INSIDE

MARCH 2024

FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

Why women should take early financial steps

Many women will need to do more to build up their super balances by the time they retire.

There's a plethora of data showing women, on average, earn less than males and have lower superannuation balances.

The federal government's Workplace Gender Equality Agency (WGEA) released its latest gender pay gap update on 27 February, revealing a national average total remuneration gap of 21.7% in favour of men. On average, for every $1 earned by men in Australia, women earn 78 cents.

Meanwhile, Australia Tax Office data covering the 2020-21 financial year shows that, in the 60-64 age bracket, the average superannuation account balance for women was $318,203 versus $402,838 for men – a gap of 26.6%.

As well as a reflection of the gender pay gap, lower average super balances among women also reflects the fact that employers are not required to pay super to individuals taking parental leave. And Vanguard's 2023 How Australia Retires study found that 61% of women aged under 35 expected to take, or had already taken, parental leave. This compared with 39% of men.

Addressing an ongoing challenge

The statistics above simply set the scene for what is an ongoing challenge for women, not just in Australia but in other developed countries. That is, women are generally at a significant financial disadvantage to men on a range of fronts.

And, of course, the demographic bottom line underneath all of these statistics is that, on average, Australian women are living longer than men by four years. According to the Australian Bureau of Statistics (ABS), in the 2020-2022 period, the life expectancy at birth for women was 85.3 years versus 81.2 years for men. The 2023 Intergenerational Report predicted average life expectancies will continue to rise.

In the most basic terms, this means many women will need to do more to build up their super balances by the time they retire or they risk having to rely totally on the government's Age Pension for income.

Chunking things down

For some women, this probably all sounds quite overwhelming. But it doesn't have to be. With good planning, and by taking some simple, early and achievable steps – making a few small changes in your life – it's quite possible for women to improve their longer-term financial outcomes.

Let's look at some calculations to illustrate this. ABS data released in February 2024 shows the national full-time adult average weekly total earnings for females in November 2023 was $1,768.10. The current compulsory 11% employer paid super component on this amount is $175.22 per week, or $9,111.29 per year.

Now, let's use an example of a 30-year-old woman receiving the average income who has now accumulated $40,000 in her super account since first starting work. By age 67, assuming she takes no breaks from work, she will have an estimated super balance of about $550,731.

But, the thing is, most women do take extended career breaks at some stage. This is often to raise a family, and when they do return to work they do so on a part-time basis.

In the example being used, this woman is expecting a child and she is planning to take a full year off work from the start of 2025, returning 12 months later at the start of 2026. In doing so she will not receive super payments from her employer, and her estimated super balance at age 67 will therefore drop to about $533,142.

And here's where some simple, early, and hopefully achievable steps could come into play. By salary sacrificing $25 per week into her super from now, and by continuing to salary sacrifice the same amount when she returns from parental leave, her super balance at age 67 would actually rise to over $593,420.

The impact on her net weekly income of making salary sacrifice (pre-tax) super contributions of $25 per week would be marginal – only $16 per week (a few cups of takeaway coffee).

When you budget week to week, I think people do that really well. It's about making those trade off decisions. Putting $25 a week into your super could end up being an extra $50,000 in retirement.

Making small extra super contributions before taking parental leave is a perfect example of how women can plan ahead to dramatically improve their chances of having a successful retirement.

Taking the first steps

A lot of our research actually shows that many women make good investors. Generally speaking, they're very disciplined, they're great at planning, and they're research intensive. Typically, they're also not gamblers when it comes to making investment decisions.

That said, many women just don't spend enough time on their financial planning.

Many of us have recently made New Year's resolutions such as learning a new language or doing something challenging in the year ahead.

So, why not think about doing something that would have the most positive long-term financial impact on your life? For example, why not spend 20 minutes a day learning more about your finances, about what steps you should be taking to become more financially secure?

If you do that every week for a year, the improvement will be massive. Often it's just about taking that first step.

Once you build confidence you are likely to become more engaged in the process, and then the next step is going to be easier, and the next step after that is going to be even easier again.

Seeking out financial advice

More women should also consider getting some professional advice from a licensed financial adviser. It's evident from research that not enough women seek our financial advice. But it can make a huge difference to long-term outcomes.

You don't have to see an adviser every year for 30 years. You could go and see someone and get some once-off advice around things that are more complex on the tax side or the super side.

Think of it in the same way as choosing to make an appointment with a specialist. You do it for your health all the time. You do it at the gym all the time with a personal trainer, and this is no different.

There might be three financial problems that you need help with. How do I maximise my super and make some smart investment decisions over the next couple of years, or take some tax-effective steps?

And then you have an hour chat and you go away and you've got five things that you can do differently.

Seeking financial advice is all about achieving financial independence and freedom over the long term, and importantly greater peace of mind.

Come and talk to us today so we can assist you with achieving your financial goals.

Source:
https://www.vanguard.com.au/personal/learn/smart-investing/investing-strategy/why-women-should-take-early-financial-steps

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Click the link below to watch a short video on women and investing

https://www.youtube.com/watch?v=88Id93SEYkc

Giving your portfolio a caffeine inspired boost

With interest rates likely to fall this year, borrowers could invest some or all of their mortgage repayment savings.

Inflation may be coming off its high, but the retail price of coffee isn't likely to lose any monetary steam. Depending on where you buy, the average cost across Australia of a regular-size takeaway cup of coffee is now around $5. For those needing a daily fix, that equates to $35 per week.
The chart below isn't the Australian share market. It's the wholesale price of coffee since the start of 2019.

The caffeine hit

Source: [Trading Economics]

The sharp rise in coffee prices has been the key driver behind a worldwide surge in coffee machine sales. Many coffee consumers are now choosing to reduce their intake of café takeaways by making their own at home or in the office. It's a small way to reduce everyday living expenses.

Of course, coffee isn't the only thing on an inflation-induced high. Average monthly mortgage payments have also effectively doubled for many households since the Reserve Bank began rapidly raising interest rates in May 2022.

But there's a big difference. Unlike the price of a cup of coffee, borrowers should see a price reduction later this year based on forecasts that banks will start reducing their interest rates in the second half. Lower rates will add up to big cash injections for many borrowers as their monthly repayments fall.

And this raises an important question. Should borrowers continue paying down their home loan at the same, current higher repayment rate, or would it be better to redeploy some or all of those expected mortgage savings another way?

Paying extra off the mortgage

Borrowers generally have two choices when interest rates are reduced. They can choose to pay a lower monthly repayment rate based on their outstanding loan balance, or they can maintain their repayments at the previous rate.

For example, a borrower paying off a $400,000 principal and interest mortgage over 25 years would currently be making repayments of just over $2,701 per month based on a mortgage interest rate of 6.5% per annum.

A reduction in the mortgage interest rate to 6% would see monthly repayments fall to $2,577, a saving of $124 per month.

By maintaining repayments at $2,701 per month, a borrower would pay off their loan in 22 years and seven months, reducing their loan term by almost two-and-a-half years.

Reducing the amount owing on a loan will reduce monthly repayments, the interest charges on the outstanding balance and, most likely, the overall term of a loan.

On the other hand, investing additional funds into other areas can potentially offset the debt-servicing costs of a loan over time if the net returns from those investments are higher.

An alternative pathway

When interest rates do eventually begin to fall, an option for borrowers could be to invest some or all of their monthly mortgage repayment savings.

If the average interest rate on a variable rate owner-occupied home loan over its term was 5%, while the net returns from an investment over the same period of time was 9%, then one could build a case that investing surplus funds may be a better path.

The 2023 Vanguard Index Chart that the Australian share market, measured by the S&P/ASX All Ordinaries Total Return Index, returned an average of 9.2% per annum over the 30-year period from 1 July 1993 to 30 June 2023.

Over the 10 years from 1 January 2014 to 31 December 2023 the Australian share market, measured by the All Ordinaries Total Accumulation Index, achieved an average return of 8.2% per annum.

It should be noted that it is impossible to predict future share market returns, and past performance is not an indicator of future performance.

The following example is based on a hypothetical person having invested $124 per month from 1 January 2014, capturing the average return of the Australian share market to 31 December 2023.
Over the decade they would have made 120 monthly payments worth a total of $14,880.
However, factoring in the growth and income returns from the Australian share market over the decade, their balance would have surged to $22,829. That's a total gain of around $8,000.*

Do your homework

There are a range of things to consider based on one's personal circumstances before deciding whether to pay down debt or to direct extra money into investments. There is no one-size fits all approach.
Investment returns can be volatile, and some asset classes can deliver low or negative returns, resulting in a potential loss of income and the principal invested. As such, depending on the mortgage interest rate being paid, borrowers may not be able to achieve an investment return that is high enough to compensate for the additional interest being paid.
If in doubt, a financial adviser can take into account all your specific characteristics and help define the best course of action. Have a chat with us today so we can review your portfolio with you.

* *Returns based on S&P/ASX All Ordinaries Total Return Index and do not make any allowance for fees, costs or taxes. Past performance information is given for illustrative purposes only and should not be relied upon as, and is not, an indication of future performance. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.*

Source:
https://www.vanguard.com.au/personal/learn/smart-investing/investing-strategy/invest-or-pay-off-a-loan

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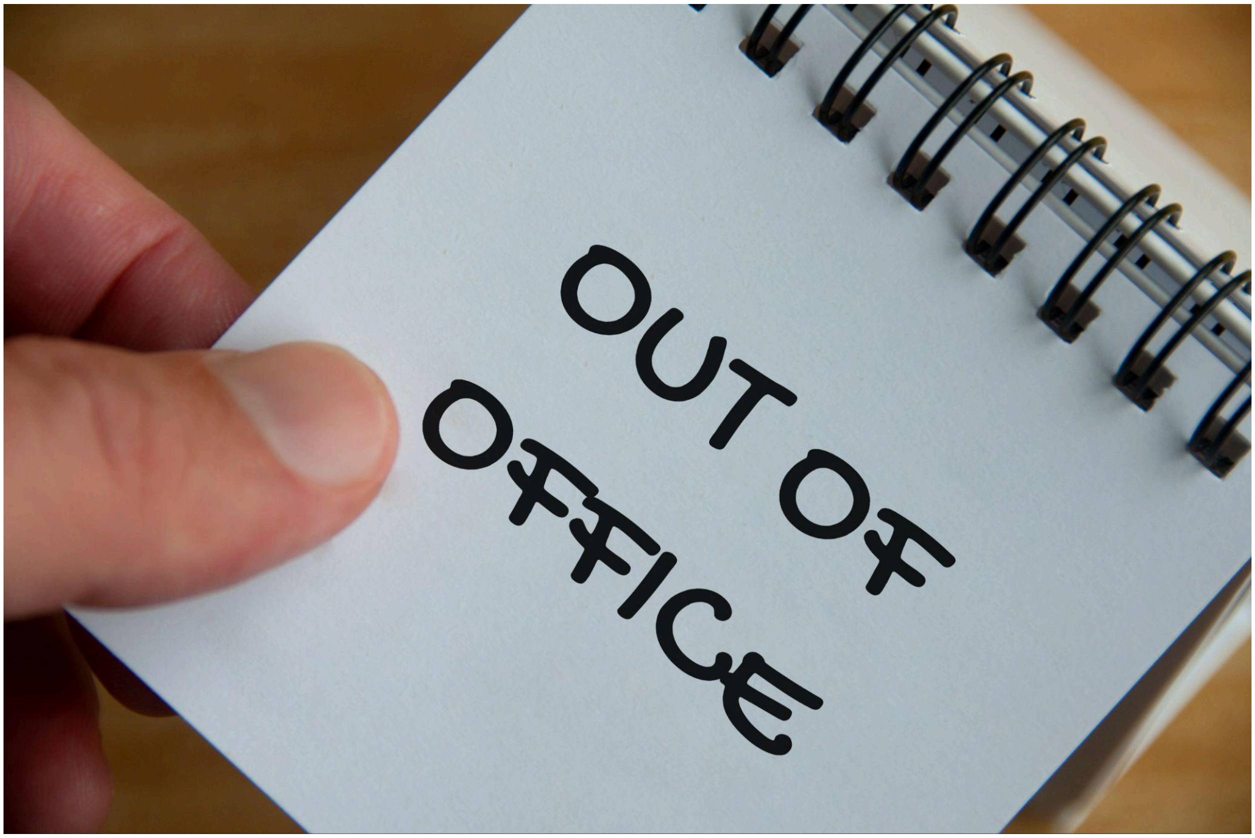


Career Breaks: What you need to know before you go!

In today's fast-paced world, it's becoming increasingly common for people to take a break from their careers to focus on other areas of their lives such as spending time with family, pursuing further education, or simply taking a break to rest and recharge.

But, before waving goodbye to your job, it's important to consider how this decision will impact your finances.

Why take a career break?

There are several reasons why you may choose to take a career break:

- **Family Responsibilities:** to care for family, especially in the early years of parenthood, or during times of illness or caregiving.
- **Personal Health and Well-Being:** to focus on health, long or short-term illness or well-being.
- **Pursuing Further Education:** pursue higher education or acquire new skills to advance career prospects.
- **Relocation or Travel:** to relocate to a different place, or the opportunity for extended travel experiences.
- **Career Change or Sabbatical:** to explore other opportunities, transition to a new field, or take a sabbatical to recharge and re-evaluate career goals.

Impacts of Career Breaks

Even a short career break can have a significant impact on an individual's life. These may include:

1. **Financial Impact:** career breaks mean a reduced, or complete loss of, income. This can affect financial stability, requiring budget adjustments and careful financial planning.
2. **Career Progression Delay:** an individual's career progression may be delayed, as they may miss out on promotions, raises, and opportunities for skill development.
3. **Reduced Network and Industry Connections:** maintaining a professional network can be challenging, which could limit access to job opportunities and industry insights.

If you're out of the workforce for an extended period, there may be longer-term impacts. Extended career breaks may result in:

1. **Skill Development**: skill gaps or outdated knowledge. In rapidly evolving industries, this can make it difficult to catch up.
2. **Retirement Savings**: the loss of income and contributions to superannuation can lead to lower savings and a delayed retirement age.
3. **Confidence and Professional Identity**: taking a career break, especially if it's unplanned or extended, may impact an individual's confidence and professional identity.

While there are numerous potential impacts, many people successfully navigate these challenges and find ways to re-establish themselves professionally. Planning ahead, continuing education, networking, and maintaining industry connections will help mitigate some of these effects.

How to minimise financial strain during a career break

The impact on cash flow is often front-of-mind for people considering a career break, and for good reason. However, careful planning across these key areas will help minimise the financial effects:

Budgeting & Saving

- Save money in advance of your career break. The more you save, the better your financial cushion will be.
- Create a detailed budget that shows your current expenses and identifies areas where you can cut back.
- Build an emergency fund of around three months' income to cover unexpected expenses.

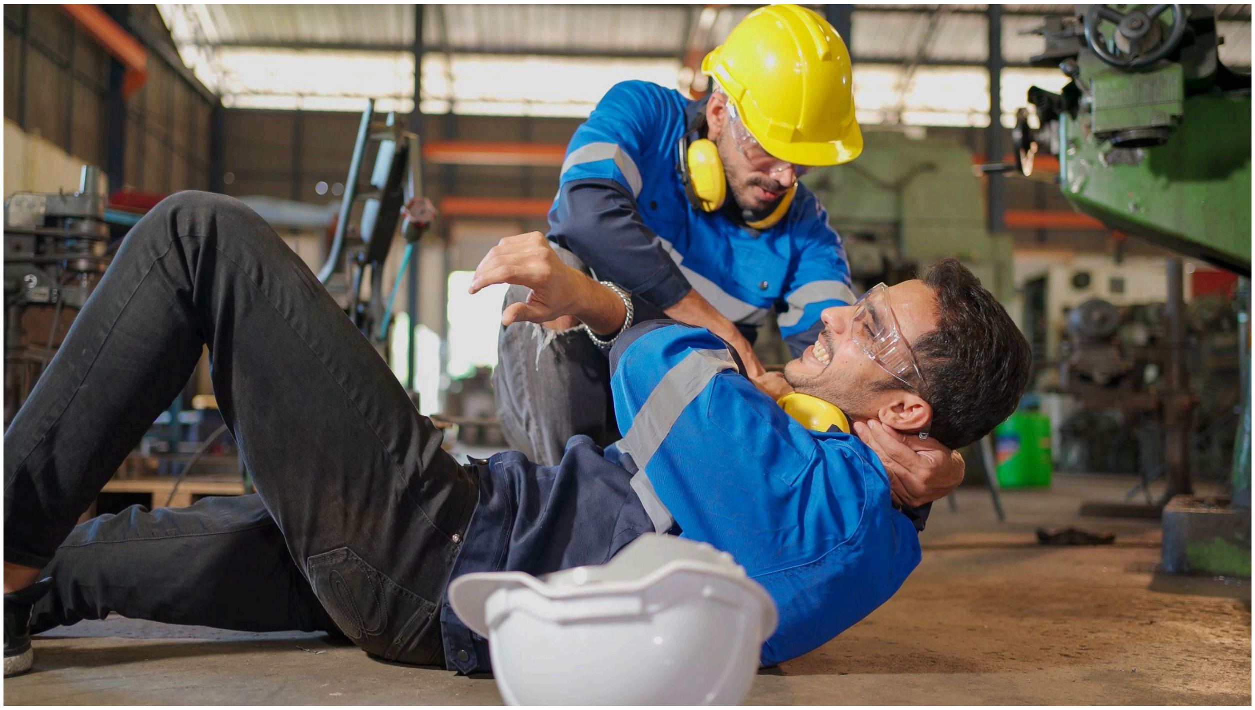
Debt Management

- Minimise or eliminate high-interest debt, such as credit card debt, before your career break.
- Consider consolidating or refinancing loans to lower interest rates to reduce monthly payments. Consider the loan type (e.g. principal and interest, or interest only) and the appropriateness of an offset account.

Return-to-Work Plan

- Develop a plan for re-entering the workforce, including job search strategies, networking efforts, and skill development.
- Explore part-time or freelance opportunities during your break to maintain some income and keep your skills sharp.

Career breaks offer invaluable opportunities for personal and professional development. But, without sound financial management, they can also pose significant challenges.



Is Workers Compensation Enough?

No matter what kind of job you have, there is always a possibility of falling sick or getting injured, regardless of the type of work you do.

That's why every Australian workplace has a health and safety obligation to provide safe work premises, assess risk and have workers compensation insurance.

What is worker's compensation?

Worker's compensation is a form of insurance payment paid to employees if they are injured at work or become sick due to their employment. Payments may cover:

- wages while you can't work
- medical expenses and rehabilitation costs

The injury or illness must be work-related to receive worker's compensation benefits.

Protection at work

A report released by Safe Work Australia in 2023 showed:

- 3.5% of the working population experienced a work-related injury or illness in 2021-2022 (497,300 workers)
- Only 31% of workers received any form of workers' compensation for their injury or illness

Whilst worker's compensation offers some level of protection, it still only protects you for injuries or illnesses that occur at work or as a direct result of work – and then any claim made must meet eligibility requirements. Entitlements and eligibility for payments vary from state to state in Australia.

If you suffer from an injury or illness that does not qualify for a workers' compensation payment, there's a real possibility that you could be left without income to support yourself and pay for the costs of the medical condition.

(An important side note - If you're self-employed, a sole trader or an independent contractor, you may not be covered under any worker's compensation scheme, in which case you will need to organise your own protection.)

The best way to cover the gap

While worker's compensation is beneficial, it may not provide enough financial support for you and your family, even if you have a successful claim.

Considering that the vast majority of Australians suffer from injuries and illnesses not related to work, relying on worker's compensation alone may leave you short on financial protection.

So, how can you ensure you have the best safety to protect yourself when you can't work?

Income Protection

Income Protection goes to work when you can't and can cover you for well beyond what worker's compensation may provide.

- It replaces your income if you suffer from any sickness or injury, both at work and outside of work
- It covers you for both temporary or permanent disability
- You’re covered 24/7, worldwide;
- You can generally get cover if you're an employee, contractor or self-employed
- Premiums are generally tax-deductible
- Policies can be tailored to meet your specific needs

Although worker's compensation might provide some coverage for injuries and illnesses sustained at work, including Income Protection in your personal protection plan can give you peace of mind knowing that you're covered in various situations, both at and outside of work. This way, your ability to earn an income will be secured.

If you want to explore your options for Income Protection, get in touch with us today.

Sources:

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More money for living the retirement dream? Here's what you need to know

The caps on what you can contribute to your super are changing - just in time to take advantage of tax changes.
Your superannuation will hopefully make a big difference to your ability to live your life on your own terms. Did you know you can contribute to it beyond your Superannuation Guarantee contributions (aka the 11% your employer pays of your ordinary time earnings into your super fund)?
The amount you could contribute is also about to increase – after all, the same money doesn't buy what it used to (thanks to high inflation). Of course, this all ties in nicely with tax changes later this year too - maybe you might have extra money next year burning a hole in your pocket?
So, here's a quick guide to contributions and the coming changes:

Before-tax super contributions:

Known as concessional contributions, your Superannuation Guarantee contributions are part of this. It is simply payments made to your superannuation from your salary before tax – and other than Superannuation Guarantee payments, could also be salary sacrifice payments, other amounts an employer agrees to pay as part of your contract, personal payments you choose to make, or amounts transferred from a foreign super fund.

A 15% tax applies to these contributions, rather than your usual marginal tax rate – unless you earn over $250,000 per annum where an additional 15% tax may apply.
Currently, the maximum you can contribute through this format is $27,500 per year – but from 1 July 2024, this will increase to $30,000 per year. (As a side note, this was actually the cap around 8 years ago before it was reduced to $25,000 in 2017.)

Concessional contribution cap 2023/2024 - $27,500
Concessional contribution cap 2024/2025 - $30,000

If your Superannuation Guarantee amounts are below the cap, you could make your own additional payments up to that max.

A basic example is below:

Superannuation Guarantee 2023/2024 - $5,000
Unused concessional cap 2023/2024 - $27,500 - $5,000 = $22,500
There is also a "carry forward" provision that allows you to carry forward unused cap amounts from up to five years previously, if your total superannuation balance is below $500,000.

After-tax super contributions:
Known as non-concessional contributions, these are amounts you can pay to your superannuation after you've paid tax on your income, provided your total super balance is below what is known as the general transfer balance cap, which is currently $1.9 million.
The current cap on these contributions is $110,000 per financial year and this will increase after 1 July 2024 to $120,000 per financial year.

Non-concessional contribution cap 2023/2024 - $110,000
Non-concessional contribution cap 2024/2025 - $120,000

You can also 'bring-forward' non-concessional contributions, rolling together 3 years' worth of contributions – so from 1 July 2024, you could roll together up to $360,000 in non-concessional contributions.

A few other contributions to know about….

Down-sizer contributions:

Thinking of downsizing the big family home for that lifestyle apartment you've been eyeing? You could contribute up to $300,000 from the proceeds of the sale of your home into your superannuation fund if you are aged 55 or older. That is – provided your superannuation is below the general transfer balance cap of $1.9 million and you have owned your home for more than 10 years.

It's a one-off payment and is considered a non-concessional contribution – but doesn't count towards the cap on non-concessional contributions.

Spouse super contributions:

There are two options for you to give your spouse's super a leg-up.

- Super-splitting – where you split contributions you have made into your super across into your spouse's super. You can do this by making an application at the end of the financial year.

- A direct super contribution – where you make a direct non-concessional contribution to your spouse's superannuation account (which counts towards their non-concessional contribution caps). If your spouse earns below $40,000, you might be able to claim a tax offset of up to $540 for this.

Government super contributions:

There are two types here for lower-income earners.

- Super co-contribution – if you earn below $58,445 before tax for the 2023/2024 tax year and make a personal super contribution, the government may make a co-contribution of up to $500. Read more.
- Low-income super tax offset – if you earn below $37,000, you may receive a refund into your superannuation of the tax paid on your concessional contributions up to a cap of $500.

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

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