INSIDE

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FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

Quarterly Economic Update: Jan-Mar 2023

Economists' eyes will remain focused on the Reserve Bank of Australia throughout this quarter and whether it will continue to push interest rates ever higher in its continued battle to reduce the domestic rate of inflation.

The Consumer Price Index slowed from 7.4 per cent to 6.8 per cent for the year to February with prices increasing by just 0.2 per cent for the month of February itself, raising hopes the Reserve Bank might halt any further interest rate increases.

Economists remain divided on the outlook for interest rates. Some point to the low inflation rate recorded for the month of February and say the back has been broken regarding the recent price hikes of the past year and that any further rate rises will risk tipping the domestic economy into recession with local activity already stalling in key industries such as the housing construction industry, local tourism and other recreational industries.

Some economists point to the fact inflation remains doggedly above the Reserve Bank's preferred inflation range of between 2 and 3 per cent and that consumer spending remains doggedly high despite recent rate hikes.

Recession fears are also growing, given the ACTU's push this year for a 7 per cent increase in the minimum wage from $21.38 an hour to $22.88, taking the minimum wage to $45,337 a year for some 2.4 million workers - a pay rise of some $3,000 a year. This comes hard on the heels of last year's minimum wage rise of 5.2 per cent. More, the ACTU is pushing for this increase to flow to a range of other award rates, prompting concerns any such move could spark a wage rise – price hike spiral, reminiscent of the 1970's.

However, the ACTU argues the cost-of-living pressures are now so high that this increase is needed just to stop workers falling in poverty. That low-income workers typically spend every cent they earn, and this is exactly what is needed to keep the local economy growing.

It also points to continued record high levels of corporate profits in recent years and argues Australian employers can easily afford to pay their workers more without it placing further pressure on prices.
Not surprisingly business groups point to Australia's low level of productivity gains, another increase in the Employers Superannuation Guarantee contribution, to which is set to rise to 11 per cent next financial year and higher funding costs, to argue against any pay increases.

Meanwhile, the Federal Government is set to release its first full year budget this quarter. The overriding concern is whether the Government will take this opportunity to deal with the significant structural funding issues within the budget and so start to haul in the Federal deficit.

While Government revenues continued to be bolstered by strong international trading conditions for Australia's key exports of iron ore, coal and wheat, it remains a simple fact that the Federal Government spends more on goods and services than it receives by way of taxes.

This situation will only be made worse by the recent decision to acquire a new fleet of state-of-the-art submarines and other military equipment that is expected to add billions of dollars to Government spending over the next few decades.

All at a time, when the Government is equally committed to spending billions helping the domestic economy transition away from fossil fuel energy sources and embark on building a new low carbon economy.
Meanwhile, a growing number of economists believe the US economy will most certainly fall into recession sometime this year, as its central bank also deals with a blow-out in domestic inflation by increasing local interest rates.
While US employment figures remain strong, the recent US rate hikes have put undue pressure on a number of US and international banks, causing the collapse of two high profile banks in recent months.
Although the US banking system remains strong, there are fears that these failures will cause a retraction in lending to businesses and so will further increase the likelihood and depth of any pending recession.

Sources:

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The big mistake you should avoid if you plan to contest a will

Disputing a will was once something mainly rich people did. But these days it is more common across the board. Law firms are openly spruiking services to contest a will with ads - such as "Left Out of a Will?" - popping up regularly.

Some legal firms promise if you don't win, you won't have to pay legal fees or only pay a fixed fee. Anna Hacker, national manager of Estate Planning at Australian Unity Trustees Legal Services, says there is certainly more awareness about contesting a will. One reason is the rise in the value of the family home, resulting in a wealthier estate that is worth contesting.

Also, the definition of eligible people who can challenge a will has been expanded in some states. If a deceased person has a blended family, it means that multiple partners, either through marriage or de-facto relationships, as well as children, stepchildren and grandchildren could be eligible to claim on the estate. Same-sex partners and also people who were living in a close relationship with the deceased at the time of their death - not related by family but providing domestic support or personal care - can claim in some states.

Kids and grandkids these days rely more heavily on the Bank of Mum and Dad and see their parents' money as a birthright, says Hacker.

As well there are disputes because some family members believe the will has been tampered with or hasn't been properly executed. Or the meaning can be unclear, particularly if it is a DIY will. There are also examples of will being made under pressure, for example when an elderly relative has dementia and is incapable of making a decision.

If you believe you are eligible to make a claim on the deceased estate, you need legal advice to understand if you would be successful. There are a number of strict conditions for eligibility that the court will consider, such as your age, your own financial circumstances, including your current and future needs, whether you are supported by another person, if you have any disabilities and whether you are of good character. The claim must be made within a set time from the date of the death. In NSW, for example, it is 12 months.

Making a claim will most likely splinter family relationships as well as being complicated and time consuming. It can be expensive too.
It is best to ignore advice that any legal costs of a challenge are to be paid by the estate, whether successful or not. Hacker says this used to be the case but "it should certainly no longer be assumed that the court will agree to this".

She says no-one should assume the costs would be paid, especially if someone was very difficult when making a claim. She says even an executor might not have their costs paid. "If they are successful, it is more likely the costs would be covered, but if they are not I would no longer assume the estate would pay". If you are making or revising a will and are worried that your dependants might fight over your estate, there are some steps you can take to ensure the right people receive your wealth.
Hacker advises her clients to give away some of their assets to their deserving dependants before they die. But it can be difficult to get the timing right, as you may live a long life and need the money or your home.

Just as you outline in your will who will get your estate, you can also name who is not entitled to a share. Hacker says it is a good idea to record why you are not leaving your estate to some family members. But don't write the reasons into your will. Instead, she recommends you put it in a separate affidavit. She says people who are left out of a will are typically enraged and are determined to challenge it.
"It is important to outline why. It is important for the court to know you have considered these people".
She says there are long waits at court because of the COVID-19 lockdowns. In Victoria, estate cases won't be heard until 2022. But Hacker says 98% of challenges don't make it to court but settle before trial - "often on the steps of the court".

Source: https://www.moneymag.com.au/what-you-need-to-know-before-contesting-a-will

Urgent UK State Pension Deadline – Don’t Miss Out!

There are pending changes to the UK State Pension which can dramatically impact the amount of pension eligible individuals can receive in retirement. On 31 July 2023, the ability for expats to top up entitlements to the UK State pension will be significantly reduced so if you’ve been thinking about making additional voluntary National Insurance (NI) contributions to increase your entitlement, now is the time to act before you potentially miss out. Note the deadline was previously 5 April, however the UK Government recently extended the deadline as a result of public concern.

UK State Pension – Are You Eligible?

Before we get into the upcoming rule changes, it is important to ascertain if you are indeed eligible to receive a UK State Pension. If you have ever worked in the UK and paid National Insurance (NI) contributions, you will have an entitlement to the UK State Pension, even if you are not a UK national. To be eligible to claim a pension, you must have contributed a minimum ten years’ worth of NI contributions. If you do not have this minimum amount, then you can pay to top up additional contributions and make up any shortfall provided you have lived and worked in the UK for 3 full continuous years.

The rate that you would pay to top up (Class 2 or Class 3) depends on a few factors – more on that below. Class 2 rates are preferable as they present a cheaper option compared to Class 3. Once you top up your NI record and reach UK State Pension age, you’ll receive a pension based on the number of National Insurance contributions you have made, with 35 years being required for the maximum pension.

Current Top-Up Rules

Currently, you can make a one-off backdated NI contribution to cover any missed years from 2006-07 onwards if you are eligible. Topping up your NI contributions means a nominal outlay now, for an attractive return once you reach state pension age. This means that there is a total of 16 years' worth of NI contributions that you can purchase to fill in the gaps in your NI record and reach the minimum of 10-year threshold and increase your entitlement to your desired level. Topping up your NI contributions means a nominal outlay now, for an attractive return once you reach state pension age with the maximum basic state pension slated to be increased to £203.85 from April.

UK State Pension Top Up Rules – Changes Incoming

From 31 July 2023, you will only be able to make voluntary backdated contributions for the past 6 years, as opposed to the current maximum of 16. This rule change effectively reduces the amount that you can increase your entitlement or may even make you ineligible for a UK State Pension if you have fewer than four qualifying years on your NI record.

Next Steps & How We Can Help

It can be tricky to navigate the UK State Pension system, particularly when rule changes come into effect that impact eligibility and cost. If you have worked in the UK for 3 or more consecutive years, and you haven't yet topped up, now is the time to act. Once the 31 July deadline comes and goes, your ability to increase your entitlement will dramatically reduce, potentially impacting the level of income you receive in retirement.

We can assist you with your eligibility for the UK State Pension, the rate at which you can top up, and submit the relevant information to HMRC on your behalf. As long as your application is submitted before the 31 July 2023 deadline, you can top up as far back as 2006-07.

Please don't hesitate to get in touch with us or visit the **UK State Pensions page** for more information.

The benefits of reinvesting your income distributions

Reinvesting the income distributions you receive from an ETF or managed fund can make a huge difference to your investment returns over time.

Owning units in exchange traded funds (ETFs) or managed funds that invest in shares generally gives you exposure to hundreds, and sometimes thousands, of different companies. If you invest in fixed income ETFs or managed funds you'll similarly be gaining exposure to a broad array of different bond issues.

Diversified funds invest across shares and bonds, so you're gaining exposure to large ready-made portfolios made up of both types of assets. Spreading your investments across different asset classes can help to reduce investment risk and also to diversify your sources of distributions.

One of the key advantages of investing in funds, apart from the potential capital growth you can expect over time, is that you're also likely to receive regular income distributions. That's because funds typically receive company dividends (and fixed income payments if they invest in bonds), which are then aggregated and passed on to their individual unitholders.

The total amount of distributions you receive, which are usually paid quarterly, half-yearly or annually, will depend on the number of fund units you hold at the time the distribution payment amount is announced.

Making a choice

When you invest in a fund (whether it's an ETF or a managed fund), you generally have two options when it comes to your income distributions.

You can take them as cash, to spend as you like, or you can choose to reinvest them to buy additional units in the same fund. It's completely a personal choice, depending on your circumstances and preference.

For many investors, especially those in the pension phase reliant on regular income streams, fund distributions are an important element of cash flow to pay for everyday living costs.

Other investors may not need additional cash income and are happy to build up their fund balance over time.

Reinvesting your distributions back into the same fund will increase the number of units you hold, which over the long term can compound both capital growth and income returns.

Comparing the options

There's strong evidence that investors who consistently reinvest their distributions will likely achieve significantly higher investment returns over the longer term compared to those who choose to take their distributions as cash.

That reflects the compounding growth that can be achieved by having a higher investment balance. As your balance grows, so do your investment returns.

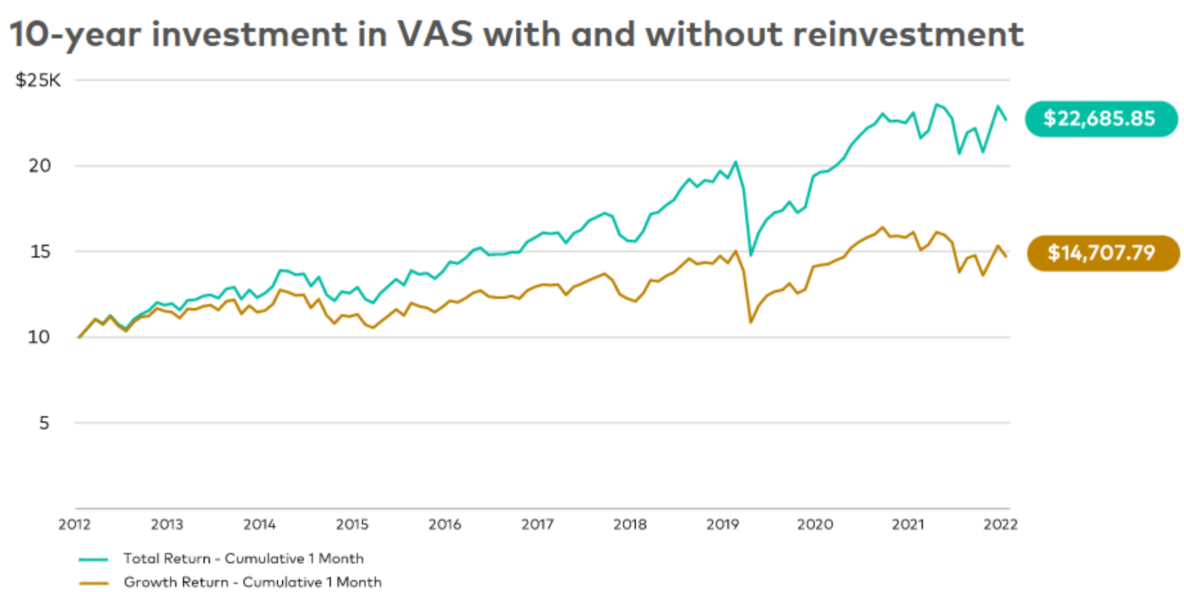
The chart below uses historical data and provides some good context around the solid investment growth achieved from reinvesting ETF income distributions over a 10-year period from 31 December 2012 to 31 December 2022.

It compares two hypothetical investors who each invested $10,000 into the Australian Securities Exchange-listed Vanguard Australian Shares Index ETF (ASX code VAS) at the end of 2012.

For their outlay, both investors purchased the same number of VAS units based on the prevailing market unit price at the time.

"Investor B", represented by the brown line on the chart below, opted not to reinvest their regular distributions.

"Investor A", represented by the green line on the chart, opted to automatically reinvest all of their VAS distribution payments over time into purchasing additional units in the ETF.



Source: Vanguard calculations. Calculations are based on a $10,000 investment into the Vanguard Australian Share Index ETF from 31 December 2012 to 31 December 2022. Total returns are before fees and taxes.

After 10 years, Investor B would have ended up with a total investment balance of just over $14,700, equal to a growth return of about 46 per cent.
They would have received around $5,600 of income distributions.
However, Investor A's $10,000 investment on the other hand would have grown 127 per cent to over $22,600.
They would have received the equivalent income distribution value as Investor B.
However, Investor A would have ended up with almost 100 more fund units than Investor B after 10 years because of the fact that they had opted to reinvest their cash distributions into buying additional units.
Because of the compounding returns on having a higher number of fund units, they would have ended up with around $2,300 more than Investor B who opted not to reinvest their distributions.

That's the power of compounding returns at work, which can simply be achieved by following a long-term distribution reinvestment strategy.

Source:
https://www.vanguard.com.au/personal/learn/smart-investing/understand-the-basics/benefits-of-reinvesting-income-distributions

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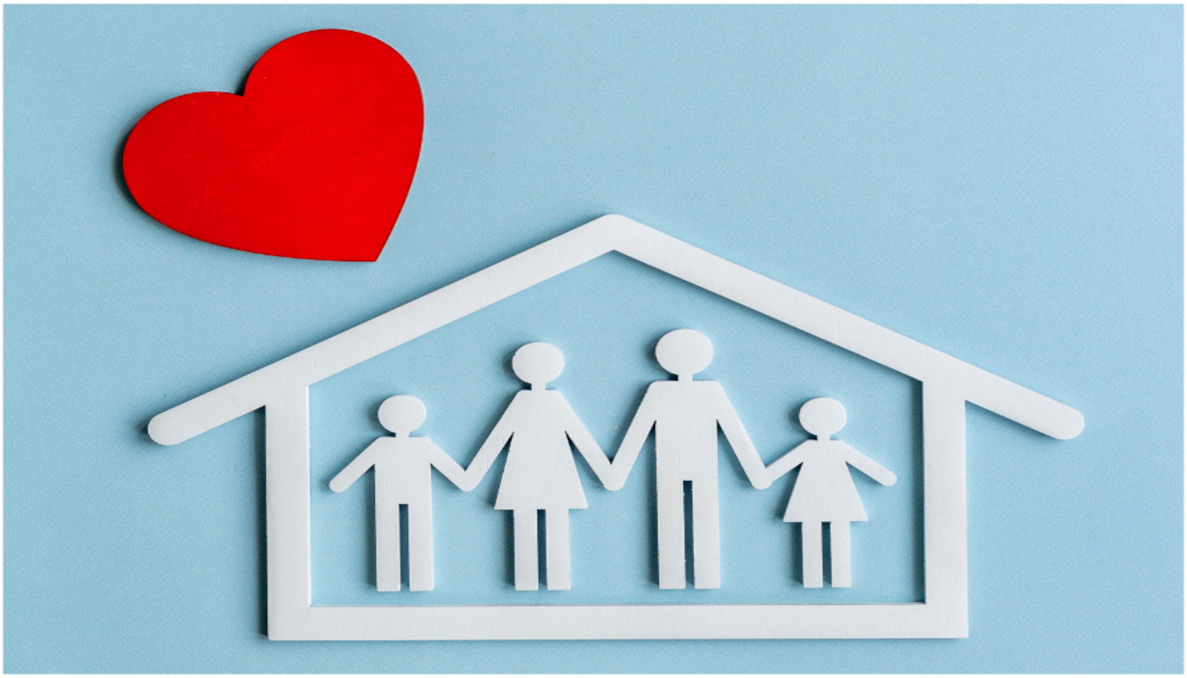


An investment gift for growing children

Investing for your kids is a long-lasting investment in their future.

So, what about a special financial gift that will keep on giving for many years to come? In fact, beyond the monetary aspect, it's a gift that should impart important lessons that can last a lifetime.

To get the most out of this gift, you could also commit to a long-term regular investment program on behalf of your child or children.
Think of it as a long-lasting investment in their future.

The gift of compounding returns

Investing is primarily about generating a return on your capital outlay.
A return can be achieved in a number of ways, including via capital growth, regular income, and through compounding.

"Money makes money. And the money that money makes, makes money," noted the famous American scientist and inventor, Benjamin Franklin (1706 - 1790), when explaining the power of compounding investment returns.

Put simply, as an investment balance increases over time, the investment returns generated off the higher investment balance will also increase.

The best way to illustrate this is by using a real-life example. This scenario is based on a parent having set up an investment account on behalf of a child on 31 October 2004, with a starting balance of $100.

The parent invested through the minor's account into the Vanguard High Growth Index Fund, and then made ongoing $100 monthly investments into the same account.

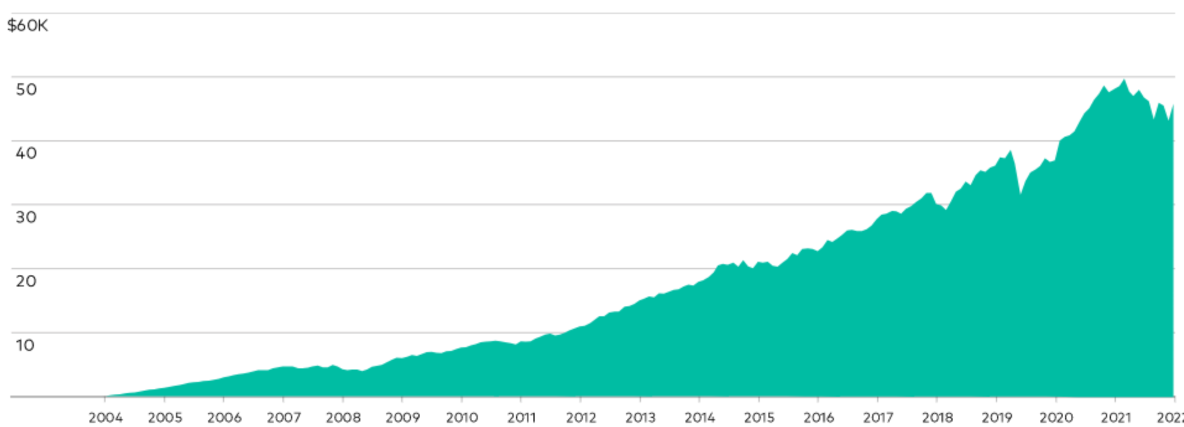
The **Vanguard High Growth Index Fund** is a managed fund that's essentially a ready-made investment portfolio incorporating seven different Vanguard index funds. It invests in a broad mix of Australian and international shares, and fixed income securities.

The numbers quoted are based on the actual returns, after management fees but before tax, generated by the Vanguard High Growth Index Fund over the 18-year period from 31 October 2004 to 31 October 2022.

Importantly, to demonstrate the combined benefits of regular investing and compounding returns over time, they assume that all distribution payments from the managed fund were reinvested back into buying additional fund units.

Although the share market is prone to short-term volatility, over the longer term the share market has delivered strong growth for investors. For a child, what happens in the short term will have little bearing on their long-term capital returns.

Vanguard High Growth Index Fund - $100 Monthly Contributions



Source: Vanguard. Past performance information is given for illustrative purposes only and should not be relied upon as, and is not, an indication of future performance.

By the end of year one, after making $1,200 of regular investments, you can see from the chart that the child's account balance had grown minimally.

But the longer-term benefits of compounding returns are better demonstrated from the end of year five. At that point, in October 2009, and after ongoing $100 per month contributions and the reinvestment of distributions, the child's overall account balance had grown to more than $6,000.

Fast-forward another five years, and by October 2014 the child's account balance had just about reached $18,000. Then, through ongoing investments and as a result of higher compounding returns, the account balance surged to around $36,000 by October 2019 and to almost $46,000 by the end of October 2022.

Not a bad profit (around $24,000, or 112 per cent), based on a total of $21,600 in monthly contributions made over 18 years.
This return was despite several prominent market blips – namely the downturns on global financial markets over 2008 and 2009 stemming from the Global Financial Crisis, and the impact on markets from the outbreak of the COVID 19 pandemic in early 2020.

The gift of financial education

When it comes to investing, and more particularly to achieving investment success, knowledge is key for both adults and children.

Involving your children throughout any investment process you take on their behalf can be invaluable. As well as teaching them the basics of investing, having a long-term investment plan and framework will show them the benefits of strategies such as making regular investment contributions to increase compounding returns.

It will also teach them about the benefits of staying the course, over the long term, and not being distracted by short-term market events and volatility.
How much you invest, and how often you invest on a child's behalf, is entirely up to you. That ultimately comes down to what you can afford to invest.

Set an affordable ongoing investment amount into your regular spending budget for each child. Even small amounts will grow over time when combined with compounding investment returns.
Of course, to achieve the full benefits of making regular contributions and from compounding returns on behalf of a child, the earlier you start investing for them the better.

They're lessons that they can take with them too as they grow as children, as they move into adulthood and start investing in their own right to continue building personal wealth, and that they can eventually pass onto their own children.

Personal Investor Kids

Vanguard has recently launched Personal Investor Kids, a special investing account designed to give children under the age of 18 the best chance of investment success over the long term.

It also enables adults who are Personal Investor clients to make regular automated investments using Auto Invest, starting from as little as $25 per fortnight, month, or quarter. Personal Investor Kids accounts also allow one-off investments to be made directly into a child's account.

Personal Investor Kids provides access to Vanguard's four ready-made diversified managed fund portfolios – the Vanguard High Growth Index Fund, Vanguard Growth Index Fund, Vanguard Balanced Index Fund, and Vanguard Conservative Index Fund.

Source:
https://www.vanguard.com.au/personal/learn/smart-investing/investing-strategy/an-investment-gift-for-growing-children