INSIDE

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FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

FOREVER YOUNG

First-time home buyers of today are waiting longer than ever to jump into the market, couples are holding off on marriage and children for several more years and over-60-year-olds are moving interstate and even overseas to begin the next chapter of their careers.

Children are staying within their parents' homes for longer. The Australian Bureau of Statistics (ABS) says such a change in housing and living arrangements is often related to milestones such as marriage, beginning or finishing education, or starting work[1]. The ABS also points out that since the 1970s these milestones have been moving later in an individual's life.

What is most fascinating about this 'living younger' trend is that it now continues through to the very end of a person's working life, which itself is stretching out to become longer.

"People in their 50s and 60s are a lot younger in mind and body than they used to be," says Judy Higgins, founder of over-45s online job board, Older Workers.

"There are now more mature people than ever who are looking for work. In many cases it is simply because they enjoy work and they don't wish to stop. But in some cases it is because it is a lot more expensive than it used to be to simply live. And in other cases it is because people's retirement savings were not adequate."

Interestingly, Higgins also says there are more older women now looking for jobs than ever before. This, she believes, is because they had interrupted careers thanks to the fact that they looked after their children or elderly parents, and their superannuation was not enough to carry them through their retirement years.

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No matter the reason for the trend, Higgins says older people are living the lives of those who, in the last generation, were perhaps a decade younger.

"Older people are now travelling a lot more, whether for leisure or work," she says. "They are more willing to move for work. In a survey we conducted 18 months ago with over 45s, one third said they would happily move for work. A person we know, a 62-year-old draftsman, had a lot of work here in Australia over the last decade but that began to dry up two years ago. He recently moved to New Zealand when he was offered a new job."

Some older workers are retraining into areas that are almost guaranteed to boast a wealth of jobs over the coming decades, such as careers in the aged care field. Higgins says anybody with a Certificate IV in Aged Care and a specialisation in a useful field, such as gardening, nursing, cooking etc., will be welcomed into jobs in the aged care field, especially as our population continues to age and becomes top heavy.

Other older workers are looking to return to the workforce after caring for elderly parents or unwell partners.

“People are retiring later for a number of reasons,” Higgins says, and it was a fact long before the recent Budget announcement of the increase in pension age to 70. “The truth is that a lot of people simply enjoy working and the sense of purpose that comes with it. The expectation used to be that you would retire at a specific age. But these days that expectation is no longer there. In fact, it is the opposite. Working longer is a responsible and impressive thing to do.”

So rather than seeking a quiet life by the sea, many of those of retirement age are instead moving to where work can be found.

Average first home buyers in Australia, for instance[2], are now 32 years old. This is five years older than they were in the 1980s. And on average a whopping 30%[4] of home owners' after-tax incomes go towards servicing their mortgages.

The median age of first marriage for males is also 32 years, according to the ABS[3]. For females it is 30.1 years. In the early 1980s the median age for first marriage was 23.4 (men) and 21.1 (women). Is it any wonder that couples are having children later, buying houses later and retiring later?

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“People want more now,” Higgins says. “They want more in their life. They want to travel. They want the right house, not just any house. They want to take a year off, or a few years off, before they begin their careers. This continues onwards through to retirement age. We see several people in their 70s for whom the word ‘retirement’ is simply not in their vocabulary.”

Of course, these changing life patterns, the younger behaviour by older age groups, also reflects the fact that Australians are now living longer than ever. In 1950 life expectancy at birth was 66.5 for males and 71.5 for females. By 1980 this had risen to 71 for males and 78.1 for females[4]. In 2013, the ABS says, a boy could expect to live to 79.9 and a girl to 84.3[5]. That's around 13 years added on to an average life.

So why is all of this important? Firstly, it demonstrates the importance of exceptional and up-to-date financial planning.
What may not have been as important for one's parents or grandparents, and therefore was not something commonly discussed around the house or taught to children, is now a necessity. Some of the older people still working are doing so by choice, but for others it is a financial imperative whether they like it or not..

On a more positive note, living the life of a younger person (referred to in the media recently as ‘downageing’) offers entirely new opportunities in terms of lifestyle and the urgency with which life can sometimes be lived. If the labour market is tight then more time can be spent at university making yourself more employable and more valuable. As long as you're financially secure, you can work as long or as little as you like.

We are, indeed, in a brave new world which boasts greater health and longer lives. Match that up with financial security and you have a recipe for true happiness.

[1] Home and away: The living arrangements of young people', Australian Bureau of Statistics.
[2] https://treasure.gov.au/publication/economic-roundup
[3] ‘Marriages and divorces', Australian Bureau of Statistics, 27/11/2018.
[4] quickstats.censusdata.abs.gov.au/census_services/getproduct/census

DON'T BE SURPRISED BY RETIREMENT COSTS

Effective planning for retirement means making yourself aware of all of the costs, including those that only retirees know about.

Many retirees are surprised by the costs they face once they enter the post-career phase of their lives.

Retirees have earned a certain type of lifestyle and they intend to live it. It includes travel, fashion, technology and fitness. In other words, retirees don't expect a reduced quality of lifestyle just because they are no longer working for an income.

Know the danger areas

The first, experts say, is the spending in the first year of retirement which often includes a new car, major home renovations and/or a major travel event. While this is not always true (the CSIRO is currently conducting a major study into the real spending habits of retirees), it is quite common. The first year or two of retirement can be very expensive, indeed. But then spending drops dramatically.

Once people are into the flow of retirement, experts say, they need to prepare for costs that may differ slightly from those they have had previously. Take petrol, for example. Suddenly there is quite a lot of driving each day to visit grandchildren, attend social events, take holidays up the coast and even just to visit the shops. Many retirees express surprise at the amount they are now spending on fuel.

Of course, as retiree's age they must also prepare for costs of health care, especially in a new political environment in which seniors' cards, free doctor visits and other support mechanisms could potentially be reduced.

When a retiree's adult children, or grandchildren, find themselves in difficult financial straits it is often the retirees they approach first for help. If you're likely to help out by offering a loan then this could take a surprise chunk out of your invested funds, and out of your investment return.

Investment funds can take a similar hit when unplanned work needs to be done to the house – termite damage must be rectified etc.

Planning for the unforeseeable

So how do we plan for such unforeseen events? The perfect answer is to work out exactly what you will need to spend in retirement, but nobody has a crystal ball and we don't live in a world of spreadsheets. How do we plan for what actually lies ahead?

A study conducted by Morningstar (USA) called *Estimating the True Cost of Retirement* reported, in 2013, that various households in retirement will spend from 54% to 87% of their pre-retirement after-tax income[1] annually. The higher the pre-retirement income, the lower the percentage tends to be.

Importantly, this study also revealed that retirement costs for households with higher levels of consumption will likely decrease year to year throughout retirement, even as medical costs increase.

The ASFA Retirement Standard, which is produced by The Association of Superannuation Funds of Australia and updated quarterly for the Australian retirement environment, says those hoping for a comfortable retirement must budget for $43,200 annually for a single person or $60,843 annually for a couple[2]. These numbers must be weighed against the type of retirement you are planning, the amount of travel you'd like to enjoy etc.

Perhaps a more individualised way to ensure that your quality of life is no different after retirement is to figure out what percentage of today's annual, after-tax income you will require in retirement. Then, considering your intended retirement lifestyle, fine tune the figure upwards or downwards to come up with a target. Then speak with your adviser to figure out what this means in terms of your investment strategy.

[1] 'Estimating the true cost of retirement', Morningstar Investment Management, November 2013.
[2] ASFA Retirement Standard, September quarter 2018.

THE YEAR AHEAD

- Prospects for the Australian economy remain good. Th Reserve Bank recently said that GDP growth would b around 3½ per cent on average in 2018 and 2019. An we wouldn't greatly disagree with the forecasts.
- Aussie consumers are spending, underpinned by lowe prices and a strong job market. Consumer confidence above longer-term averages (or 'normal' levels' Household consumption is growing close to 3per cent near the strongest annual rate in six years.
- Overseas buyers continue to embrace our high qualit mining and consumer goods while tourists and studen flock 'Down Under'.
- As a result, business conditions and confidence a generally seen as good. Consumers are spending an profits are rising.
- Businesses are also ploughing back money into the operations and are investing. Similarly, state an federal governments are actively spending c infrastructure. Transport infrastructure dominates, but the firm population growth rates across the country are necessitating more social infrastructure such as schools and hospitals.
- Inflation and wage growth are lifting. In fact there is more evidence of labour shortages and higher wages, especially in the mining sector. Trends in these areas will prove pivotal to whether the Reserve Bank begins 'normalisation' – starts to lifts rates later in 2019
- In terms of the Aussie dollar, we think the US Federal Reserve is getting closer to pausing in the rate hiking cycle. At the same time, higher wages are the pre-requisite to higher rates in Australia. US-China trade discussions will also determine where the Aussie is headed. That said, China is already actively stimulating its economy. This time next year, the Aussie is seen closer to US75 cents.

FORECASTS		
	2017/18	2018/19
Economic Growth	2.8%	3.00-3.50%
Underlying inflation	1.9%	2.00-2.50%
Unemployment	5.3%	4.75-5.25%
	MID 2019	END 2019
Cash rate	1.50%	1.50-1.75%
Sharemarket (All Ords)	6,200-6,500	6,450-6,750
Australian dollar	US73-80c	US73-80c

We are always available to discuss any questions or concerns you may have.

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