CLASS

Class Ignite 2024 | Get Connected

Revolutionizing Retirement: Dynamic Strategies for Young Adults Using SMSFs

Get Connected. Explore Opportunities.
Be Inspired.

Disclaimer

- The information contained in this document is provided by Class Pty Limited ABN 70 116 802 058 and its subsidiaries (collectively, Class) and is current as at 20 August 2024.
- It is factual information only and is not intended to be financial product advice, legal advice or tax advice, and should not be relied upon as such. This information is general in nature and may omit detail that could be significant to your particular circumstances.
- This information is provided in good faith and derived from sources believed to be accurate and current at the date of publication. The information given in this document is in summary form and does not purport to be complete. While reasonable care has been taken to ensure the information is correct at the time of publishing, superannuation and tax legislation and circumstances can change from time to time.
- Accordingly, neither Class nor any of its related bodies corporate make any representations or warranties as to the completeness or accuracy of the information in this document and none of these entities is liable for any loss arising from reliance on this information, including reliance on information that is no longer current. We recommend that you seek appropriate professional advice before making any financial decisions. Links to third-party websites are inserted for your convenience, but do not constitute endorsement of material on those sites or the relevant providers.

Agenda

1. Why should today's young Australians think about retirement goals

2. Set good foundations: Financial Literacy and Cultivating Good Habits in Youth

3. Case studies: Strategies for Building Wealth through Super

4. Key Takeaways

1.0 Why should today's young Australians think about retirement goals?

1.1 How much does the younger generation need to retire?

Type	High savings targets for pre-retirees (aged 55-59)			High savings targets for retirees (aged 65-69)		
	Fortnight	Annual	**Balance**	Fortnight	Annual	**Balance**
Single	$2,269	$59,000	**$777,000**	$2,115	$55,000	**$795,000**
Couple	$3,346	$87,000	**$1,037,000**	$3,077	$80,000	**$1,055,000**

Source: MoneySmart > **Super Consumers Australia's retirement savings targets**

Key points!

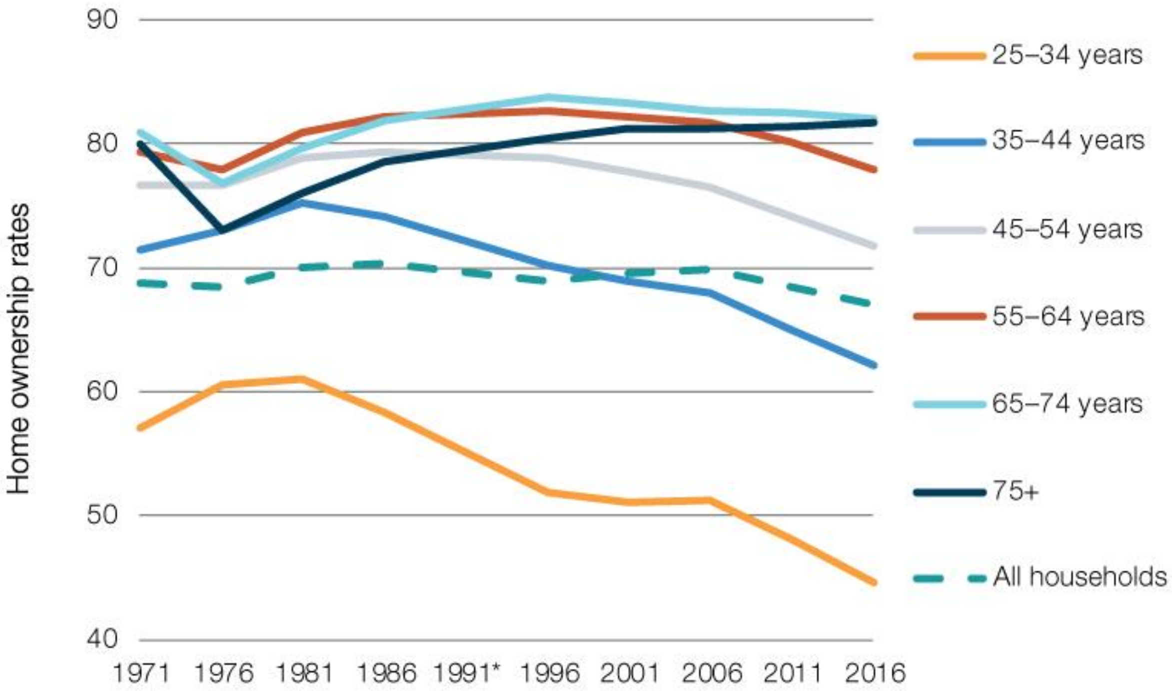
- Assumes homeownership
- Assumes Age Pension

ASFA Retirement Standard: June Quarter 2024

Comfortable lifestyle (p. a.)		Modest lifestyle (p. a.)	
Couple	**Single**	**Couple**	**Single**
$73,337	$52,085	$47,731	$33,134

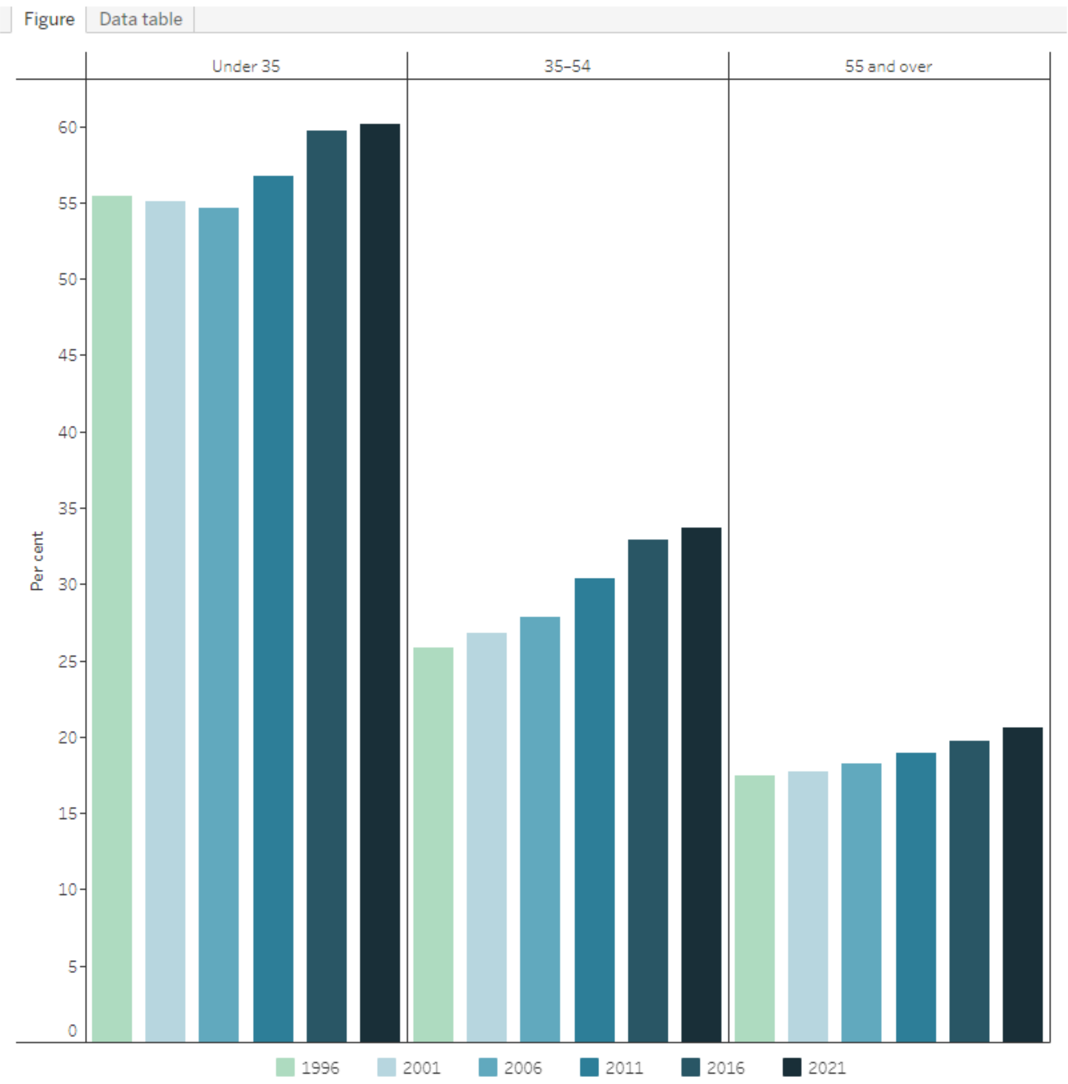
1.2 Home Ownership trends

Homeownership rates by age groups



Source: Based on ABS Census data, 1971 to 2016; AIHW analysis of customised report. * Data for 1991 interpolated using linear interpolation. Data excludes 'not stated'
From: Declining home ownership rates in Australia (Hall A & Thomas M)

Figure 4: Proportion of households renting, by age of household reference person, 1996 to 2021



Source: Unpublished, AIHW analysis of Census data.
From: Home ownership and housing tenure (AIHW, 12 Jul 2024)

1.3 Retirement trends

Homeownership a key contributor to confidence in retirement

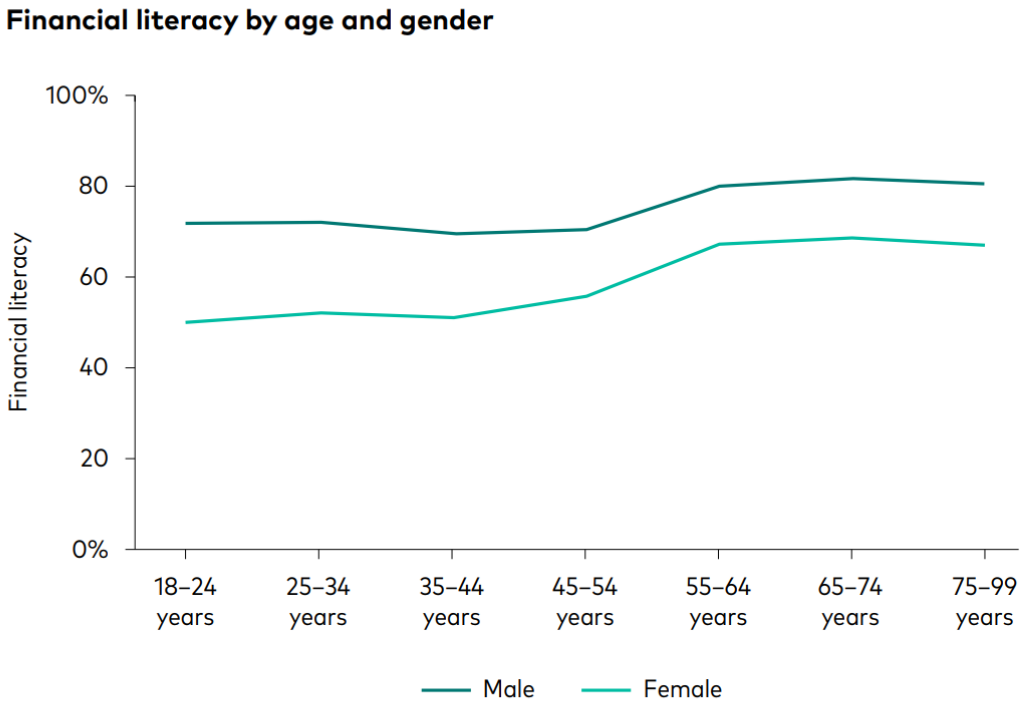
	Slightly / Not at all confident in their retirement (%)*
Own home outright	16%
Own home with mortgage	36%
Renting	57%

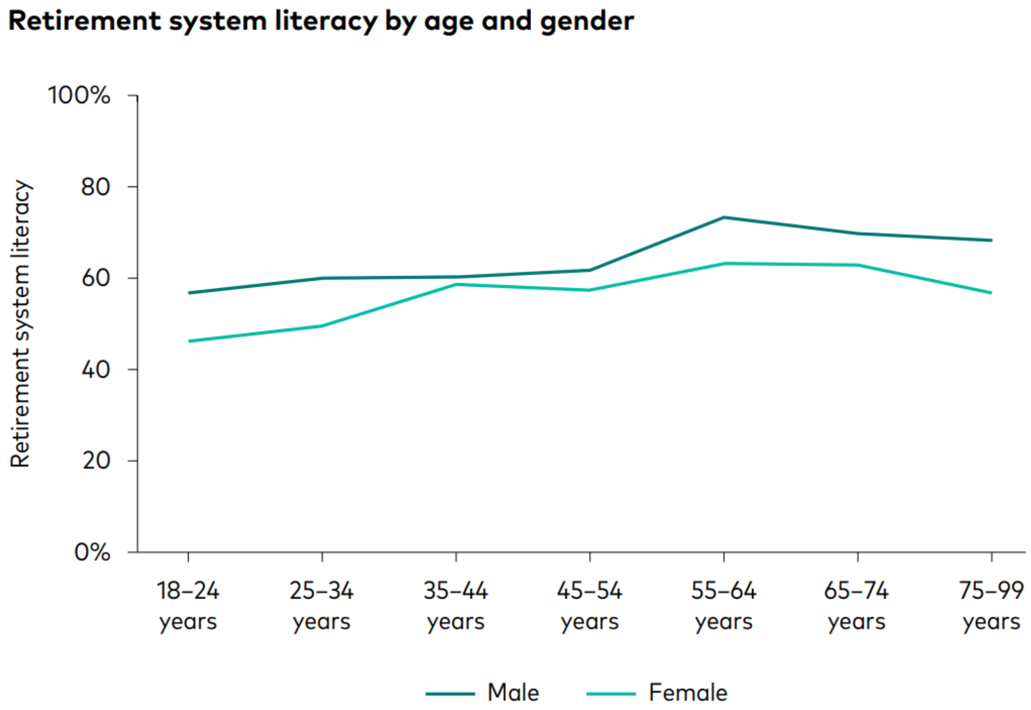
Trends indicate that home ownership is decreasing in younger generations and renting is increasing in older generations.

***Source:** How Australia Retires, Vanguard June 2024

1.4 retirement trends

1. Younger generations are typically engaged in their finances and want to take control





Source: How Australia Retires, Vanguard June 2024

1.5 What about the environment of young Australians?

External / Macro Factors	Younger generation factors
• Global and geopolitical challenges	• Uncertain and volatile employment market
• Cost of living pressures	• High education costs
• Age pension uncertainty	• Engaging with their finances and taking control
• Increasing life expectancy	• Want financial stability
• Intergeneration wealth transfer	• Tend to be life focussed v work focussed
• Housing affordability	• Declining property ownership aspirations
• Disruptive technologies (AI, blockchain, IoT)	• Digital natives

1.6 The opportunity

1. **Super balances can be over $200k**
   - Superannuation guarantee since day 1, increasing SG rates
2. **Good financial literacy**
   - General financial literacy is not materially different to those 30 years older
   - Retirement literacy is reasonable, however needs support on maximising super
3. **Digital natives**
   - Financial apps for budgeting, investment, spending tracking
   - Financial Influencers on Social Media for advice
4. **Superannuation Guarantee**
   - Younger generations have been eligible recipients SG often since their first job

Behaviourally, this is a great candidate for SMSFs!

2.0 Set good foundations

2.1 Set good foundations

"An investment in knowledge pays the best interest". – Benjamin Franklin

- Increase knowledge in wealth and retirement
- Goal setting and targets
- Smart budgeting and reducing unnecessary spending
- Use technology to manage finances and find savings
- Starting small early better than starting big later
- Value add tax effective opportunities
- Continual financial education and planning

2.2 Set good foundations

"Be proactive about your financial future. Take control of your money and make informed decisions." – The Barefoot Investor

1. Chose a superfund
2. Find lost super & consolidate
3. Check employer SG contributions
4. Consider extra super contributions
5. Take advantage of super strategies
6. Set up online access to your super accounts (even for SMSF)
7. Review your insurance cover and compare the premium
8. Compare Super performance & fees
9. Review your investment options & strategies
10. Plan for the future

3.0 Case studies: Strategies for Building Wealth through Super

3.1 Case Studies

The benefits of starting early

Congratulations! Baby on the way

Retire with Confidence – Getting the house?

3.2 The benefits of starting early

- In FY26, Amy (21) just finished her degree and secured her first job as an account consultant at a fast-growing medical company that offers lots of opportunities for promotions.

- Amy's starting salary is $55,000 p.a. (excl. super).

- She is going to use the "pay-yourself-first" method to make extra savings of $5,000 p.a. after-tax for investment. Then spend the balance as living expenses.

- But she is unsure whether it is wiser to save it outside or insider super.

3.3 The benefits of starting early

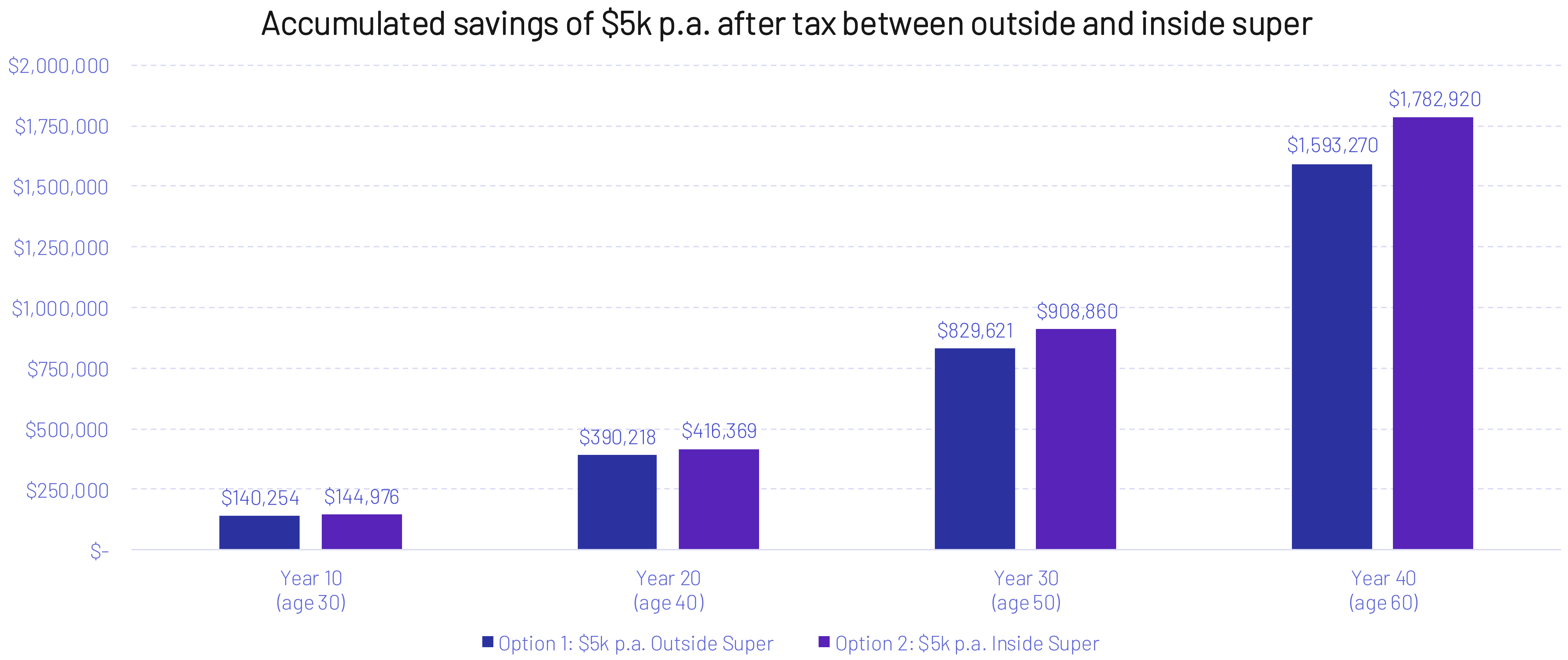
Options to save $5,000* p.a. after-tax for investment:

Year 1 (FY26)	Option 1: Save $5k after tax outside of super		Option 2: Save $5k after tax inside super	
Level	Individual	Super	Individual	Super
Employment income (excl. super)	$55,000	-	$55,000	-
SG @ 12%	-	$6,600	-	$6,600
Salary Sacrifice Contribution	$0	$0	($5,882)	$5,882^
Taxes, Medicare & etc.	($9,017)	($990)	($7,046)	($1,872)
Savings	$5,000*	$5,610	$0	$10,610
Disposable income after tax & savings or salary sacrifice	$40,983	-	$42,072	-

+$1,089

^ Salary sacrifice $5,882.35 x (100%-15%) = $5,000 savings p.a. after tax*
Salary calculator from https://www.seek.com.au/career-advice/page/salary-calculator

3.4 The benefits of starting early

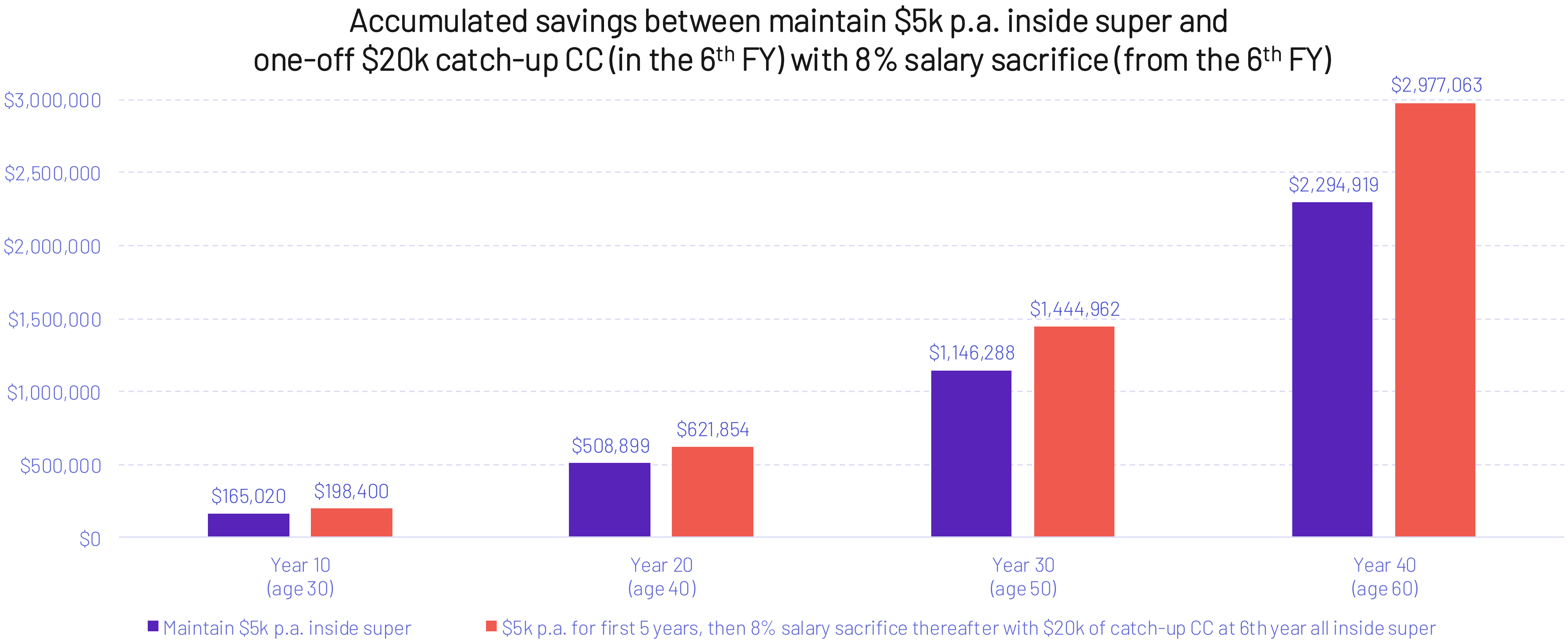


Assumptions: *4.0% p.a. salary increment & savings of $5k p.a. made at end of FY*
2.0% p.a. investment income & 3.1% p.a. investment growth calculated in the beginning of FY

3.5 The benefits of starting early

- Amy has been saving $5k p.a. after-tax inside her super which shown in the previous slide as option 2.
- At the beginning of the 6th financial year, she got promoted and her salary jumped to $100,000 p.a.
- While she has a low cost of living (with her parents), she wants to continue reduce her individual tax and maximise her wealth for retirement.
- Over the last 5 years, she has contributed over $65k (SG + salary sacrifice) and her total super balance is still below $500,000.
- She is contemplating whether she should:
  - Continue maintain $5k p.a. savings after-tax inside super; or
  - Contribute an extra $20,000 of catch-up concessional contributions in the 6th financial year and adjust her salary sacrifice to 8% p.a. of her new salary from 6th financial year

3.6 The benefits of starting early



Assumptions: *4.0% p.a. salary increment & savings of $5k p.a. made at end of FY (contributions cap continue to indexed over 40 years)*
2.0% p.a. investment income & 3.1% p.a. investment growth calculated in the beginning of FY

3.7 Congratulations! Baby on the way

- Charlene and Chris are expecting their 1st baby
- They have decided that Chris will continue to work earning $150,000pa while Charlene spreads her parental leave over 2 years.
- They are interested in strategies they could take advantage of whilst Charlene is temporarily earning a lower income.
- They expect Charlene to earn about $35,000pa for 2 years through a combination of parental leave entitlements and returning to work

3.8 Congratulations! Baby on the way

- In their situation, Charlene and Chris could use:
  - **Spouse contribution:** Due to Charlene earning below $40,000pa for the 2 years, Chris can make a Non-Concessional Spouse contribution of $3,000 and received an 18% tax offset of $540
  - **Co-Contribution:** Due to Charlene earning below $45,400pa, Charlene can make a $1,000 non-concessional contribution to receive a government co-contribution of $500.
  - **Low Income Superannuation Tax Offset (LISTO):** As Charlene is earning under $37,000, she will be able to have the contributions tax of 15% refunded to the super fund up to a maximum of $500.
  - **Super Splitting:** Chris can also salary sacrifice $8,500pa for the 2 years and split this to Charlene. This will ensure her super balance is not adversely impacted by the 2-year break.
- Strategies are not limited to paternity leave, they could be valid in most scenarios where one partner is in the low-income earner territory

3.9 Congratulations! Baby on the way

Annual Cashflow of Chris and Charlene

	Option 1: Do Nothing		Option 2: take advantage of low-income strategies	
	Chris	Charlene	Chris	Charlene
Income	$150,000	$35,000	$150,000	$35,000
Concessional Contribution	$18,000	$4,200	$26,800	$4,200
NCC – Co-Contribution	$0	$0	$0	$1,000
NCC – Spouse Contribution	$0	$0	$0	$3,000
Spouse Offset	0	$0	$540	$0
Tax	($39,838)	($2,688)	($36,693)	($2,688)
Co-Contribution	$0	$500	$0	$500
LISTO	$0	$500	$0	$500
Total Super	$15,300	$3,917	$15,300	$15,295
Net Income	$142,474		$133,659	
Benefit	$500		$2,910	

3.10 Congratulations! Baby on the way

- Outcomes:
  1. Reduced net income of $8,815pa ($17,630 for the 2 years)
  2. Superannuation balance increased by $22,756 over the 2 years
  3. Charlene's super balance has not been impacted by the career break
  4. Benefit will be tax-effectively compounded for years to come

- Strategies are not limited to paternity leave
- They could be valid in other scenarios where one partner is earning a low-income (e.g. career break, illness, further study, working part-time etc.)
- Be mindful of the conditions for these strategies such as thresholds, contribution caps, 10% eligible income test to ensure the benefits will apply

3.11 Retire with Confidence

- A key indicator of retirement confidence is home ownership

- How can the younger generation utilise their super to ensure they have a home at retirement?

1. Saving extra in super above income target to purchase a house at retirement;
2. Purchase a house through Super to hedge against resident property price movements;
3. Purchase Business Real Property through the SMSF for business use.

3.12 Retire with confidence

Property outside Super	Property inside Super
• Savings made after paying MTR	• Savings made pre-tax, but contributions tax applies
• 5% - 20% deposit to meet LVR requirements, mortgage insurance may be required	• Typically 40% deposit to meet LVR requirements
• Stamp duty on purchase (state dependent)	• Stamp duty on purchase, but also potentially on future transfers (state dependent)
• Flexible purchase options (Joint, Tenants in Common etc.)	• Purchase only through Limited Recourse Borrowing Arrangement (if loan required)
• Mortgage will replace rent	• Continue paying rent whilst property in SMSF
• Impacts to cashflow	• No impact to cashflow
• Home at retirement	• Retirement assets linked to residential property values
	• Options to Sell, Withdraw or purchase property from SMSF

3.13 Retire with confidence

<u>Other considerations</u>

- The psychological security of owning own home may be more important
- Considerations may need to be made regarding clients remaining in Australia for the duration of their working life to avoid being considered a non-resident SMSF
- Life can throw a spanner in the works, and there are unknowns such as:
    - Rental crisis
    - Finding a suitable home for your needs
    - Career breaks
    - Changing property needs
    - CGT if a CGT even is triggered in accumulation phase
    - Changing personal needs

4.0 Key Takeaways

4.1 Key Takeaways

- The largest asset for most young Australians (age 20-30) will be their Super.
- Unlike other generations, Super may remain their largest asset until retirement.
- The younger generation has the behavioural markings of an SMSF investor with being a digital native, a hands-on DIY approach to investing and ability to access information from a wide range of sources.
- There are opportunities to increase their super balances strategically at various life stages to ensure they can retire comfortably
- Superannuation can be more than just an income stream, it can be the younger generations path to retirement confidence.
- ***"The key to financial freedom and great wealth is not just about making more money, but about managing and investing it wisely". – The Barefoot Investor***

Thank you

class.com.au

classlimited | ClassPtyLimited | ClassPtyLimited