Financially speaking

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Make your tax cut work for you

You may pay less tax when tax cuts take effect from 1 July. While the tax savings will depend on your circumstances, it's important to think about the best way to use them.

For some of us, the savings may be needed to meet regular household expenses and manage cost of living increases. But if you have capacity, there are ways you may be able to use the tax savings to improve your financial position, such as reducing debt, investing or boosting your super.

The key is to make a conscious decision to put the tax savings to work in a way that suits you.

Who benefits from the changes?

The Government estimates approximately 13.6 million Australian taxpayers will pay less tax when the 'Stage 3 tax cuts' commence from 1 July. The table on this page illustrates the potential tax savings at different taxable incomes. To estimate your tax savings, check out the calculator in the taxcuts.gov.au website.

Taxable income	Tax payable in 2023/24	Tax payable from 1 July 2024	Tax saving
$40,000	$4,367	$3,713	$654
$80,000	$18,067	$16,388	$1,679
$120,000	$31,867	$29,188	$2,679
$160,000	$47,467	$43,738	$3,729
$200,000	$64,667	$60,138	$4,529

Note: Calculations based on Government calculator at taxcuts.gov.au and takes into account the Low income tax offset and Medicare levy.

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Smart ways to use your tax savings

There are many options to consider if you'd like to put your tax savings to work.

You may want to make additional mortgage repayments, where you can effectively 'earn' the loan interest rate tax-free.

Another option is investing in your own name, such as in term deposits, shares or managed investments. This could suit when planning for certain goals where you may need to access the money before you retire, like children's education.

You could also consider contributing to super, where there may be significant tax and other benefits. For instance:

- you may be able to arrange for your employer to contribute some of your pre-tax salary into super, via 'salary sacrifice' (see the case study)
- you may be able to claim personal super contributions as a tax deduction
- if you're a lower income earner and make personal contributions, you may be eligible for a Government co-contribution of up to $500, and
- if you contribute on behalf of a low-income spouse, you may be eligible for a tax offset of up to $540.

But remember, there are caps on how much you can contribute to super and additional tax and penalties may apply if you exceed the caps. Also, you can't access the money until you retire or meet other conditions.

Case Study

Using your tax cut to boost your super with salary sacrifice

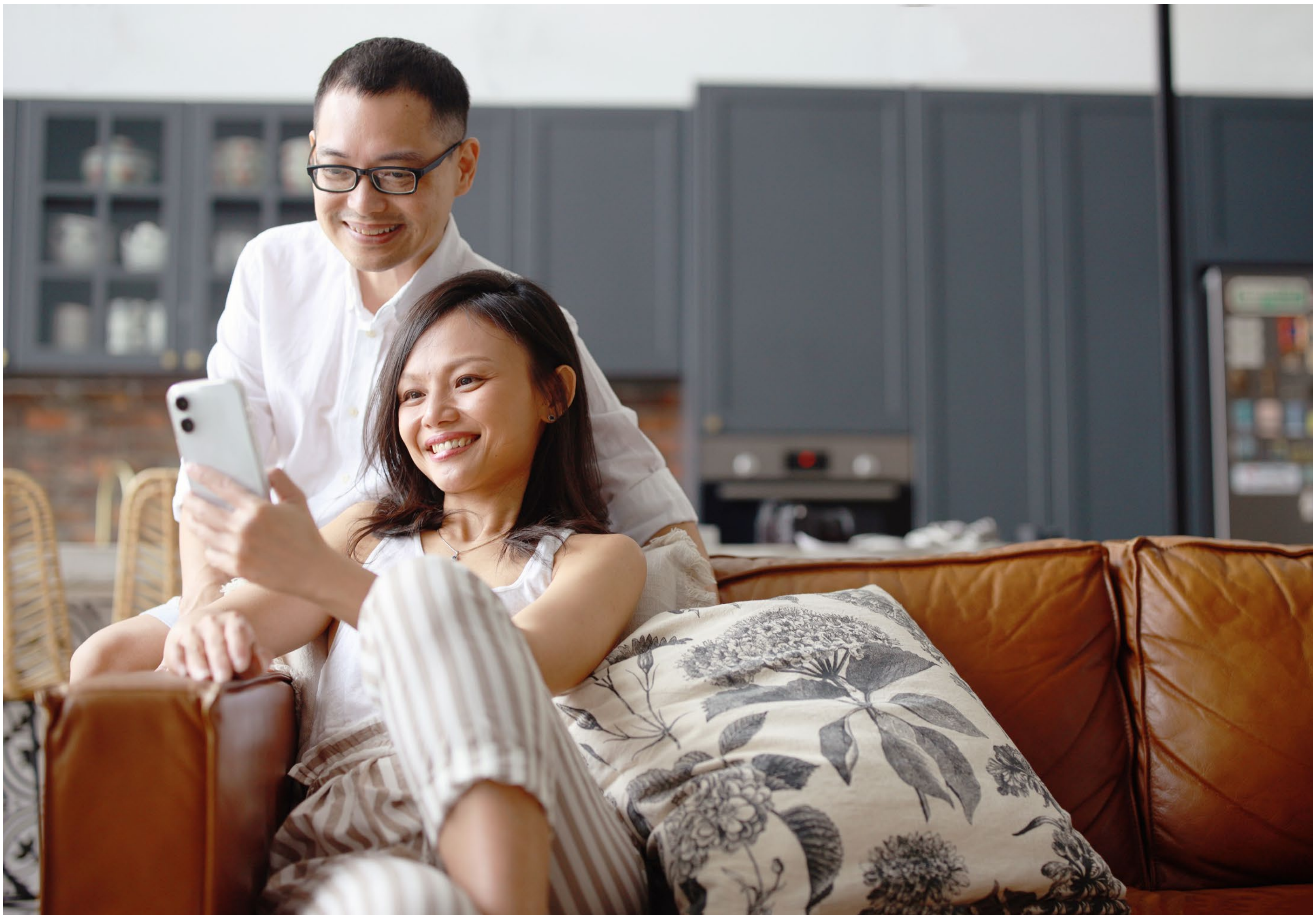
Horace, aged 55, earns a taxable income of $120,000 and his tax savings in 2024/25 will be $2,679. He wants to boost his retirement savings using super.

His financial adviser works out that even though his tax savings will be $2,679 after tax, he could salary sacrifice as much as $3,940 before tax and still receive the same after-tax income in 2024/25. This is because salary sacrifice contributions are made with pre-tax dollars.

His super fund will deduct 15% tax from the amount he salary sacrifices, which will reduce the contribution to $3,349. But this is still $670 more than the tax saving of $2,679 he would have received as additional take-home pay if he didn't salary sacrifice.

How you can benefit?

We can help you work out how you could beneficially use your tax cut from 1 July to achieve your short, medium and longer term goals.



New diabetes and obesity drugs show promise for patients and investors

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Profound advances in a class of drugs that have proven successful at treating the twin epidemics of diabetes and obesity represent a golden age of health care innovation.

The investment implications are also enormous. Select drug developers are positioned to significantly grow their earnings from these drugs, called glucagon-like peptide-1 (GLP-1) agonists. At the same time, we expect downstream impacts across every health care segment, including biotechnology, pharmaceuticals, medical devices, and health care insurance.

How impactful could these new drugs be? For context, about 40 million people in the U.S. are living with diabetes and its consequences, such as heart disease, vision loss, and kidney disease. More than 100 million Americans struggle with obesity, which can be a precursor to diabetes and has an even wider range of comorbidities. Given current trends, the majority of children in the U.S. are expected to become obese in adulthood, threatening increased health care spending and shorter lifespans.

GLP-1s in pill form will likely be a game changer

Drug companies are investing heavily in creating small-molecule GLP-1s that can be taken in pill form. This could be significantly more cost-effective for drug companies as manufacturing a pill in large volumes is generally cheaper and more straightforward than producing sterile pre-filled injectables.

In addition to saving on manufacturing costs, pills can be more straightforward than injectables for primary care doctors to prescribe, as they are easier for patients to understand and administer. Indeed, given the production constraints on pre-filled syringes, GLP-1s in pill form are relatively easy to produce in essentially limitless quantities – making them the only way we can reach the underserved community of 100 million people in the U.S. alone who could benefit from their use.

Beyond pharmaceuticals, increased penetration of GLP-1s could have market implications for other health care segments, particularly once pricing comes down with the availability of oral products. As the downstream savings in other health care costs associated with diabetes and obesity begin to materialize, governments and private insurers will have increased incentives to broaden coverage. A GLP-1 prescription could save insurers from other health care costs, such as treatments for high blood pressure, high cholesterol, heart failure, sleep apnea, and kidney dialysis – let alone other significant costs such as strokes or liver failure.

Impact on other companies and industries

The second- and third-order effects of GLP-1s will also be important considerations for investors. Some companies are already starting to see an impact, as diabetes patients continue to shift from other medications to newer GLP-1 drugs and more people with obesity initiate therapy. Reduced demand for bariatric surgery has already been noted by several companies.

And the impact is spreading beyond health care. Fast food companies are considering the potential impact on demand, as are makers of snack foods since GLP-1s not only reduce food intake, but may also influence a shift toward more healthy choices. Alcohol companies may also be vulnerable to more health-conscious habits among consumers as well due to GLP-1s' potential to combat addictive behaviors.

Do I need life insurance once I retire?

Getting older means you can finally start to enjoy your life's work. But just because you've hung up your employment boots, life can still throw some unexpected curveballs at your retirement goals, so it's worth being prepared.

Am I still eligible for life insurance when I retire?

Yes, you can take out life insurance as long as you meet the age requirements set by the insurer. Most policies allow you to apply all the way up to age 65. Generally, this means you can still apply for cover after leaving the workforce or withdrawing your super, so there's plenty of time to start looking out for the people you've worked hard to provide for (including yourself).

What can life insurance do for my retirement?

Life is still full of surprises after you retire. That's good news if you're the adventurous type but it's worth having a Plan B in case you pass away or your physical health doesn't hold up. Keep in mind that you'll no longer be earning a steady income during retirement so you'll need to ration your super carefully – large financial setbacks like an injury or illness could interrupt your hard-earned plans to travel or enjoy a comfortable lifestyle after decades of working. Your surviving partner or spouse's living situation could also change if you weren't around to support them emotionally, physically, or financially.

It's also worth thinking about any dependants that still rely on you. The recent pandemic saw an increase in "Boomerang Kids" (adults forced to move back in with their parents after losing their job), which could mean that financially independent children aren't as independent as they seemed. If you'd like to be able to help your kids or grandkids during uncertain times, then life insurance could provide a good safety net for them if you were to suddenly pass away later in life.

Should I review my policy as I get closer to retirement?

It's worth considering. People's needs tend to change as they get older or stop working so your policy should generally reflect any new plans or financial circumstances. For example, your existing benefit amount might be too high or too low for your retirement goals. To avoid paying for cover you don't need or being under-insured, your level of cover could reflect things like:

- your age and health
- your financial position, including debts, assets, mortgages, and how much superannuation you have
- the number of dependants you'd like to consider (spouse, children, grandchildren, or even siblings)
- any other insurance policies or payments that you and your family can rely on (inheritance, funeral insurance, or the Age Pension).

You can always reach out for a chat if you'd like to adjust or review your policy. Until then, enjoy your countdown to retirement!

Thinking ahead? Let's talk about strategies for creating a positive financial future.