Media Release

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Planning for the new financial year: back to basics budgeting top of mind

Stubborn inflation and cost of living pressures are dominating adviser conversations amongst some client segments, as many Australians review their income needs and rein in expenses in the short term, while also planning for retirement.

With the end of the current financial year fast approaching, advisers have been meeting with clients to plan for the year ahead, and those in the mass affluent segments are focused on managing household budgets and boosting income, as well as superannuation and tax strategies.

"Retirees as well as those who are on the cusp of retirement are all consumers, and many are impacted by cost of living increases," said Bryan Ashenden, Head of Financial Literacy and Advocacy, BT. "Add to this the fact that one out of two Australian homeowners are still paying off a mortgage when they reach retirement,[1] and it becomes very clear that the 'higher for longer' interest rate environment is making household budgeting and saving for retirement challenging for some. Understandably, back to basics budgeting is top of mind for these clients and their advisers."

Mr Ashenden added that the recent Federal Budget announcement on rebates for electricity bills is prompting clients to examine their expenses more thoroughly, to identify any other potential savings. On the other side of the ledger, retirees are also looking at ways to boost their income, including by updating their investment strategies and checking if they are eligible for social security payments.

"Whilst financial advisers tend to contact us about technical topics, their questions on super, tax and social security are often in the context of finding savings and increasing income for their mass affluent clients, in the current environment," said Mr Ashenden. "For high-net-worth clients, the proposed Division 296 tax – on superannuation balances over $3 million – remains a key focus."

BT's Technical Services team fields over 8,000 queries from advisers each year. Their end of financial year tips, based on the most popular advice themes raised by advisers in the June 2024 quarter, are outlined below.

1. Boosting income

Australians are living longer than previous generations and typically will spend around 20 to 30 years in retirement.[2] "It's important to consider your income needs and plan to enjoy an active life, for longer," said Mr Ashenden. "Right now, there are also short-term considerations as well, as retirees might be finding that their well-planned budgets need to be revised."

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[1] In the 2019-20 financial year, the portion of homeowners aged 55 to 64 with mortgage debt reached 54%, Australian Bureau of Statistics figures, referenced in SMH: https://www.smh.com.au/money/super-and-retirement/more-than-half-of-retirees-and-older-workers-have-mortgage-debt-20230921-p5e6it.html

[2] The average age of retirement in Australia is 56.3 years: https://www.abs.gov.au/statistics/labour/employment-and-unemployment/retirement-and-retirement-intentions-australia/latest-release. In 2019-2020, a 65-year-old had a life expectancy of 85.3 years for a male and 88 years for a female: https://www.aihw.gov.au/reports/life-expectancy-deaths/deaths-in-australia/contents/life-expectancy

Around 80% of older Australians are feeling the impact of higher living costs, with health costs, energy prices and groceries being the top three worries for them.[3] Retirees who are looking for ways to boost their income may benefit from using savings accounts, which are paying better rates while interest rates are high. However, that may not be enough to offset the higher costs of living.

"Clients may be missing out on better returns that equities and other asset classes can produce over longer investment periods," said Mr Ashenden. "The new financial year is a good time to review investment strategies. Investors might want to weigh up whether riskier but higher return investments are appropriate for those who are investing for the medium to long term."

2. **Social security payments**

"When considering how to boost income and find savings, it's also important to assess whether retirees are entitled to any government support, such as the age pension or concession cards that give them access to more affordable health care and medicines," said Mr Ashenden.

To help address cost of living increases, especially housing, Commonwealth Rent Assistance will increase by 10% from 20 September 2024. Regular indexation will also be applied on top of this increase. Mr Ashenden said: "This social security measure benefits more people than what some clients might expect; for example, those who are living in retirement villages may qualify for rent assistance."

Clients who are planning to have children may benefit from the introduction of super guarantee contributions – these will be paid to those in receipt of the government-funded paid parental leave scheme from 1 July 2025.

3. **One more year to plan for increased tax on super balances exceeding $3m**

The Federal Budget made no mention of the proposed Division 296 tax which, if passed, will reduce the superannuation tax concessions for those with total superannuation balances that exceed $3 million. Mr Ashenden said: "This indicates that the legislation relating to Division 296 might go ahead with no significant amendments."

Under the proposal, from 1 July 2025, clients will pay an additional 15% in tax on earnings corresponding to the portion of their superannuation balance above $3 million.

"While the tax is not yet law, many advisers have been on the front foot and have already discussed this proposed change with clients. For those who haven't, there is still ample time to do so," Mr Ashenden said. "There is no one size fits all formula for calculating the additional tax payable, as there are certain circumstances that need to be taken into account."

4. **Bear in mind the revised FY2025 tax cuts, and contribute to super where you can**

Earlier this year the Government announced that it would amend the 'Stage 3' personal income tax cuts, giving more tax cuts to those on lower income tax brackets. Anyone who has a tax liability will obtain a benefit from the Stage 3 tax cuts, with a lower amount of tax liability arising from 1 July 2024 – a welcome relief for many working Australians. Relief, but at a reduced level to what was previously proposed, will be provided to those on higher income levels.

"The tax cuts will alleviate some cost-of-living pressures, and many clients will put the additional money in their pay packet towards paying the mortgage and household bills," said Mr Ashenden.

"Some people may be able to contribute more towards their super. Anyone making voluntary contributions should be aware of their available cap space and whether they have any carry forward cap space available."

'Cap' refers to the maximum amount you can contribute to your super each financial year before paying additional tax. Clients should understand the implications if they are at risk of going over their cap.

[3] https://nationalseniors.com.au/news/media-release/80-of-over-50s-hit-by-cost-of-living

5. EOFY strategy for self-managed super funds

For SMSFs, a particular strategy to be aware of at EOFY relates to contribution reserving. “The way this works is, put simply, you can make additional contributions to your SMSF in this financial year and make it count as a tax deduction, but you can elect to not have it count towards your cap until the next financial year,” Mr Ashenden explained.

The ATO normally requires voluntary or concessional contributions received by an SMSF to be allocated to a member within 28 days after the end of the month. However, if the contribution is received by the SMSF in June of a financial year, then the SMSF trustee can elect to have this count towards the next financial year for contributions cap purposes.

To implement this contribution reserving strategy, the SMSF trust deed must include certain provisions.

“The end of the financial year is a great opportunity to check in with clients and deepen relationships,” Mr Ashenden said. “These EOFY tips may be handy conversation starters for advisers as they are topical, and there’s something relevant for a variety of client groups, including retirees, high-net-worths, clients with young families and SMSFs.”

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