



## Autumn 2021

After an eventful summer of weather extremes, on-again off-again lockdowns and the swearing in of a new US President, many will be hoping that Autumn ushers in a change of more than the season. As the vaccine rollout begins, there are also promising signs that economic recovery may be earlier than expected.

Australia's economy has improved and the downturn was not as deep as feared. That was the message Reserve Bank Governor Philip Lowe delivered to Parliament on February 5, citing strong employment growth, retail spending and housing. Unemployment fell from 6.6% to 6.4% in January, although annual wage growth remains steady at a record low of 1.4% after a 0.6% increase in the December quarter. Retail trade rose 0.6% in January, 10.7% higher than a year ago. While home lending jumped 8.6% in December. This helped fuel the 3% rise in national home values in the year to January, led by a 7.9% increase in regional prices.

Business and consumer sentiment is also improving. The NAB Business Confidence Index was up from 4.7 points to 10.0 points in January, although 60% of businesses say they are not interested in borrowing to invest. Halfway through the corporate reporting season, 87% of ASX200 companies reported a profit in the December half year, although earnings were 14% lower in aggregate while dividends were 4% higher. The ANZ-Roy Morgan Consumer Confidence rating eased slightly in February but is still up 67% since last March's low.

Higher commodity prices lifted the Aussie dollar to a three-year high. It closed the month around US78.7c, on the back of a 31% rise in crude oil prices and an 8.5% lift in iron ore prices in 2021 to date.

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# There's more than one way to BOOST your retirement income



After spending their working life building retirement savings, many retirees are often reluctant to eat into their “nest egg” too quickly. This is understandable, given that we are living longer than previous generations and may need to pay for aged care and health costs later in life.

But this cautious approach also means many retirees are living more frugally than they need to. This was one of the key messages from the Government’s recent Retirement Income Review, which found most people die with the bulk of the wealth they had at retirement intact.<sup>i</sup>

One of the benefits of advice is that we can help you plan your retirement income so you know how much you can afford to spend today, secure in the knowledge that your future needs are covered.

## Minimum super pension withdrawals

Under superannuation legislation, once you retire and transfer your super into a pension account, you must withdraw a minimum amount each year. This amount increases from 4 per cent of your account balance for retirees aged under 65 to 14 per cent for those aged 95 and over. (These rates have been halved temporarily for the 2020 and 2021 financial years due to COVID-19.)

One of the common misconceptions about our retirement system, according to the Retirement Income Review, is that these minimum drawdowns are what the Government recommends. Instead, they are there to ensure retirees use their super to fund their retirement, rather than as a store of tax-advantaged wealth to pass down the generations.

In practice, super is unlikely to be your only source of retirement income.

## The three pillars

Most retirees live on a combination of Age Pension topped up with income from super and other investments – the so-called three pillars of our retirement system. Yet despite compulsory super being around for almost 30 years, over 70 per cent of people aged 66 and over still receive a full or part-Age Pension.

While the Retirement Income Review found most of today’s retirees have adequate retirement income, it argued they could do better. Not by saving more, but by using what they have more efficiently.

Withdrawing more of your super nest egg is one way of improving retirement outcomes, but for those who could still do with extra income the answer could lie in your nest.

## Unlocking housing wealth

Australian retirees are some of the wealthiest in the world, with median household wealth of around \$1.4 million. Yet close to \$1 million of this wealth is tied up in the family home.

That’s a lot of money to leave to the kids, especially when many retirees end up living in homes that are too large while they struggle to afford the retirement lifestyle they had hoped for.

For these reasons there is growing interest in ways that allow retirees to

tap into their home equity. Of course, not everyone will want or need to take advantage of these options. But if you are looking for ways to use your home to generate retirement income, but don’t relish the thought of welcoming Airbnb guests, here are some options:

- **Downsizer contributions** to your super. If you are aged 65 or older and sell your home, perhaps to buy something smaller, you may be able to put up to \$300,000 of the proceeds into super (up to \$600,000 for couples).
- **The Pension Loans Scheme (PLS)** Offered by the government via Centrelink, the PLS allows older Australians to receive tax-free fortnightly income by taking out a loan against the equity in their home. The loan plus interest (currently 4.5 per cent per year) is repaid when you sell or after your death.
- **Reverse Mortgages** (also called equity release or home equity schemes). Similar to the PLS but offered by commercial providers. Unlike the PLS, drawdowns can be taken as a lump sum, income stream or line of credit but this flexibility comes at the cost of higher interest rates.

## The big picture

While super is important, for most people it’s not the only source of retirement income.

*If you would like to discuss your retirement income needs and how to make the most of your assets, give us a call.*

<sup>i</sup> Retirement Income Review, <https://treasury.gov.au/sites/default/files/2020-11/p2020-100554-complete-report.pdf>





# Give your finances a shake out

Like trees losing their leaves in autumn, why not take a leaf out of their book and choose this time of year to shed some of your own financial baggage.

In the style of Marie Kondo, the Japanese organising whizz who has inspired millions to clean out their cupboards, decluttering your finances can bring many benefits.

While you work through all your contracts, investments and commitments, you will no doubt discover many that no longer fit your lifestyle or are simply costing you in unnecessary fees.

And if that is the case, then it is likely that such commitments will not be sparking any joy. And joy is the key criteria Kondo uses to determine whether you hold on to something or let it go.

So how does decluttering work with your finances and where do you start?

## Where are you?

The first step is probably to assess where you are right now. That means working out your income and your expenses.

There are many ways to monitor your spending including online apps and the good old-fashioned pen-and-paper method.

Make sure you capture all your expenditure as some can be hidden these days with buy now pay later, credit card and online shopping purchases.

The next step is to organise your expenditure in order of necessity. At the top of the list would be housing,

then utilities, transport, food, health and education. After that, you move on to those discretionary items such as clothes, hairdressing and entertainment.

Work through the list determining what you can keep, what you can discard and what you can adapt to your changed needs. Remember, if it doesn't spark joy then you should probably get rid of it.

## Weed out excess accounts

Now you need to look at the methods you use when spending. Decluttering can include cancelling multiple credit cards and consolidating your purchases into the one card. This has a twofold impact: firstly, you will be able to control your spending better; and secondly, it may well cut your costs by shedding multiple fees.

Another area where multiple accounts can take their toll is super. Consider consolidating your accounts into one. Not only can this make it easier to keep track of, but it will save money on duplicate fees and insurance. If you think you may have long forgotten super accounts, search for it on the Australian Tax Office's lost super website. Since July 2019, super providers must transfer inactive accounts to the tax office.

Once you have reviewed your superannuation, the next step is to check that your investments match your risk profile and your retirement plans. If they aren't aligned, then it's likely they will not spark much joy in the future when you start drawing down your retirement savings.

If you have many years before retirement and can tolerate some risk,

you may consider being reasonably aggressive in your investment choice as you will have sufficient time to ride investment cycles. You can gradually reduce risk in the years leading up to and following retirement.

## Sort through your insurances

Another area to check is insurance. While insurance, whether in or out of super, may not spark much joy, you will be over the moon should you ever need to make a claim and have the right cover in place.

When it comes to insurance, make sure your cover reflects your life stage. For instance, if you have recently bought a home or had a child, you may need to increase your life insurance cover to protect your family. Or if your mortgage is paid off and the kids have left home, you might decide to reduce your cover.

## Prune your investments

If you also have investments outside your super, they too might benefit from some decluttering. As the end of the financial year approaches, now is a good time to look at your portfolio, sell underperforming assets and generally rebalance your investments.

Many people who have applied Marie Kondo's decluttering rules to their possessions talk about the feeling of freedom and release. It may well be that applying the same logic to your finances gets you one step closer to financial freedom.

*If you would like to review or make changes to your finances, why not call us to discuss.*

# Love & money

## achieving financial harmony

The past 12 months have been a challenging time for many of us on a personal level, with the pandemic having a far-reaching impact on so many aspects of our lives. While the Australian economy is proving remarkably resilient, personal finances have been affected in different ways by lockdowns and government initiatives put in place to soften the economic toll of the pandemic.

Whether your finances were adversely impacted, or you came out of 2021 relatively unscathed, if you are in a relationship you and your partner's attitude towards your finances may have shifted. Given that money has the potential to be a source of conflict in relationships, it's now a good time to get in sync to ensure you are on track to achieving financial harmony.

### Check in and see where you stand financially

The first step is knowing where you stand financially. This involves looking through your shared and individual accounts and being open with each other about your saving and spending habits.

This is unlikely to make for a romantic date night given the potential for uncomfortable conversations, which is why one in three Australians admit having kept a financial secret from their partner.<sup>i</sup> However, by being transparent with your partner, you'll be working through issues before they snowball into a source of greater financial and relationship stress.

### Discuss or re-evaluate your goals

We can all lose track of our end goals, especially when life becomes unpredictable and we need to shift focus. So that you don't move too far away from your financial goals,

re-evaluate your priorities. These may have changed in the past year – maybe you've had to halt those travel plans or realised you no longer need or can't afford that new car.

As you and your partner are two individuals, you might not always be aligned in terms of your approaches to saving and spending. We all have different deeply entrenched views and beliefs around money and it's one area that you may never completely see eye to eye on. That also goes for goals – we all have our own dreams and ambitions. Maybe one of you sees a need to renovate the bathroom, while the other thinks the money would be better spent on a holiday. Discuss the goals you both have and be prepared for compromise to find a plan that suits the family as a whole.

### Re-evaluate your priorities and how you spend

Priorities and spending habits can change over time and more recently, in response to a changed world. In 2020, 56% of Australian households surveyed believed their financial situation was vulnerable or worse due to the pandemic.<sup>ii</sup> You may have less disposable income and needed to tap into savings or your superannuation or access credit as a result.

It's important to acknowledge if your financial position has changed, reassess your priorities and make any necessary

adjustments. This may involve taking a look at your spending and saving habits and making changes so that your dollars go towards supporting what's most important to your family. Again, it's important to discuss this with your partner and work through it together.

### Develop a budget

Budgeting is an obvious step, but you'll need to ensure that the budget works for both of you and supports your shared goals. There are great budgeting apps you can use, but what you'll both need to bring to the table is a commitment to sticking with the agreed upon budget. Discuss your household needs, such as mortgage or rent payments, utilities, etc, as well as your individual needs and what your shared goals are.

Try to agree on a system that keeps you both accountable. It can be as formal as filling out a spreadsheet every week, or perhaps having a monthly family meeting around how things are tracking and if there's any room for improvement.

Money talk in relationships can be tricky as it's often a loaded and emotive topic that can bring up other issues. This is why an adviser can help with these conversations, facilitating discussions in a safe and neutral environment and providing expert advice, tailored to your situation.

*Please reach out if we can be of assistance.*

<sup>i</sup> <https://www.moneymag.com.au/talk-money-relationships>

<sup>ii</sup> <https://www.bt.com.au/insights/perspectives/2020/australian-consumer-spending-changes.html>