INSIDE

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FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

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What Rising Interest Rates Mean for You?

The Reserve Bank of Australia (RBA) announced another rate rise on Tuesday 4 October for the sixth month in a row. We unpack what interest rate rises mean for you and your super.

At it's October meeting, the RBA decided to further lift the cash rate by 25 basis points to 2.6%.

Rate increases are are a reflection of economic conditions. Central banks raise and lower interest rates to stimulate growth and manage inflation. If inflation is high, they might raise rates to try and control it. If it's low, they may lower rates to encourage consumers to spend and borrow money.

Throughout the COVID-19 era, very low interest rates have supported economies around the world. And the combined effect of low interest rates and government hardship payments proved very effective in stabilising the Australian economy.

Yet lately, supportive government spending and monetary measures have coincided with supply side shocks such as Russia's invasion of Ukraine, lockdowns in China and COVID-19 related labour shortages. These have resulted in excess demand which can not be met by supply and higher inflation.

At some point, central banks, including the RBA, needed to raise interest rates back to normal levels, but these shocks are pushing up rates faster than expected.

In recent years, low interest rates bolstered share and fixed interest markets. Now, these markets are adjusting to higher long-term interest rates.

Compared to long-term averages, the official cash rate is still very low. And although we expect rates will continue rising for the next 12 months, we don't expect rates to climb to the levels seen in the 1990s or immediately following the global financial crisis in 2008.

HOW WILL RATE RISES AFFECT ME?

Investors – Interest rate rises are impacting all types of investments to varying degrees:

- **Shares.** While markets tend to react to political and economic news, like interest rate movements, any volatility is usually short-lived. As long as the economy remains strong and companies can grow their earnings, shares have historically performed reasonably well during periods of rising interest rates.
- **Property.** Direct property and property securities are impacted by rising interest rates because higher rates tend to reduce the borrowing capacity of borrowers. Higher interest rates can also slow down the property market by reducing demand.
- **Cash and fixed interest.** Fixed interest investments, like bonds, are also impacted,

because the prices of existing bonds that are paying a fixed interest rate fall. This can cause negative returns for fixed interest investments over the short term.

Super members and retirees –

If your super is invested across several asset classes – like Australian shares, global shares, property, fixed interest and cash – and interest rate rise could make your super balance go up or down, depending on how it's invested. This might be a good time to review your investment strategy to make sure your portfolio is well-diversified and appropriate for your stage of life.

For retirees, higher interest rates can be a good thing. As people near retirement, they often change their investment strategy, so they have a higher allocation to defensive assets (such as fixed interest and cash) and a lower allocation to growth assets (such as shares and property). People closer to retirement tend to have a shorter-term investment time horizon and more money to invest. And having a lower allocation to high-risk assets means they're likely to experience less volatility overall.

People who have retired may also have more money invested in bank deposits and other low risk investments. Now that the interest rates are higher retirees may be appreciative that they will receive higher interest on their bank deposits.

Borrowers – There has been plenty of speculation about the impact of interest rate rises on borrowers.

In January, average households were almost four years (45 months) ahead of principal and interest mortgage payments and 52 months ahead of interest-only mortgage repayments, according to figures from the Australian Prudential Regulation Authority (APRA).

Many Australians have also been saving throughout the pandemic. Data from the Australian Bureau of Statistics shows the household savings ratio has increased from 3.6% in the December quarter of 2019 to 13.6% in the December quarter of 2021. But it's important to note that with higher inflation, the real value of savings is reduced.

HOW WILL A RATE RISE IMPACT MY SUPER?

We've seen negative returns in 2022 across most investment options. This is because share markets tend to react to changes in interest rates. Investments in property can be impacted by rising interest rates because they tend to reduce the borrowing capacity for investors and borrowers. Higher interest rates can also slow down the property market by reducing the demand.

Fixed interest investments, like bonds, may also be impacted by long-term interest rate rises. In this circumstance, the price of bonds will typically fall.

It's important to take a long-term view when looking at your super. Longer-term returns on CFS's investment options are positive.

Any volatility is usually short-lived. History shows that people who stick with their strategy and remain invested are generally rewarded.

If you make regular contributions to your super, you're now investing in markets that are lower priced than they were a year ago.

WHAT IF I'M FEELING UNCOMFORTABLE?

For example, Colonial First State offers a broad range of range investment options that are suitable for members who may have a lower tolerance when it comes to the volatility of their investments.

For instance, depending on your personal circumstances, a cash fund or a term deposit may be suitable if you're investing for the short term to medium term and want a known outcome for your funds – without worrying about market volatility. That way, you could keep your money invested in super, while also benefiting from the more protective nature of a term deposit.

SPEAK TO YOUR FINANCIAL ADVISER

If you're concerned about the impact of rising interest rates on your super, or if your investment strategy isn't appropriate for your stage of life, the best thing to do is speak to your financial adviser.
Source: Colonial First State

Federal Budget Insights October 2022-23

As Australians continue to grapple with cost-of-living pressures, Federal Treasurer Jim Chalmers has handed down the Albanese Government's first Budget.

Read on for a round-up of how the proposals might affect your household expenses and financial future.

And remember, many of these proposals could change as legislation passes through parliament and do not become law until formally accepted by the Governor-General.

Superannuation (Encouraging Australians to downsize and build up their Super)

The Government is proposing to lower the age at which you can make downsizer contributions to your super from selling your home from 60 to 55. Downsizer contributions don't count towards your non-concessional contribution (after-tax) cap so if you're eligible and under 75, you could potentially contribute up to $630,000 towards your super by bringing forward three year's worth of after-tax contributions.

Its important to note that if you exceed your non-concessional super contribution caps, additional tax and penalties may apply.

Relaxing residency requirements for SMSFs – Self-managed super fund (SMSF) members will have greater flexibility to retain and contribute to their fund while being temporarily overseas.

Tax – 'Stage three' cuts unchanged

(Proposed effective date: 1 July 2024)

Marginal tax rate* (%)	**Thresholds income range 2022-23 to 2023-24 ($)**	**Thresholds - MTR* (%) and income range from 1 July 2024 ($)**	
0	0 - 18,200	0%	0 - 18,200
19	18,201 - 45,000	19%	18,201 - 45,000
32.5	45,001 - 120,000	30%	45,001 - 200,000
37	120,001 - 180,000	-	
45	> 180,000	45%	> 200,000
Low income tax offset	Up to 700	Up to 700	

*Excluding 2 per cent Medicare Levy

Social security – Extending access to cheaper medicine for older Australians.

The Government is increasing the income test threshold for the Commonwealth Seniors Health Card.

	Current income test threshold	**Proposed income test threshold**
Single	$61,284	$90,000
Couple (Combined)	$98,054	$144,000
Couple illness separated (combined)	$122,568	$180,000

Pensioners encouraged to participate in the workforce by..

1. **Temporarily increasing the Work Bonus bank**

Eligible Australians will have an extra $4,000 credited to their Work Bonus income concession bank balance, with the maximum balance increasing from $7,800 to $11,800 until June 2023.

The Income bank offsets future income from work that would otherwise be assessable under the pension income test. The existing Work Bonus concession of $300 per fortnight will remain unchanged.

2. **Extending the qualification period for Pensioner Concession Cards –** Working pensioners will be able to keep their Pensioner Concession Card for up to two years after their pension stops. [The later of 1 January 2023 or one month after Royal Assent]

3. **And suspending, instead of cancelling, benefits and entitlements for up to two years** [The later of 1 January or one month after Royal Assent]

If Pensioners lose their entitlements due to increased Income from work, they and their partners will be able to start receiving their pension again more easily if their situation changes.

Pensioners incentivised to downsize – The Government is aiming to reduce the financial impact on pensioners looking to downsize their homes and help free up housing stock for younger families by:

- extending the social security assets test exemption for principal home sale proceeds from 12 months to 24 months for income support recipients
- amending the social security income test, to apply only the lower deeming rate (currently 0.25%) to principal home sale proceeds when calculating deemed income for up to 24 months after the sale.

In particular circumstances the measures can extend for a further 12 months (up to 3 years in total) on approval.

Freezing of deeming rates – The Government will freeze social security deeming rates at their current levels until 30 June 2024 to provide some certainty on how investment income is assessed in an environment of rising interest rates.

The lower deeming rate will remain at 0.25%, and the upper rate will remain at 2.25%.

Making medicine more affordable – [1 January 2023]

The Government will reduce the maximum general co-payment for medication on the Pharmaceutical Benefit Scheme (PBS) from $42.50 to $30 per script. This will support people who have a high demand for prescription medicines due to their health needs.

Families – [1 July 2023]

The Government is proposing to give families access to more leave and greater flexibility by:

- Combining Parental Leave Pay and Dad and Partner Pay into a single 20-week payment.
- Introducing a family income limit of $350,000.
- Enabling either parent to claim the payment.
- Allowing eligible birth parents and non-birth parents to receive the payment.
- Allowing parents to take leave at the same. time while claiming the payment.

From 1 July 2024, the Government will start expanding the scheme by two weeks a year until it reaches a full 26 weeks from 1 July 2026.

Both parents will be able to share the leave entitlements on a 'use it or lose it' basis and single parents will be able to access all 26 weeks. Paid parental leave will be able to be taken in blocks as small as a day at a time, between periods of paid work.

Increasing the Child Care Subsidy (CCS) [1 July 2023]

The Government aims to ease the cost of living for families and reduce barriers to workforce participation by:

- Increasing the maximum CCS rate from 85% to 90% for families earning less than $80,000.
- Increasing the CCS rate for families earning less than $530,000 in household income.
- Maintaining higher CCS rates (up to 95%) for families with more than one child aged five and under in care.

Housing affordability – Helping regional Australians buy their first home [1 October 2022]

The Government is establishing the Reginal First Home Buyers Guarantee (RFHBG) to support eligible citizens and permanent residents who have lived in regional location for more than 12 months to purchase their first home in that location with a minimum 5% deposit, with 10,000 places per year to 30 June 2026.

The RFHBG is part of the Home Guarantee Scheme, which also includes:

- The First Home Buyer Guarantee (FHBG), which offers 35,000 places per year to eligible first home buyers who have saved at least a 5% deposit.
- The Family Home Guarantee (FHG), which has 5,000 places per year and is available to a single parent with at least one dependent child and who has saved at least a 2% deposit.

Improving housing supply and affordability

The Government is putting $10 billion into new Housing Australia Future Fund for:

- Construction and repairs of housing in remote Indigenous communities.
- Transitional and crisis accommodation for women and children fleeing domestic and family violence and housing for older women.
- Housing and specialist services for veterans at risk of homelessness.

Other programs and measures include:

- Establishing a 'Help to Buy' scheme to assist low and middle income earners to purchase a new or existing home using equity supplied by the Government.
- Funding for research into affordable housing and developing the housing supply.
- Extending the social security asset test exemption for sale proceeds for pensioners who have sold a home to up to two years and capping deeming on these proceeds at the lower rate, currently 0.25%. Source AMP Insights

OPTUS data breach

Following a recent cyber-attack, Optus customers are advised they could be at risk of identity theft.

While Optus has not yet revealed how many of its 9.7 million customers were impacted, they did confirm that the number was "significant". Importantly, the breach has affected past Optus customers back to 2017, as well as current customers. Customers who have been affected will have already been contacted by Optus, or will be in the coming days.

Customer information that was accessed included:

- Names

- Dates of birth
- Phone numbers
- Email addresses
- Street addresses
- Drivers licence details
- Passport numbers.

However, payment details and account passwords reportedly have not been compromised and Optus's phone services remain safe to operate. Thus, customers financial details were not directly compromised.

Of concern (not just for Optus customers but for any person whose above information has fallen into the wrong hands) is that the above details are easily enough to compromise a person's identity, warns the Office of the Australian Information Commissioner:

Your identity can be stolen if a thief accesses your personal information, including from any document that contains information about you, the OAIC website says. Even if a thief only accesses a small amount of your personal information, they may be able to steal your identity if they can find out more about you from public sources. This includes social media accounts which may include your date of birth, photos and information about your family.

Identity fraud can result in someone using another individual's identity to open a bank account, get a credit card, apply for a passport or conduct illegal activity.

The government's Scamwatch website advises the following steps to protect your personal information:

- Secure your devices and monitor for unusual activity
- Change your online account passwords and enable multi factor authentication for banking
- Check your accounts for unusual activity such as items you haven't purchased
- Place limits on your accounts or ask your bank how you can secure your money.
- If you suspect fraud your can request a ban on your credit report.

Moving forward, also be vigilant regarding future contact. Scammers may use your personal information they have obtained to contact you by phone, text or email. Never click on links or provide personal or financial information to someone who contacts you out of the blue.

If you have been concerned that your identity has been compromised or you have been a victim of a scam, contact your bank immediately and call **IDCARE** on **1800 595 160.** IDCARE is Australia's national identity and cyber support service, to get expert advice from a specialist identity and cyber security service. You can also report scams to Scamwatch www.scamwatch.gov.au and check cyber.gov.au for information about cyber security.

Source: Butler Settineri

Should you wish to discuss any aspect of the information contained in this document, please contact your Financial Planner

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