Friends Provident International

Securing your future

As an Australian expatriate living and working abroad, it's likely that you are able to earn more than you might at home. This could put you in a very strong position when it comes to financial planning and securing your future. In particular, when and how you retire.

Our research has found that being able to retire early and maintain a high standard of living is one of the top three financial goals for expatriates.[1] This research also suggests that many expatriates have the means to achieve this goal as they typically earn more than three times the average income in Australia.

However, many people significantly underestimate both how long they will live in retirement and how much money they will need to maintain their chosen lifestyle.

We are living longer, with life expectancy at birth in Australia now at over 79 years for men and over 84 years for women. For men aged 65, Australian life expectancy has now increased to over 84 years of age and for women the comparable figure has increased to 87 years of age.[2]

As a result, your retirement fund needs to last longer too. If you are planning to retire at 50, the statistics suggest that over one third of your life could still lie ahead of you.

Giving up work might seem like a long way off, but the longer you delay making contributions into a retirement fund, the more it will cost you in the long run.

[1] Independent research conducted by AMRB in the United Arab Emirates, Singapore and Hong Kong on behalf of Friends Provident International, January 2014

[2] Australian Bureau of Statistics, October 2016

How much will I need?

Working out how much money you are going to need to fund your retirement isn't easy. You might want to consider:

- The annual cost to maintain your desired standard of living in your country of retirement.
- Your existing Australian superannuation or overseas pension savings.
- Other funds you have set aside for your retirement.
- The effect that inflation will have on your savings.
- Your appetite for investment risk.

In 2017 a couple wanting to live a 'comfortable' retirement in Australia would have needed a joint superannuation balance of around **AUD 510,000** to fund annual expenditure of **AUD 58,326** in retirement.

A single person seeking a 'comfortable' retirement would have required a super balance of around **AUD 430,000** to fund annual spending of **AUD 42,597**.[3] Expatriates looking to fund a higher standard of living for the rest of their lives would require a significantly larger retirement fund.

Creating your retirement fund

If you wait too long, you may find the cost of securing a comfortable retirement becomes prohibitive. At a time when you may want to relax and spend time with your family, you shouldn't have to keep on working.

By making appropriate provision early on, you could take control of exactly when you finish working and maintain a high standard of living in your retirement.

As an expatriate, your retirement planning is likely to involve building a portfolio of assets such as superannuation and investments, rather than relying on a single pension plan, which could all provide you with capital and income to fund your retirement.

You are likely to have been building up a superannuation fund when you lived in Australia. Whether this is a public offer fund or a Self-Managed Superannuation Fund (SMSF), you may wish to continue making contributions to this fund. Being non-Australian resident for tax purposes affects how you might continue to pay into any superannuation fund.

[3] Assumes receipt of part Age Pension. Association of Superannuation Funds of Australia (ASFA) Retirement Standard, September quarter 2016

Your existing Australian Superannuation Fund

You can continue contributing to your superannuation fund while living overseas, as long as the normal contribution rules are met. Generally, if you are under 65 years of age, there are no restrictions on making contributions.

Employer contributions to your superannuation fund are not compulsory, if you become a foreign resident and perform employment services outside Australia. This means that you may miss out on employer contributions of a minimum of 9.5%. However, an employer may voluntarily decide to continue with contributions, if the fund rules permit it.

Concessional contributions

These can be made to your superannuation fund, including employer contributions (including those made under a salary sacrifice arrangement) and personal contributions claimed as a tax deduction by a self-employed person. If you have assessable Australian sourced income, such as rent, you may be able to claim a tax deduction for personal superannuation contributions which offsets this income.

From 1 July 2017, concessional contributions into a superannuation fund are usually taxed at a rate of 15% within the fund, or 30% if your Australian income exceeds **AUD 250,000**. Contributions up to **AUD 25,000** a year can be made tax effectively and count towards your concessional contributions' cap. Concessional contributions over the **AUD 25,000** cap would be included in your assessable income and taxed at your marginal tax rate.

If your total superannuation balance is less than **AUD 500,000** on June 30, then in the following financial year (starting 1 July 2018) you will be able to carry forward any unused amount from your concessional contributions cap. Contributions can be carried forwards for up to five years.

Non-concessional contributions

These could also be made to your superannuation fund. These include personal contributions for which you do not claim an Australian income tax deduction. Non-concessional superannuation contributions are not taxed upon contribution up to a cap of **AUD 100,000** per year. Contributions above this cap are taxed at the top marginal tax rate, up to a maximum of 45% excluding the 2% medicare levy (2017/18).

From 1 July 2017, if your total superannuation balance exceeded the general balance transfer cap at the end of the previous 30 June (**AUD 1.6m** for 2017/18) your cap for non-concessional contributions will be nil. Your total superannuation balance takes into account all your superannuation accounts (excluding personal injury settlements). A system of 'bringing forward' your unused non-concessional contributions cap exists, but this changed on 1 July 2017.

If you are under 65 years of age, you may be able to bring forward two or three years of unused cap depending on your total superannuation balance at the previous 30 June. For 2017/18, you can bring forward two years if the balance is less than **AUD 1.5m** or three years if less than **AUD 1.4m**. Transitional rules apply to those who triggered their bring-forward periods between 1 July 2015 and 30 June 2017.

When making any contributions to your superannuation fund, you should provide your tax file number (TFN). If you don't provide your TFN, funds cannot generally accept either non-concessional contributions or concessional contributions from any source other than your employer. Concessional contributions received by the fund from your employer where you have not provided your TFN will have an additional tax of 31.5% applied to them.

Self-managed superannuation funds

If you set up your own SMSF in Australia before becoming an expatriate, you should take care to ensure that the fund remains a qualifying superannuation fund. Your SMSF will need to meet the following three tests at all times:

1. be established in Australia;
2. have central management and control exercised 'ordinarily' in Australia;
3. at least 50% of the benefits in the fund that relate to active members must have been derived from active members who are residents of Australia.

These tests also mean that unless you remain as an Australian resident, neither you nor your employer can make contributions to your SMSF while you are outside Australia.

If these tests are failed and your SMSF becomes non-complying, an amount equal to the market value of the fund's total assets (less any contributions the fund has received that are not part of the taxable income of the fund) may be included in the fund's assessable income. This amount is taxed at the highest marginal tax rate.

For every year that the fund remains non-complying, its assessable income is taxed at the highest marginal tax rate.

If you have an SMSF, it is likely that you will want to seek professional advice to ensure the fund continues to be considered a complying superannuation fund. Alternatively, you may wish to consider winding up your SMSF and moving your money into a public offer superannuation fund.

Taking superannuation benefits

As an expatriate, you will generally need to leave your superannuation in a complying superannuation fund until you meet a condition of release, for example, on permanent retirement after age 55.

Expatriates aged over 60 in receipt of benefits from an Australian superannuation fund are taxed in the same manner as resident taxpayers. This is the case for both lump-sum withdrawals and pension payments. Benefits are classified as 'non-assessable, non-exempt income' and are not subject to Australian taxation, except for payments from certain funds, generally Government funds.

From 1 July 2017, there is a limit on how much you can transfer into a tax-free retirement phase account for superannuation. The transfer balance cap will start at **AUD 1.6m**.

Where the expatriate is under age 60 and they live in a country with which Australia has a Double Taxation Treaty, that country may have rights to benefits taken from Australian superannuation funds. This may extend to lump sums as well as income streams, depending on the particular treaty. However, in all cases, income streams would not be taxable in Australia but may be subject to tax in the country of residence.

Accordingly, you would need to determine whether there is a liability to taxation on withdrawals from Australian superannuation funds in your country of residence.

You may also be able to claim a State Pension from the country you are living in, if you are paying into its State Pension scheme.

Australian Age Pension

You may be eligible for the Age Pension when you reach the age of 65 and meet an income and assets test. You will generally need to have been an Australian resident for a continuous period of at least ten years, or for a number of periods that total more than ten years, with one of the periods being at least five years. If you have lived or worked in a country with which Australia has an international social security agreement, this may help you meet these residence requirements. You must also be physically present in Australia on the day you lodge your claim.

The maximum basic rate of Age Pension is **AUD 808.30** per fortnight for an individual and **AUD 1218.60** per fortnight for a couple. Additional supplements may also apply. Your income and assets, including those held outside Australia, will affect the amount of Age Pension to which you are entitled.

Once your Age Pension has been granted, you would need to remain in Australia for two years before you could live outside Australia and still receive Age Pension payments. This two-year residency period can be waived if the country in which you choose to live has an international social security agreement with Australia.

Flexibility for expatriates

If you do not intend to return to Australia for some time or if you may take employment contracts in various countries, continuing to contribute to an Australian superannuation scheme or any other domestic pension scheme can be unattractive as these arrangements are likely to be restricted in their portability, taxation and benefits.

You may find that the tax-efficient investment growth offered by international life insurance products makes them an attractive alternative to superannuation or pension plans.

Through a regular savings plan, for example, you can make contributions towards retirement in a tax-efficient manner. You would have flexibility in how you make contributions and how you take the benefits at the end of the term. You could choose to pay on a monthly, quarterly, half-yearly or annual basis and could make additional top-up payments, for instance when you receive bonuses or dividends. The multi-currency options of these plans can be a particularly useful feature for expatriates.

If you have accumulated a lump sum already, you could consider investing in a single premium bond. By setting funds aside now and investing wisely, your investment could generate an income that could enable you to enjoy the lifestyle you choose throughout your retirement.

Your investment in an international insurance savings plan or single premium bond will be tax efficient even if you were to return to Australia. On your return to Australia, it will most likely continue to grow free of tax. Income tax will be payable on gains made, known as 'bonus', but only when you actually receive these gains and not while the growth is accumulating in the policy.

If you have held your policy for more than ten complete policy years since its commencement, you will not be taxed on the bonus because after this time it is no longer included as part of your assessable income. If a bonus payment occurs within the first eight years it will be fully assessable for income tax.

If you retire overseas and have used an international life insurance bond to build a retirement fund, there will be no Australian tax liability on the proceeds as long as they are taken after you are not tax resident in Australia. However, there could be a tax liability in the country in which you become tax resident.

An international life policy is not part of the superannuation system so premiums will not count towards contribution limits and the value will not count towards the transfer balance cap

The cost of delaying your retirement planning

Let's assume you want to give up work at 50 and retire on a monthly income of **AUD 5,000**.

Assuming you live 30 years in retirement and your investment grows by 5% a year, you would need an overall retirement fund of **AUD 947,141** to support that level of income (excluding any product charges).

To reach the **AUD 947,141** retirement fund, you would need to have saved **AUD 1,610** every month from the age of 25 (assuming a 5% growth rate and excluding any product charges).

But if you only started at the age of 30 instead of 25, you would need to have saved an additional **AUD 714** every month to achieve the same **AUD 5,000** monthly income.

By starting to save for your future now, you could give your retirement plans the time they need to flourish, and yourself the best chance of achieving the retirement you deserve.

Protecting your family

Unfortunately, not everyone enjoys lifelong good health or lives long enough to reach retirement. That’s why it’s vital to plan ahead and consider the financial implications for your family if you were to die without having built up a retirement fund.

By putting a protection plan in place early, you could help to give your spouse, children and perhaps even your grandchildren and extended family, the financial security they need for their future, should you suffer a serious injury, a critical illness or die prematurely.

Incorporating life cover, critical illness cover, and/or total and permanent disability benefit, into your overall retirement plans should help you to focus on living life to the full without worrying about your family’s financial future.

www.fpinternational.com

Visit our website to learn more about our range of flexible savings, investment and protection plans.

Speak to your financial adviser today to see how we could help you plan for your future.

About Friends Provident International

We are a leading financial services provider, with a reputation of trust, commitment and integrity, offering financial solutions to customers throughout their lives.

Friends Provident International has over 35 years of international experience and our heritage dates back over 180 years.

All currency conversions correct at time of print, January 2018.

Please note that the tax rates and provisions provided in this document are taken as at 1 January 2018 and are subject to change.

This document is for information only. It does not constitute investment advice or an offer to provide any product or service by Friends Provident International.

Please seek professional advice, taking into account your personal circumstances, before making investment decisions. We can accept no liability for loss of any kind incurred as a result of reliance on the information or opinions provided in this document.

GE XP AUS SA RET 01.18 (12103)