

# AMA (NSW) Quick Talks Webinar:

## Top financial tips to get you ready to start working

### Questions & Answers:

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#### 1. Do you recommend making voluntary super payments this early in our careers?

*Adding additional (voluntary) contributions either via salary sacrifice or post tax contributions sooner rather than later is in broad terms a good idea. It allows you to boost your super balance gradually over time (without hitting contribution limits), takes advantage of compound interest and has your money growing in a tax adventurous environment. A decision to start voluntary super contributions does not need to be immediate but we feel that it's worth considering if it's appropriate for you in the medium term – long term (especially as it can be stopped and started as needed).*

*It is however important to consider if any additional contributions will fit into your budget and still allow you to work toward your future financial goals. The money, once it is put into super can only be released under a limited set of circumstances. We would recommend obtaining individual financial advice to ensure that it is appropriate for your needs.*

*If you are moving to another state, there can be added advantages to Salary Sacrificing. An example is in ACT, if you voluntary contribute 3% of your salary they will provide an additional 1% contribution to your super fund.*

#### 2. Does any of the things you've mentioned so far differ for those who are international (non PR not Australian citizens)?

*Non-Australian Permanent Residents or Citizens are restricted in regards to lending (i.e. Mortgages, Credit Cards, Car Loans). Access to certain government incentives for First Home Purchases are also restricted. Our lending team would be happy to provide further guidance if anyone has any questions in relation to their specific situations.*

*In regard to superannuation, it works in effectively the same way but under certain VISA classes, if you were to permanently leave Australia then there can be provisions to release/transfer your super benefits to another country.*

Personal insurances are able to be obtained but there are some restrictions in the range of providers who offer cover and there can be modification to the terms of the contract (i.e. cover might cease if you were to permanently live outside of Australia) – please contact us and we will be happy to provide further guidance if anyone has any questions in relation to their specific situations.

Salary Packaging and Budgeting are largely unaffected by VISA status.

### 3. Would appreciate if you could explain salary packaging in more depth? What does it actually entail and what are the benefits?

Salary packaging (also known as ‘salary sacrifice’ and ‘flexible remuneration packaging’) is an arrangement between your employer and yourself which allows you to pay for some items or services straight from your pre-tax salary.

Salary Packaging effectively converts a component of your usual cash salary to be made up of cash and non-cash benefits; the non-cash benefits are then able to be paid from your pre-tax salary under a salary packaging arrangement.

Government employees, such as yourselves (whose duties are performed exclusively in or in connection with a public hospital) are able to receive fringe benefits up to a threshold (currently a grossed-up amount of \$17,000) without having to pay Fringe Benefits Tax (FBT) under the Fringe Benefits Tax Assessment Act 1986 (FBT Act). As the Fringe Benefits Tax (FBT) replaces the income tax normally payable on this component of your salary you are able to receive the packaged benefits tax free.

The major benefit is that you get to use ‘pre-tax dollars’ to pay for key expenses (such as your rent) and only have to pay tax on your reduced salary or wage amount hence leaving more money in your pocket each fortnight (so in general terms your dollar goes further):



*In practical terms, the salary packaging provider or your payroll team (depending on the administrative set up for your local health district) deduct a set amount from your fortnightly salary (which over the Salary Packaging year adds up to the cap) and this amount is put toward paying for a range of 'eligible' expenses. The payment is either made directly to the provider or the cost of the expense is paid to you (into your nominated bank account) as a reimbursement (as you have already incurred the cost).*

*The items which can generally be Salary Packaged are:*

- Home mortgage
- Home rental
- Credit cards repayments
- School fees
- Child care (non-employer owned)
- Tertiary education fees and loans (voluntary Fee-Help)
- Motor vehicles repairs and running costs
- Employee benefits card (which can be used much like a pre-paid debit card)
- Private health insurance
- Insurance premiums
- Personal loan
- Private travel
- Strata fees
- Payment to utilities
- Car parking
- Novated lease (motor vehicle for private use)

*(Note: Your local health district Salary Packaging team will be able to confirm the items which they will allow to be packaged).*

*The Salary Packaging benefit amount which can currently be claimed (as a net amount) in NSW is \$9,010 for the 2019/2020 FBT year (which runs from 1<sup>st</sup> April to 31<sup>st</sup> March).*

*Meal entertainment is a separate allowance (in addition to Salary Packaging) which allows you to claim meals and drinks consumed in a restaurant/café or those provided at a social gathering. The benefit is effectively the "provision of entertainment by way of food or drink". The above also applies to Accommodation or travel 'in connection with, or for the purpose of facilitating', meal entertainment e.g. taxi fares or an overnight stay.*

*The allowance for Meal Entertainment in NSW for the 2019/2020 FBT year \$2,650. There are two keys ways that the benefit can be accessed, and this is via redemption using receipts or most commonly, using a Meal Entertainment Card (which pre-paid debit style card which you can then use across Australia or overseas).*

#### **4. Any downsides of salary packaging?**

*Yes – there are some key implications which are good to keep in mind:*

- *You must enter into a salary sacrificing arrangement before you earn the income which you want to package. It can never be retrospective.*

- *The ATO consider eligible employees to have received their Salary Packaging & Meal Entertainment benefits tax free and as having received a 'fringe benefit'. At the end of the financial year the value of the Fringe Benefit (Salary Packaging & Meal Entertainment Benefit) received will be reported on your PAYG Summary as a 'Reportable Fringe Benefit'.*

*The Reportable Fringe Benefit amount is a grossed-up amount which represents the amount of gross salary which you would have had to earn to purchase the same amount of benefit(s) using after tax dollars. This means that the salary which the ATO use to calculate the below payment thresholds is higher than your salary had you not had a Salary Packaging arrangement in place.*

*ATO completes means testing for the purpose of assessing payments such as:*

- ✓ *Medicare Levy Surcharge*
- ✓ *Deduction for personal superannuation contributions*
- ✓ *Superannuation contributions and termination payments surcharge*
- ✓ *Higher Education Loan Program (HELP-HECS) Repayments*
- ✓ *Child Support Obligations*
- ✓ *Entitlement to certain income tested government benefits*

*Overall, in the majority of cases the benefits out weight any additional repayments (such as HECS etc). Please contact us if you would like further explanation of the above.*

- *The administration cost of providing salary packaging is shared equally between the provider and employee (50% each in NSW) and this is taken on a pro rata basis from each pay period.*
- *Individual Health districts within NSW have differing administration (provider) arrangements; these can be direct or via an external provider (such as Maxxia or Smart Salary). The exact processes and what they will allow within their offering may slightly differ.*
- *Salary Packaging also differs between states. Please contact us if you have queries about another state as will be happy to advice (as far as we are able).*

*For Meal Entertainment there are certain rules which must be met, a sample of these are:*

- ✓ *meals and drinks consumed must total more than \$15*
  - ✓ *drinks (both alcohol and non-alcohol) can only be claimed if consumed in conjunction with a meal*
  - ✓ *take-away food and drink is not allowed. i.e. any receipt marked 'takeaway', 'drive through', 'carry out', will not be accepted*
  - ✓ *accommodation costs are restricted to one overnight stay. Holidays or any other recreational activities do not meet the criteria of "in connection with" and are not allowed.*
- *A combination of the two methods (using the card and receipts) to claim can be used, however, double claims (i.e. use their meal entertainment card and then apply for reimbursement) cannot be made.*

**5. Could you please explain salary packaging vs salary sacrificing? or are they the same thing?**

*In essence they are the same thing (as in it's a deduction from your salary and turning into a non-cash benefit). Salary Sacrifice is generally the term used in relation to Super and Salary Packaging is used in the context of other items.*

**6. What happens to salary that is sacrificed to packaging that you end up not using?**

*The salary packaging (Fringe Benefit Tax) year runs from 1<sup>st</sup> April – 31<sup>st</sup> March each year. If are salary packaging benefits (other than via the Meal Entertainment or Employee Benefits Card) then the Salary Packaging provider (or payroll team) will calculate the amount of pay cycles with in the FBT year and only deduct the amount which will be under the cap (to try to avoid you going over).*

*If you are using the Meal Entertainment or Employee Benefits Card which has a credit built up on it as at the 1st April (so in the new FBT year) then it will reduce the amount you can utilise in that year. An example might be, if you had \$1,000 credit on your Meal Entertainment Card then you would only be able to add an additional \$1,650 to the card through the year (as the maximum entitlement is \$2,650 per FBT year).*

*If you were to leave the state in which you are salary packaging or cease the arrangement, the usual process is that they convert the balance back into pre-tax salary and then pay it to you as ordinary salary (so take any applicable tax as per your regular salary payment).*

**7. How much does it cost to have a salary packaging account? Or to get a meal card?**

*It's hard to answer this as it varies between providers. Below are extracts from two different providers to give a general impression of what the fees might be:*

- Maxxia - <https://www.maxxia.com.au/faq-salary-packaging>

*'In exchange for managing your salary packaging account, we charge an administration fee that is dependent on the benefit and agreed upon with your employer. All fees are paid out of your pre-tax dollars and don't contribute to your cap limit or attract FBT'.*

- NSW Government – HealthShare - <https://www.healthshare.nsw.gov.au/staff-resources/employee-benefits/salary-packaging/eligibility-and-fees>

*'An annual administration fee for implementing a salary package is shared equally by NSW Health and the employee. The fee is deducted before tax in the first packaging period but can be spread over the salary package period'.*

Service	Administration fee
Salary packaging services	\$31
Meal entertainment services	\$28

*In addition to any administrative costs which the provider may charge, there is also the split of the benefit amount which occurs with your employer. In NSW this is called Saveshare, this is where approximately 50% of your tax-savings is paid back to NSW Health (and allows them to help toward the costs of offering this benefit).*

*The benefit split applies in other states too but the percentage amounts differ.*

**8. How much should you salary packaging for it to be worth it (i.e. to overcome the costs)?**

*This is also a slightly hard question to answer as there are various factors which go into it. Firstly, timing can be important because in your first year working, you will start in January 2021 and the FBT year ends in March 2021, so it will depend if you can maximise your salary packaging benefits during this time. Plus, it depends if you have eligible costs up to the maximum entitlement, if you have HECS or other ATO means tested items and the overall fees charged. (There are various online calculators which can assist in roughly working this out).*

*As a broad general rule, utilising the maximum available benefits works best.*

**9. I know we said the amount, but how much is the maximum in a year that you can claim with salary packaging for rent and mortgage?**

*The maximum which can be put toward Salary Packaging (as a net amount) for items such as rent or mortgage payments in NSW is \$9,010.*

*You are able to include 'usually tax deductible items' and voluntary super contributions over and above the Salary Packaging cap.*

**10. With the meal benefit card, can you choose an amount below the \$2650? Also, what time period does that cover? Thanks**

*Absolutely, the \$2,650 is the maximum benefit amount (and you can nominate any amount up to this cap). The general rule which we advocate is that if it's money which you would spend on meal entertainment (under the eligibility criteria) using post tax dollars, then it's worth having this in place and effectively using 'pre-tax dollars' instead. (If, however, you are just spending the money because you feel you should have this benefit then it's money you were never going to use so the saving isn't worth it).*

*The time period in which the benefit applies to is the Salary Packaging (FBT) year which runs from 1<sup>st</sup> April – 31<sup>st</sup> March each year.*

**11. You mentioned the hospital sets up the salary packaging? Are we supposed to outsource a financial institution to facilitate this?**

*Once you start work, you can coordinate directly with the salary packaging provider (either their chosen external provider i.e. SmartSalary or Maxxia etc or the health district salary packaging team) to get the arrangement in place.*

*We generally advocate that you discuss if Salary Packaging is appropriate for you with a qualified financial adviser (and/or accountant) as the Salary Packaging teams are able to provide factual and administrative advice but not financial advice (i.e. if it's a good idea for you individually etc).*

*The only other external parties who are usually involved are the Employee Benefit Card or Meal Entertainment Card providers (if not offered by the Salary Packaging provider directly then this can be an external 3<sup>rd</sup> Party). In the past it used to be Westpac but this changed in March 2020 to (I believe) ML Payment Solutions.*

**12. On average, how much is income protection insurance per month?**

*The premiums vary depending on the inclusions within the Income Protection policy, your age, gender and the amount of income you are wanting to insure.*

*If you would like to discuss your individual needs and circumstance, please let us know and we will be happy to assist with working out your options and any applicable costs.*

**13. So what happens when you stop paying the income protection? Do you still get covered until age 65?**

*On the basis that you have an 'active' insurance policy (usually meaning that the policy is paid up to date) then you will be covered by the insurance.*

*In the event that you have Income Protection and you suffer from an injury, illness or accident which means that you are unable to work (meeting the claim criteria), you will receive a monthly payment (based upon your sum insured/benefit amount and your income prior to the claim occurring) which will continue to be paid until:*

- 1) You make a recovery (and you are no longer eligible for the claim payment)*

*Or*

- 2) Your selected benefit period expires. (You are able to select the maximum duration for which an eligible claim could be paid). The reference to age 65 is that you are able to select a benefit period which would cover you up until just prior to your 65<sup>th</sup> birthday. This means that if you were unable to return to work (or make a recovery sufficient to cease the claim) you would continue to be entitled and paid the monthly benefit until this age.*

*Having the right benefit period is important; your ability to earn an income is one of your greatest assets (until you can be in a position to not rely on your income from work) so any disruption to this will likely have very significant impacts for your future plans (i.e. savings or home purchase etc) and long term wealth.*

*Plus, not all Income Protection policies are equal so it's worth speaking with a personal insurance specialist (financial adviser) who can ensure that you are getting the right contract for your needs.*

#### **14. With income protection - is it best to utilise the cover available through your super fund or get a separate policy through another insurer?**

*We usually recommend discussing the available options (i.e. basic or comprehensive, Super & Non-Super) with a personal insurance specialist (financial adviser) so you can and then match up the policy which best suits your needs.*

*Cover which is provided by super providers (i.e. automatic cover under a group policy or solely held via super) tend to have 'basic' terms and conditions as under the super rules (SIS Act), cover needs to be able to meet the conditions of release to allow the money to be paid out to you.*

*The other key consideration of having your cover within your super fund which has an investment balance (i.e. accumulation fund) is that you might lose the cover if you change super providers. There are options to have cover structured through super but without it being linked to your investment balance.*

*There are a range of retail Income Protection policies which can be split between being held inside super and outside (so giving you the ability to fund a portion of the premium using your super balance and the remainder from your personal cashflow). The split option can also allow the comprehensive policy features to be added.*

#### **15. what is a good super fund?**

*There are multiple aspects which can add up to whether a super fund is good. The general points which should be considered are:*

- *Performance*
- *Fees*
- *Insurances*
- *Investment Options*
- *Services*

*There are various different types of super fund – retail, industry, public sector, corporate & Self Managed Super Funds. Each of these has differing positives and negatives.*

*Commonly, the default option which young people often have (or where an employer has established a super account on your behalf) is a MySuper account. This can be beneficial as these types of accounts (as per the ASIC MoneySmart website) tend to have:*

- *lower fees*
- *simple features*
- *either a 'single diversified' or a 'lifecycle' investment option*

*The government has brought in legislation (Protecting your Super) which aims to protect small balance super funds. Part of this legislation is to cap 'administration and investment fees (including indirect costs) at 3 percent per annum for members that have a final balance of less than \$6,000 for their MySuper or choice product in an income year'.*

*It's important to note that as your needs and balance changes (i.e. above \$6,000) so might the best super fund for you. We suggest that you review your super plan over time to ensure that you are invested in the best option for you and the fund itself it's still working for you.*

#### **16. Can you explain the lending scheme that was discussed before about building a deposit within your super?**

*The government has created a First Home Super Saver Scheme (FHSSS) which allows individuals to use voluntary contributions into super (up to a maximum cap of \$30,000) which can be used toward your first home deposit.*

*The idea behind the scheme is that individuals who use this scheme will be able to withdraw the voluntary contribution amounts (\$15,000 a year, and \$30,000 in total) along with a 'deemed rate of earnings' which has occurred on top of the contributions. The deemed rate (which is set as the 'Shortfall Interest Charge') was around 4.7 per cent last year.*

[https://treasury.gov.au/sites/default/files/2019-03/Post-passage\\_fact\\_sheet\\_-\\_First\\_home.pdf](https://treasury.gov.au/sites/default/files/2019-03/Post-passage_fact_sheet_-_First_home.pdf)

*There are some important considerations to keep in mind before entering the FHSSS but overall, some individuals find it a helpful way to save toward their first home deposit.*

*In addition to the above, there are banks and credit providers who are able to offer mortgages with a borrowing amount of up to 95% of the purchase price/property value (whichever is lower) without the need to pay lenders mortgage insurance (LMI). LMI is effectively an insurance policy which would pay the lender for any defaults or missing payments which occur. The LMI policy offers you no protection but it's a cost which is added to your loan (so best avoided if at all possible)!!!*

*The ability to access a mortgage with a higher loan to value (LVR) ratio means that you could potentially be able to buy sooner as it reduces the amount of deposit which you need to bring into the deal (only 5% plus and additional transaction costs). This can mean (depending on the available stamp duty waiver and first home buyer incentives) that you can afford to buy years ahead of others in a similar position.*

*Please let us know if you would like to know more about the above or discuss your options further with our lending team.*

#### **17. How is the home super saver affected if you move to a different state?**

*The First Home Super Saver Scheme is a national scheme so is unaffected by which state you reside in. There can be differences between states in regard to other first home buyer incentives i.e. stamp duty waivers etc.*

**18. What are your fee structure?**

*We are able to offer AMA (NSW) members a free consultation (up to 2 hours) in which we can provide general advice. If you would like tailored personal advice (which would include providing a Statement of Advice), we work with you to determine the scope of work which is required and confirm any fees or charges from there. There are many aspects which we can assist with without charge (typically lending or personal insurance advice).*

**19. Does Specialist Wealth offer consults to QLD interns?**

*We are able to assist interns all over Australia (and have many clients who move interstate for training and job opportunities). We tend to specialise in clients based in NSW & ACT (i.e. in regard to state based rules) but more than happy to assist where we can.*

As mentioned during the presentation, for AMA (NSW) members, we offer a 2 hour free appointment, so if you would like any further information about any aspect of the above or just to check in to ensure that you have the right foundations for your financial future, please do not hesitate to contact us on 1300 008 002 or [ama@specialistwealth.com.au](mailto:ama@specialistwealth.com.au).