impact a member's contribution caps.

A superannuation fund may have a right to seek compensation if it entered into a legal contract or agreement with a financial services provider or insurance provider, paid the fees or premiums for the fund's assets, allocated the cost of the members, and:

- the financial service or advice was not provided
- the advice was deficient, or
- the insurance premiums for death or disability insurance cover were overcharged.

The compensation may include an amount reflecting a refund or reimbursement of adviser fees and /or an amount to compensate for lost earnings. It may also include an interest component.

If a superannuation fund receives such compensation, the fund's trustee must be aware of possible superannuation, income tax and GST consequences for the fund.

The implications for the fund and members – The ATO have released a superannuation contribution caps factsheet that explains how the receipt of compensation payments to a superannuation fund may impact contribution caps.

Whether compensation is a contribution will depend on the circumstances in which the compensation is received. The circumstances are summarised below.

Knock-on effects for members – The following issues should also be considered by superannuation fund members who have received compensation payments:

- If the payment results in the member exceeding their concessional or non-concessional contribution cap, the member can apply to the ATO to request the Commissioner to exercise their discretion to disregard the excess contributions or reallocate them to another year.
- The ATO is unlikely to exercise its discretion if the compensation is paid to the member and the member contributes to their

superannuation fund, or the member directs the financial service provider to pay the compensation to their superannuation fund for their benefit. This is because making the contribution to superannuation is in the member's control.

- If a compensation payment is a non-concessional contribution and causes the member to trigger the bring-forward rule, although the member may not exceed the cap in the first year, it could cause problems in the second or third years of the bring-forward period. Where the member subsequently makes a contribution in the second or third years that results in the member exceeding their cap, the ATO has stated there would have to be a special circumstance in relation to the contribution made in the later year for it to exercise its discretion.
- If the compensation payment is a concessional contribution, there may be Division 293 tax consequences if the member's combined income and concessional contributions exceed the income threshold the financial year, they receive the contribution. From 1 July 2017, the Division 293 threshold is $250,000.

CIRCUMSTANCE	TREATMENT OF COMPENSATION
Where the superannuation fund engaged the financial service provider and has a right to compensation.	Not considered to be a contribution and won't affect contribution caps.
Where the member personally engaged the financial services provider and has a right to compensation.	If paid directly by the financial service provider to the superannuation fund (other than at the member's direction) this is considered a concessional contribution in the financial year it is received by the fund. However, if the member directed the financial service provider to pay the compensation to their fund, or it was paid to the member and the member subsequently contributed it to superannuation, it will be considered a non-concessional contribution in the financial year it is received by the fund.
Where there is no right to seek compensation.	Considered a concessional contribution in the financial year it is received by the fund

Source: Butler Settineri

A closer look at Buy Now Pay Later

Buy Now Pay Later (BNPL) services can help to put aspirational purchases within reach, but it's important to be aware of the potential risks of delaying payments.

Buy Now Pay Later services are becoming increasingly more popular, with over 2 million users in Australia according to the ASIC report. If you haven't used one of these services before it essentially allows you to receive the goods or services today, and pay for it in later instalments. Here we look at how people are using this service and some key factors to be aware of to ensure it doesn't negatively impact your financial situation.

Gone are the days of putting an item on layby and patiently waiting as you chip away at the repayments over time. Thanks to BNPL services, such as After Pay, we no longer have to wait to get the items, and even services, that we want. Offering convenience and instant gratification, BNPL services are understandably popular among Australians, with new competitors still entering the market to fulfil demand.

In fact, according to Roy Morgan, 1.95 million Australians used a BNPL service in the year to September 2019, with people aged 25-34 being twice as likely to sign up than any other age group.

What are people buying? Almost anything! The range of products available on BNPL is growing, from home essentials like groceries or appliances to luxuries like cosmetics dental work or a gym membership.

While BNPL services offer many benefits, its important to be conscious of the impact that delaying payments could have on your finances, such as appearing on your credit report, which can impact your ability to borrow money in the future.

The risks associated with Buy Now Pay Later –

1. **Lack of regulation.** Anyone is able to use BNPL services, whereas credit card providers have strict regulations as to who they can issue a credit card to. Since they don't charge interest, BNPL organisations aren't regulated in the same way as a credit card provider. A report commissioned by

ASIC discovered that only 1 in 6 BNPL providers assessed the income and debts of their customers before allowing them to use the platform. Long-term this means that due to no regulations, it is easy to wind up in great debt ultimately affecting credit rankings

2. **Over-commitment.** The lack of immediate full payment means it is easy for people to make multiple purchases without considering the overall financial impact it may have on them. **One in four** Australians admits to regretting a BNPL purchase or hiding it from friends or family.
3. **Fees.** When using BNPL service, it is important to make timely repayments or risk being charged a relatively significant fee. For example, a $10 After pay late fee is equivalent to paying 6.67% interest on a debt of $150.
4. **Changing shopping habits.** Using a BNPL service has been shown to affect how people spend. **55% of users** admit to spending more than they usually would when they can use BNPL, and this is often on non-essential items. In a survey by Mozo, 60% of BNPL users say they are making luxury purchases like clothing or makeup. Overspending could affect long-term budgeting.

If you need further information on how to effectively use BNPL services, or help with managing your finances more broadly, speak to your financial adviser and they can help you with budgeting tools and can take the time to understand your individual needs and work with you to build a tailored plan to ensure you are in the best financial position for the future. Source: TAL

11 Things everyone should know about their super

If you want to know more about how your super compares, where your money's invested, or who'll get your super if you pass away, this list is for you.

Super is there to provide you with an income when you stop working and it may provide a tax-effective way to save for your retirement over the long-term.

What's probably more interesting, is in time your super may become one of your largest assets.

We don't often think about that, but it's a good reason why you may want to pay a closer attention to it

1. **Who pays your super –** Generally, your super savings will build up over the course of your working life, as money you earn is put into super by yourself, or by your employer **under the super guarantee,** if you're eligible. You can make additional voluntary contributions to your super to boost your retirement savings if you choose to. However, there are limits on the amount you can contribute each year and there are separate caps, depending on the types of contributions you're making.
2. **Where your money's invested –** Any time money is deposited into your super, its invested on your behalf by the trustee of your super fund. Investments can be made into property, shares, cash deposits and other assets depending on your default investment profile, or if you've made your own investment selections. Most funds will allow you to choose from a range or mix of investment options and asset classes and choosing the most suitable option will typically come down to your attitude to risk and the time you have available to invest. For instance, some people may choose to take on more conservative options with lower returns as they get older.
3. **How to see what your employer's paying you –** Super guarantee (or SG) contributions made by your employer, if you're eligible, should be at least 10% of your ordinary (not overtime) earnings if you're making $450 or more each month.
Meanwhile, as these contributions may be the foundation of your future savings, its important to check they're being paid correctly. You can do this by reviewing your payslips, checking your super statements, calling your super fund or logging into your online account to see what's been put in. Keep in mind, your employer super contributions also only have to be paid into your fund four times a year (at a minimum) which means your super may be paid at different times to your employment income.
4. **Where to go if something doesn't look right –** if your employer hasn't paid super, speak to the person who handles payroll at your work.

5. How your current super balance stacks up - In many cases you can check out your super balance online via your super fund's website or the statements they send you. Meanwhile, if you're interested to know how your balance fares and what you might need each year in retirement, the Association of Superannuation Funds of Australia puts out a report each quarter.

6. How to find your lost or unclaimed super – What can happen when you set up a new super fund and forget to roll over what you accumulated in a previous one, or if you forget to update your details with your providers when you change them. You can search for lost or unclaimed super by doing a super search with your current super fund or by logging into your **MyGov account** to find your super funds.

7. What to look at if you roll two funds into one – If you have more than one super account, there may be advantages to rolling your accounts into one, such as paying one set of fees and less paperwork. If you decide to consolidate, make sure you don't risk losing features and benefits including life and other insurance that may be attached to the account you're considering closing.

8. How to check your insurance if you have it – Most super funds let you pay for personal insurance out of the money in your super fund, but there are pros and cons worth weighing up. For instance, insurance through super can often be cheaper than personal insurance bought outside super, but you may not get the same level of cover.

9. How to make sure the right people get your money if you pass away – If you don't nominate a beneficiary with your super fund, the super fund may decide who receives your super money when you pass away, regardless of what you have in your will. There are two types of beneficiary nominations you can make, binding and non-binding. If you make a binding nomination your super fund is required to pay your benefit to who you have nominated, as long as the nomination is valid when you pass away. Non-binding nomination, your super fund will have the final say as to who receives your super benefits but will attempt to find all potential beneficiaries then decide on the most appropriate.

10. What age can you withdraw super – The government sets general rules around when you can access your super, which typically won't be until you reach your preservation age (which will be between 55 and 60, depending on when you were born). At this time, you may choose to take the money as a lump sum, income steam, or a bit of both. Speak to your financial adviser.

11. When can you no longer contribute to super – Once you turn 75, generally you can no longer make voluntary contributions to your super, with some exceptions, which may include if you're selling your home and making a downsizer contribution.

Compulsory SG contributions made by your employer, if you're still working, can still be paid.

Many people think of their super as an investment that takes care of itself, but the choices you make about your super today, could make big difference to your quality of life later on. Source: AMP Insights

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

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