May 2024

As winter approaches and the weather grows cooler, commentary around the 2024-25 Federal Budget is heating up, with the government facing the tension between addressing cost of living pressures without contributing to rising inflation.

The cost of living continues to bite with consumers keeping their wallets firmly closed. Retail sales fell 0.4% in March after getting a boost from the 'Taylor Swift effect' the previous month and prices continue to rise with a CPI increase in the March quarter to 3.6% annually. Education, health, housing and food recorded the biggest price increases for the quarter.

The markets have been subdued too with the prospect of further interest rate rises both in Australia and the US. The S&P/ASX 200 was down by about 2.5% for April. Some economists are predicting that we may not see the first cuts in interest rates until November. Mining stocks have been generally buoyant as commodity prices continue to surge while the energy and retail sectors have struggled.

The Australian dollar is back from the doldrums mid-month to end April at just over US65c. But with a strengthening US dollar, economists are rethinking their six-month outlooks for the Aussie with predictions now of between US65c and US69c. The surprise player in our currency's fortunes has been the ailing Japanese yen. Its weakness has been our gain with the Aussie ending April above 100 yen, its highest level since 2014.

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More money in your pocket, by paying off your *mortgage faster*

For most of us, our mortgage is our biggest financial burden – and one that'll be with us for decades. However, it's important to remember that the life of a home loan doesn't need to be as long as the contract suggests; you're free to pay it off faster and take that financial load off your shoulders sooner.

Chipping away at your mammoth mortgage takes a committed plan, so here are some savvy ways to be debt-free earlier than originally planned.

Consider making fortnightly payments

If you're paying your mortgage off monthly, consider switching to fortnightly repayments. It may seem like a trivial move, but by paying half the monthly amount every two weeks you can actually make the equivalent of an extra month's repayment each year. This small move will compound over the life of your loan, reduce the interest paid and allow you to pay off your principal sooner.

Case study

Peta and Alex have a new home loan of $500,000 at a variable interest rate of 6.66% per annum and they've chosen to repay principal and interest over a 30-year term. Their monthly repayments at that rate would be $3,213 (not including additional fees and charges).

But if the couple decide to make fortnightly repayments of half their original monthly repayment ($1,607) they would be paying more off their mortgage by the end of the year, i.e., less interest therefore saving them money.

In the long term, they'd pay off their loan more than six years sooner and save around $160,000 in interest (if their interest rate remained the same for the life of the loan).

Make a lump sum payment

A one-off lump sum payment like a redundancy cheque or inheritance as well as semi regular additional payments such as a tax return or work bonus – especially during the first few years of a typical mortgage – could carve years (and cash) off your mortgage and help you get debt-free faster.

It's important to note that placing a lump sum payment on your mortgage won't lower your repayments. However, it will help you save on the interest component and lower the total amount of time left on your home loan.

Look at refinancing

By giving your existing mortgage a health check, you could find there is a better rate, or even a better bank, out there for you. Just because you signed on the dotted line for 20, 25 or 30 years doesn't mean you need to stick with the same lender.

Refinancing could get you a lower interest rate which would ease the hip pocket, but if you can manage to keep making the higher repayments moving forward, you'll end up reducing the life of your loan.

If you have at least 20% equity in your home and a great credit score, you'll have more bargaining power. Carefully read the fine print to be aware of hidden costs like annual fees or 'honeymoon' interest rates that could change after an introductory period, application fees, valuation fees and break fees.

Get into an offset account

You don't need to keep your savings and your mortgage separate, in fact, they work better together. By putting your savings or even salary in an offset account with a redraw facility, you can reduce the amount of interest you pay but still have access to your funds if you need them.

Ultimately, the more money you keep in your offset account, the bigger the savings and the faster your loan will be paid off.

To work out how you could be mortgage-free sooner while shaving thousands off your home loan talk to us today.

NOTE: Interest rates, fees, regular repayments, and the potential savings will vary depending on your unique circumstances. All calculations have been calculated using the moneysmart.gov.au mortgage calculator.

NEW increased super contribution caps

As the end of financial year gets closer, some investors are thinking about the most effective ways to boost their super balance, particularly with an increase in the caps on contributions from 1 July.

The concessional contributions cap, (which is the maximum in before-tax contributions you can add to your super each year without paying extra tax), is increasing to $30,000 from $27,500 in the new financial year.[i]

The cap increases in line with average weekly ordinary earnings (AWOTE).

It is also useful to be aware of payment and reporting timelines. For example, your employer can make super guarantee contributions up until 28 July for the final quarter of the financial year and salary sacrifice contributions up until 30 June.

Any amounts showing on the ATO website for your account are based on when your fund reports to the ATO.

Carry forward unused amounts

If you haven't made extra contributions in past years, you may have unused concessional cap amounts.

These can be carried forward, allowing you to contribute more as long as your super balance is less than $500,000 at 30 June of the previous financial year.

You can carry forward up to five years of concessional contributions cap amounts.

Getting close to exceeding the cap?

If you're worried about going over the cap, you may wish to stop any further voluntary contributions based on an assessment of the extra tax you will pay.

For those with two or more employers, you may opt out of receiving the super guarantee from one of the employers.

Meanwhile, if special circumstances have caused you to exceed your cap, it's possible to apply to the ATO for some or all of the contributions to be disregarded or allocated to the next financial year.

But, if all else fails and you have exceeded the cap, the excess contributions will be included in your assessable income and taxed at your marginal rate less a 15 per cent tax offset. The good news is that you can withdraw up to 85 per cent of the excess contributions from your super fund to pay your tax bill. Any excess contributions left in the fund will be counted towards your non-concessional contributions cap.

Timing is everything

The upcoming Stage 3 tax cuts, which commence on 1 July 2024, may affect the value of your concessional contributions. For some, tax benefits may be greater if contributions are made before the tax cuts begin.

Please check with us about your circumstances to make sure you make the most effective move.

Non-concessional cap also increased

The non-concessional contributions cap is the maximum of after-tax contributions you can make to your super each year without paying extra tax.[i]

The non-concessional cap is exactly four times the amount of the concessional cap so it increases from $110,000 to $120,000.

If you exceed the cap, you may be eligible to use the 'bring forward rule', which allows you to use caps from future years and possibly avoid paying extra tax. It means you can make contributions of up to two or three times the annual cap amount in the first year of the bring forward period.[ii]

If your total super balance is equal to or more than the general transfer balance cap ($1.9 million from 2023–24 and 2024-25) at the end of the previous financial year, your non-concessional contributions cap is zero for the current financial year.

We'd be happy to help with advice about how the changes in contribution caps might affect you and whether you are eligible for the bring forward rule.

i Understanding concessional and non-concessional contributions | Australian Taxation Office (ato.gov.au)

ii Non-concessional contributions cap | Australian Taxation Office (ato.gov.au)

Caught IN THE middle:

HELP FOR THE SANDWICH GENERATION

If you are feeling a bit like the meat in the sandwich you are not alone. The 'sandwich generation' is a growing social phenomenon that impacts people from all walks of life, describing those at a stage of their lives where they are caring for their offspring as well as their elderly parents.

The phenomenon is gathering momentum as we are tending to live longer and have kids later. It even encompasses royalty – Prince William has been dealing with a sick father while juggling school aged kids (as well as a partner dealing with serious health issues).

A growing phenomenon

The number of people forming part of the sandwich generation has grown since the term was first coined in the 1980's, as we tend to live longer and have kids later. It is estimated that as many as 5% of Australians are currently juggling caring responsibilities which has implications for family dynamics, incomes, retirement and even the economy.[i]

Like many other countries, the number of older Australians is growing both in number and as a percentage of the population. By 2026, more than 22 percent of Australians will be aged over 65 – up from 16 percent in 2020.[ii] It is also becoming more common for aging parents to rely on their adult children for assistance when living independently becomes challenging.

The other piece of bread in the sandwich is that as a society we are caring for kids later in life. The median age of all women giving birth increased by three years over two decades.[iii]

And with young people staying in the family home well into their twenties, we are certainly supporting our children for longer. Even after the kids leave the nest, it's also common for parents to become involved in looking after grandchildren.

Taking its toll on carers

While we want to support our loved ones, when that support is required constantly and intensively for both parts of the family, it can mean that something has to give and that 'something' is often the carer's well-being.

Even if you are not part of the sandwich generation but being squeezed at either end – caring for kids or parents, acting as a primary care-giver often requires you to provide physical, emotional, and financial support. It's common to feel it take a toll on your own emotional and physical health, and sometimes your finances as you sacrifice some of your savings or paid work to help your loved ones.

Support for caregivers

It can be difficult to acknowledge you need assistance but there are a number of ways you can access help.

Deciding what to get help with

It can feel like there is not enough hours in the day and that's overwhelming. Try to think about what you really need to do and where your time is best spent and consider if you can get assistance with tasks or duties you don't have to do. This may mean outsourcing things like buying a healthy meal instead of cooking or getting a hand with gardening or lawn mowing.

Think about what others could assist with to lighten and share your load.

Accessing support

There are also support networks out there that exist to take off some of the pressure. Reach out to local support networks via *Carers Australia* for help identifying mainstream and community supports.

You or your loved ones may also be entitled to government support, under the *National Disability Insurance Scheme* (NDIS) or *My Aged Care*. These programs provide funding and resources to help pay for essential care; from domestic assistance with cleaning and cooking, to home modifications, to 24-hour care for those who require more support.

The importance of self-care

It's vital to take some time out for yourself and make your own wellbeing a priority. Don't feel that it's selfish to take care of your own needs as that's an essential part of being a carer. Resources like respite care and getting support when needed is an important gateway to self-care.

Managing your finances

Caregiving can put financial pressure on the whole household and has the potential to impact retirement savings. The assistance of a trusted professional can help, and we are here if you need a hand.

Raising kids as well as supporting parents to live their best lives as they age is becoming more common and can be a challenging time of life. While the act of caring is the ultimate act of kindness – the most important thing to remember is to be kind to yourself.

i https://info.careforfamily.com.au/blog/sandwich-generation

ii https://www.sydney.edu.au/news-opinion/news/2023/10/09/confronting-ageing-the-talk-australia-has-to-have.html

iii https://www.abs.gov.au/ausstats/abs@.nsf/2f762f95845417aeca25706c00834efa/b130815d4b2de356ca2570ec000c1c60!OpenDocument