INSIDE

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FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

Australians need a retirement confidence boost

Giving Australians better access to high-quality and more affordable financial advice is imperative.

One of the fundamental principles for achieving long-term investment success is planning.
In fact, the importance of having a clear financial plan, whether it's formal or informal, can't be overstated. As is the importance of sticking to it.

Without a well-documented, detailed plan that incorporates specific goals, there's a fair chance investors will miss out on key opportunities over time, potentially lose their long-term focus and not attain the financial heights they had hoped to reach.

The consequences of this can range from feeling demoralised to experiencing devastating financial impacts, and it's evident there's a strong link between having a plan and individual confidence levels, especially in relation to retirement.

The importance of planning

To this point, Vanguard's recently released *How Australia Retires* study found that Australians with the highest confidence about their future retirement were following a financial plan.

After surveying more than 1,800 working and retired Australians aged 18 years and older, we found that people who have a financial plan are six times more confident about their retirement outcomes than those without one.

Australians with the highest retirement confidence have taken the most purposeful actions to prepare for their retirement. Many have accessed professional financial advice, they're relatively likely to use budgets and prioritise their savings, and they make regular extra contributions into their super.

Broadly speaking, they know what they need to do to achieve the retirement outcome they desire and are optimistic about entering this phase of their life.

By contrast, we found that Australians with a low confidence about their retirement tend to be the least actively prepared.

Often, they've never accessed financial advice and they have little understanding of how they can achieve their retirement goals. They also expect to be more reliant on the Age Pension after they retire than those with higher retirement confidence.

In addition, they don't tend to make regular additional super contributions and are generally less optimistic and more likely to feel disinterested, anxious or worried about this later phase of life.

This is typically the case for older Australians who've taken less action to prepare over time.

The role of super

Interestingly, only half of working-age Australians consider super an important component of their retirement plan and they expect to rely on it less than existing retirees.

As part of this, more than half of working-age Australians (54%) estimate their super balance constitutes half or less of their total investment balance.

Indeed, one in four working age Australians highlighted investment property as being a big part of their retirement plan. That compares with only one in 10 retired Australians having investment property as an asset.

But of concern is the fact that while super is an important component of total retirement assets, relatively few people actively engage with their super.

In many cases, super is the second-largest asset people have outside of their home. Yet, one in four Australians don't know what their current super balance is, and one in two are unaware of what they're paying in super fees.

And most Australians haven't had any contact with their super fund, often because they rely solely on their employer's compulsory contributions.

Increasing engagement

This is an area that really needs attention, and there's a great opportunity for the super industry as a whole to step up their engagement with fund members.

For example, most Australians don't really understand all of their available options when it comes to making personal contributions into their super account each year. Even making small additional contributions on top of employer contributions can have a big positive financial impact over time.

So can reducing fees, because higher fees equate to lower returns. Understanding what you're paying in investment fees allows you to do a comparison with other providers and to potentially switch to lower-cost alternatives.

This is where financial advice can play a crucial role. There's a strong correlation between the use of professional advisers and retirement confidence.

Our survey found that of the Australians who have received professional advice, 44% indicated they were extremely or very confident in funding their retirement. Of those who have never sought any professional advice, only a quarter indicated they were confident.

Which is why giving Australians better access to high-quality and more affordable financial advice, that's relevant to their specific needs, is imperative.

Financial advisers have an important role to play in terms of recommending the most appropriate investment options to individuals based on their needs, but also in terms of behavioural coaching. Having peace of mind is invaluable.

And it's never too early to engage a financial adviser to map out a financial plan that has the best chance of investment success over the long term.

Source: https://www.vanguard.com.au/personal/learn/smart-investing/retirement/retirement-confidence-boost

Can I go back to work if I've already accessed my Super?

Generally, you can, but there may be other things to consider.

When you access your super at retirement, depending on your age and personal circumstances, your super fund may ask you to sign a declaration stating you intend to never return to work again. However, there could be compelling reasons as to why you might go back in the future.

Figures from the Australian Bureau of Statistics reveal financial necessity and boredom are the most common factors prompting retirees back into full or part-time employment. Whatever your motivations might be, if it's something you're considering, there are things you should be aware of.

What is your situation?

I reached my preservation age and declared retirement.

If you reached your preservation age (which will be between 55 and 60, depending on when you were born) and declared you'd permanently retired, this would typically have given you unlimited access to your super.

Your intention to retire must have been genuine at the time, which is why your super fund may have asked you to sign a declaration stating your intent.

Depending on your circumstances, you also may be required to prove your intention to retire was genuine to the Australian Taxation Office.

I stopped an employment arrangement after I turned 60

From age 60, you can stop an employment arrangement and don't have to make any declaration about your retirement or future employment intentions, while gaining full access to your super.

If you're in this situation, as there is no requirement for you to declare your retirement permanently, you can return to work without any issues.

I'm aged 65 or older

When you turn 65, you don't have to be retired or satisfy any special conditions to get unlimited access to your super savings, so regardless of whether you're accessing super or not, you can return to work if you choose to.

What happens to your super if you return to work?

Regardless of which group (above) you fall into, you may have taken your super as a lump sum, income stream, or potentially even a bit of both.

If you chose to withdraw a regular income stream from your super savings and are wondering whether you can continue to access these periodic payments, the answer is yes you can - and that's irrespective of whether you return to full or part-time work.

What are the rules around future super contributions?

Unless you plan on being self-employed and paying your own super, your employer is required to make super contributions to a fund on your behalf at the rate of 10.5% of your earnings (increasing to 11% from 1 July 2023).

This means you can continue to build your retirement savings via compulsory contributions paid by your employer and/or voluntary contributions you make yourself.

Note, once you reach age 75, you're generally ineligible to make voluntary contributions (unless they're downsizer contributions), while compulsory contributions paid by an employer under the super guarantee (if you're an employee) can still be paid no matter how old you are.

Could returning to work affect your age pension?

If you're receiving a full or part age pension from the Government, you'd be aware that Centrelink applies an income test and an assets test to determine how much you get paid.

Your super, as well as any new employment income will be considered as part of this assessment, so make sure you're aware of whether earnings from returning to work could impact your age pension entitlements.

If you're eligible, the Work Bonus scheme reduces the amount of employment income, or eligible self-employment income, which Centrelink applies to your rate of age pension entitlement under the income test.

Where can you go if you need a bit of help?

For information and tips around re-entering the workforce, check out the Department of Education, Skills and Employment website, which includes a Mature Age Hub, as well as details around the government's Jobactive initiative and New Business Assistance for those looking to become self-employed.

There are also websites like Older Workers and Seeking Seniors, which focus specifically on mature-age candidates.

If you have further questions on how a return to work could impact you, speak to us today.

Sources:

https://www.abs.gov.au/statistics/labour/employment-and-unemployment/retirement-and-retirement-intentions-australia/latest-release

INSIDE

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Planning ahead for the "Sandwich Generation"

Are you taking care of elderly parents? Do you still have adult children living at home? Do the words 'meat' and 'sandwich' strike any chords with you? You could be a member of the "Sandwich Generation" without realising it!

Sandwich Generation refers to people who are 'sandwiched' between caring for elderly parents and adult children still living in the family home.

As a society we are living longer but unfortunately longevity comes at a cost.

It's not uncommon for older people to become the primary carer for elderly parents. Caring for someone is difficult emotionally, but can also affect the household finances as work hours are reduced or careers cut short to accommodate carer responsibilities.

At the other end of the spectrum, adult children pursuing higher education are continuing to live in the family home longer than previous generations as the costs associated with moving out prohibit them from achieving their independence.

Additional financial pressures

People with elderly parents and adult children all living in the one home, often find themselves in unexpected financial trouble. At a life stage when most are planning to downsize their homes, the Sandwich Generation is forced to consider other options such as renovating to increase space or provide more privacy. No longer are "Granny flats" inhabited by older family members; now it's the kids who have taken over these coveted domains.

Of the three generations potentially living under these arrangements, only one is usually in the position to pay for expansions, yet the retirement strategies of these people hadn't anticipated issues such as late-life mortgages.

For those already in this situation, a range of government services is available. Contact My Aged Care on 1800 200 422 or visit www.myagedcare.gov.au

Looking ahead

Financial advisers are helping a growing number of clients create strategies for managing these future financial pressures. Already highlighted is a current lack of trauma and disability insurance. This will provide a lump sum to cover costs if a critical illness is brought on by the extra stress of these situations, placing the in-between generation in a better position to manage this phase financially and emotionally.

Other strategies to start considering now include:

· dollar cost averaging to grow savings,

· increasing superannuation contributions,

· nominating superannuation beneficiaries,

· establishing Powers of Attorney and maintaining Wills.

Your financial adviser can discuss these and other individual strategies with you to determine the most appropriate for your current situation and your future needs.

As housing costs increase and we continue to live longer, the pressures of multi-generational accommodation will affect today's younger generations, tomorrow.

The key to achieving financial security is planning. Speak to your financial adviser about the right strategy for you; it's never too early, and it's certainly never too late either.

Sources: www.carersaustralia.com.au Carers caught in the 'sandwich generation' www.myagedcare.gov.au Home care packages

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Three simple steps for financial wellness

If money's too tight to mention, here's some small steps that can make a big difference in achieving your financial goals.

How would you rate your level of financial wellness?

Do you think you're in a good position to meet your immediate and near-term financial obligations? What about your long-term goals?

They're tough questions, asked in a particularly tough financial environment.

The sharp rise in general living expenses over recent times has spurred central banks to raise interest rates in a bid to quell consumer demand.

Many households are already under increased financial pressure, and further rate rises are on the cards. Investment returns, including superannuation returns, have also fallen.

Yet, in assessing your level of financial wellness, it's important to look beyond short-term events.

Sure, they definitely feed into the overall equation. Household budgets are likely to be stretched until economic conditions normalise.

But also consider whether your financial wellness is on track in terms of your future, longer-term financial goals. This includes your regular investing strategy, both inside and outside of superannuation.

This three-step framework for financial wellness may help you to identify strategies to improve your financial wellness in order to meet your shorter-term financial obligations, and to keep you on track in terms of your longer-term goals.

Step 1: Take control of your finances

Taking control of your finances largely comes down to understanding everything about your finances – the amount of money you receive in regular and ad hoc income, the amount you need to spend on general living expenses, the money being put towards specific goals (such as a house or car), and what's left over (your savings).

Consider implementing a budgeting strategy, if you don't already have one, to track all your expenses and identify where potential savings could be made so you can build momentum towards achieving your short-term and long-term objectives.

Reductions in certain expenses could be used towards paying off high-interest debts, such as outstanding credit card balances, and ensuring you can pay the minimum payments on all debts.

Step 2: Prepare for the unexpected

Having better control over your money will invariably put you in a stronger position to build wealth over time.

Protecting your wealth as it grows is important, and that means preparing for the unexpected.

Households can benefit from setting aside emergency savings to cover modest, unexpected expenses for when an inevitable or unlikely event occurs.

Think of events such as unexpectedly losing your job or a sudden drop in the income you generate from your business activities, and unforeseen spending shocks that can eat into your accumulated savings.

Emergency savings can ensure you have some cushions in place to help reduce the potential impacts of such events on your household budget, financial plans, and goals.

Insurance cover is also an important component of financial wellness and protecting against unexpected or unwanted financial losses. Common types of policies include health, life, disability, trauma, and income protection cover.

Given insurance premiums can be high, striking a balance between risks, costs, and coverages is prudent.

Step 3. Make progress toward your goals

To achieve your long-term financial goals, it makes sense to remove any impediments that will stand in the way of attaining them.

Step 3 of the financial wellness framework focuses on strategies such as paying off longer-term debts, such as your home mortgage. Paying higher-interest debt first will save on interest.

Depending on your life stage and investment trade-offs, you can choose to either pay down lower-interest debt, using money previously allocated to investing, or to rely on your budget and one-time windfalls to accelerate the paydown strategy.

However, having cash on hand may also be important for your peace of mind. Directing more money toward paying debt forgoes liquidity in the short term, so evaluate whether you need cash in the short term.

Also, consider using accounts paying higher interest to save for shorter-term goals, such as buying or paying off a house, vehicles, funding a holiday, or in order to retire early (before you're able to start accessing your superannuation).

Conclusion

Attaining a high level of financial wellness comes down to a range of strategies, but first and foremost it's about taking control of your personal finances.

Just doing simple things, like having a household budgeting system, can make an enormous difference in helping you to understand how your money is being allocated, and where you can potentially save on costs.

Having a financial buffer, or war chest, is also important to cater for unexpected events such as a major unforeseen expense, or if you suddenly lose regular income.

Think about having investments that are liquid enough to access if you need extra cash, which can include money you have invested in exchange traded funds or managed funds.

Lastly, always stay focused on your long-term goals and use a range of strategies to achieve them, such as reducing your debts over time.

Taking direct action with your finances will greatly improve your chances of achieving investment success over the long term.

Source: https://www.vanguard.com.au/personal/learn/smart-investing/life-events/three-steps-for-financial-wellness

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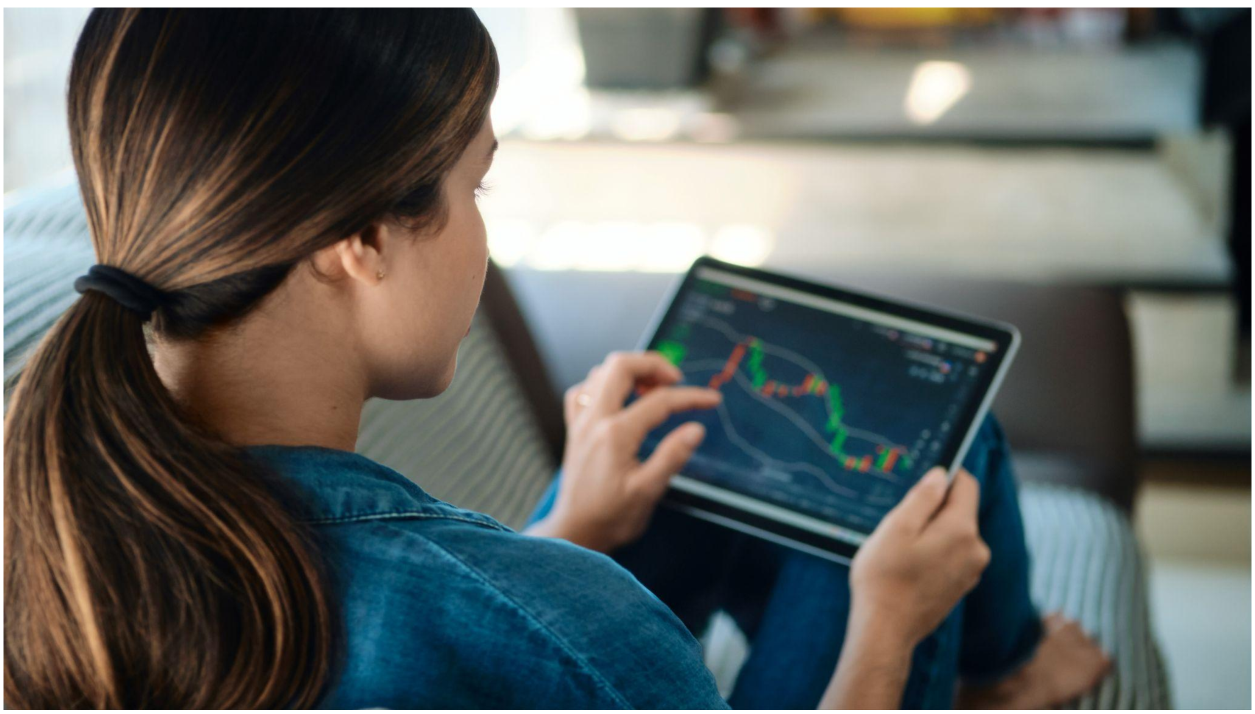
The “secret” to Financial freedom? Persist while others quit

Watch the video here



4 Time-Tested Investment Strategies for Young Investors

The newest generation of young investors were raised during the Age of Information.

Growing up alongside the internet, this generation has been exposed to more information and technological advancement than any generation before them.

Young investors have greater access to education around investing, more diverse opportunities for investing, as well as a rise in social media content creators creating communities around building wealth – making this topic much more popular among younger generations.

However, the world of investing can still seem intimidating, especially for young adults who are just starting out.

While investing does involve risk, there are some time-tested investing strategies that all young investors should adopt to set themselves up for success:

1. Know your financial goals

Before investing, it's essential to know what you're working towards. Are you saving for a house deposit? Or are you building wealth so that you can retire early? You may want to launch a business. Or start a family?

Knowing your financial goals can help determine the best investment strategy for you.

Once you have set your goals, you can develop a financial plan for achieving these through investing.

2. Start small and grow your portfolio over time

When starting, you might think you don't have "enough" to begin investing.

Starting small and gradually increasing your portfolio over time is a great way to begin. It allows you to "learn the ropes" and build your knowledge and confidence over time, without feeling like you have too much at stake.

Getting started sooner rather than later also means you're taking advantage of the power of compounding returns. Compounding returns happen when you reinvest your investment earnings, allowing your investments to grow over time. The earlier you start investing, the more time your investments have to compound, leading to significant long-term growth.

3. Diversify your investments

You might have heard the term 'Don't put all your eggs in one basket', which, in the world of investing, translates to 'Don't put all your money in one investment'.

Diversifying your investments across different asset types is a key strategy that can be used to lower portfolio risk and provide more stable investment returns.

4. Keep calm… and remember your investment plan

Investing should generally be viewed as a long-term strategy, as markets are cyclical and typically go through periods of growth, decline and stagnancy.

This means that you will likely experience a market crash at some point in your investing journey, which can be a scary time for investors.

It's important to stay calm and avoid making impulsive investment decisions. In many cases, the best strategy during a market crash is to stay the course and stick to your investment plan.

Further, market corrections can often present a great opportunity to invest as markets sell off and asset prices reduce. As Warren Buffet said: *"Be fearful when others are greedy and greedy when others are fearful"*.

While investing may seem daunting at first, incorporating these fundamental strategies will pave the way for success.

And a final tip… Seek expert guidance!

A financial adviser can help you set achievable financial goals, plan ahead, and make informed investment decisions that will keep you on track towards building lasting wealth.

Don't navigate the financial world alone - let your adviser be your partner in success!

Super life cover

Is holding insurance cover in your superannuation fund a good idea? Read on...

Life and total and permanent disability (TPD) cover

Many super funds provide insurance that pays a lump sum if you die or are disabled to such an extent that you will never be able to work again. There is currently no limit on the amount of death cover that can be paid to dependants.

As an example, consider Tony and his wife Sue. He is the only income earner whilst she looks after their three young children. They have a large mortgage. His adviser tells him he needs $2.5 million of life cover so that if he dies the debts will be paid off and his family will have the financial support they need.

Having life cover in his super enables Tony to pay the premiums tax effectively. He is on the highest tax rate and by salary sacrificing he is able to pay the premiums with pre-tax dollars.

Using super for life insurance may not suit everyone. A death benefit paid to non-dependants will be taxable whereas a lump sum paid by a personal policy will be tax-free. In addition, superannuation policies may lack the flexibility to meet your individual needs and you may not be able to specify in advance who will receive a death benefit paid by the super fund.

Temporary disability insurance

Some super funds offer a policy that will pay you an income if you are temporarily unable to work due to accident or illness. Alternatively, you can buy a personal income protection policy directly and the premiums are generally tax deductible.

Premiums for policies offered through superannuation might not impact on your current budgeting but, as always when buying any type of insurance, the most important issue is to have a policy that will pay out if you have a claim. It’s important to remember that any lump sum payments paid from a TPD policy held within a super fund **cannot** be made to the beneficiary **unless and until** that person satisfies a condition of release as defined in the legislation. This virtually rules out the use of 'own occupation' TPD policies within super.

As from 1 July 2019, if a super fund hasn’t received any contributions for at least 16 months, any insurance held in the fund may be cancelled. You will need to advise your fund if you wish to continue to hold the insurance.

My Super

Under the 'My Super' arrangements, default super accounts for employees who have not exercised a choice of fund must include a minimum level of Life and TPD cover on an **opt-out** basis.

Affordability

One of the advantages of holding life cover through superannuation is that the premiums are deducted from your super account.

As an example, consider Sam and Hannah. They have just bought their first home and are finding it hard to keep on top of their mortgage payments. Even though they are both working, they can't afford insurance premiums as well as their other expenses. Arranging cover through their super means the premiums are deducted from the superannuation guarantee contributions.

Sam and Hannah accept that their retirement benefits will be lower because they are using their super to pay premiums. However, when they can afford it they can pay more into super to catch up.

Often it is hard to achieve all your financial goals at the same time and you may have to compromise. We recommend you seek professional advice and review your insurance policies at least annually to ensure they continue to meet your needs.

Sources: www.ato.gov.au - Self Managed Super Funds, Insurance for Members

www.ato.gov.au - TR 2012/6, "Income tax: deductibility under subsection 295-465(1) of the Income Tax Assessment Act 1997 of premiums paid by a complying superannuation fund for an insurance policy providing Total and Permanent Disability cover in respect of its members"