

INSIDE

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FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE



Aussies aren't spending enough in retirement and they regret it

Australia has one of the strongest superannuation schemes worldwide, according to Mercer. A standout feature of our system is that people save well for retirement. However, the real purpose of superannuation is to provide income in retirement.

This aspect of our system is not working so well, as evidenced by the fact that retirees are leaving around 90% of the assessable assets they had at the original point of retirement when they pass away.

A well-known challenge that people face in retirement is how to address longevity risk, which is the concern of running out of money too soon. People manage this risk by being conservative in their spending and living more frugally than necessary.

Focusing on this alone heightens the chance of exacerbating a lesser-known risk, which we call "regret risk". This is the risk that in later years, retirees will look back with regret and wish they had spent more in their earlier years of retirement when they were younger, more active and able to enjoy it.

When the lifelong message has been to accumulate, learning how to decumulate can be daunting at first.

Spending levels in retirement are not constant. Studies show that as we get older and our mobility levels decrease, so too does our spending. A more nuanced approach to retirement income planning is then called for where spending is increased in the earlier years.

This allows retirees to tick off more bucket-list items while they're better able to physically enjoy them and live out the retirement they've always dreamed of.

Psychological shift

Retirement is a freeing prospect. For the first time, your time is your own; you can spend more time doing the things you enjoy, embarking on the travel adventures you've been dreaming about and making precious memories with loved ones.

However, it also comes with a loss of routine and stability that going to your familiar workplace each day used to provide. While retirement is an undoubtedly exciting prospect, there is a great deal of uncertainty as you head into this new, lesser-known stage of life.

It's not surprising that the Australian Super-Monash Retirement Confidence Index found that around a third of Australians aren't confident heading into retirement. A refreshed approach to spending and saving is needed when shifting away from a regular, employer-generated income to living off superannuation and longer-term investments. A significant change in mindset is required.

Everyone's retirement will be different, because everyone's objectives, preferences and circumstances are different. Therefore, a tailored approach that suits each individual is required, where the emotional considerations of retirement are as important as the financial considerations.

Approaching income planning with confidence, not trepidation, is the key to unlocking the retirement you've been working towards. It's not a one-size-fits-all approach. A financial adviser can play a pivotal role in assessing changes in the market and understanding the best investment opportunities for your specific needs.

Don't try to go it alone

Say you need a hip replacement. You wouldn't ask your friends to operate, nor would you Google how to operate on yourself. You would consult a medical professional with the expertise, credentials and tools to give you back years of mobility.

This same mentality should be applied to retirement income planning. With the help of a professional financial adviser, Australians can stop living below their means and start spending the right amount in retirement.

Retirement rarely takes people by surprise. You can - and should - optimise those precious years in the lead-up to retirement by developing a solid and robust plan. Planning and working closely with a financial adviser at least five years before retirement will help you to build confidence and approach those later years without concern for running out of money or living with regrets.

When it comes to optimising income in the earlier years of retirement, you may consider asking an adviser about lifetime annuities. There has been growing popularity of investment-linked lifetime annuities to supplement retirees' investment portfolios over the past two years or so - and with good reason. They offer retirees long-term investments that consistently deliver returns throughout the course of their life, with the option of bringing forward income when it's needed most.

Source:

<https://www.moneymag.com.au/aussies-arent-spending-enough-in-retirement-and-they-regret-it>



No such things as too young: Why you need a will in your 20s and 30s

Births, deaths and marriages are the typical occasions when people think about making a will but they shouldn't be the only times.

Legacy Law director Donal Griffin says while buying property is also a common trigger, people should create a will whenever they accumulate substantial assets - including intellectual property.

Aussies under 35 are the least likely to have an estate plan in place, says Coleman Greig principal lawyer Peter Bobbin.

"Their estate planning is far more complex than the issues that their parents faced at a similar age," he says.

"And they have assets - and the intellectual property value in what people have is potentially huge."

Under-35s are more likely to hold intellectual property rights in digital media, including Facebook, Instagram, and emails, along with electronic wealth in Bitcoin and other cryptocurrencies, and digital assets such as an iTunes library.

They are also more likely to have multiple super funds, non-property wealth such as equities, and buy now, pay later debt in addition to credit cards and bank loans.

And they are less likely than their parents to be married to their partner, which can complicate the estate.

Leaving behind a potential catastrophe

Bobbin says he had a terrible situation with a young girl who took her life.

"She was in a de-facto relationship and they were engaged to be married but she didn't leave a will," Bobbin says.

The relationship between her parents and the fiance fell apart over who had the right to her photographs, emails and texts.

"Ultimately an agreement was reached, which is good, but the cost was both legal and emotional and I suggest the emotional was more expensive," Bobbin says.

It's not about you but about who you leave behind, he says.

"One of the worst things a parent can ever do is bury a child, and when there's no organisation whatsoever about their estate, that loss is multiplied as we get reminded as we fight with bureaucracy on Facebook and Google in terms of dealing with cloud access."

How to make a will

1. Decide who would make financial decisions for you if you died. This would be the executor; they would also call in insurance and superannuation assets. Griffin says for your executor you should pick someone you trust but also who would be willing to take on the role. This is often a big job and may merit a gift or fee, in which case you should consider leaving a monetary gift "in lieu of commission" otherwise your executor may go to court to ask for a fee or commission which could be hundreds of thousands of dollars.

2. In choosing your executor, be careful of potential conflicts of interest. For example, if you make it your parent and you have a spouse, they may want to sell your house to distribute assets - but your spouse may want to keep it.

3. If you have children, you will need a guardian for any children under 18. In the event of your death, guardianship would normally go to the child's other parent but it should be documented and you should also provide financially for your child.
4. You need to provide for your spouse, child, and anyone who is financially dependent on you.
5. You should also include directions for the care of domestic pets, such as who you would like to care for them, and bequeath money to cover costs.
6. Your desired funeral arrangements may also be included in your will.

Start with the plan

Estate planning begins with a plan, Bobbin says, and that needs to include a process to manage online accounts and passwords.

This could mean providing trusted people with the ability to access certain passwords and instructing them on how to proceed. This might mean asking your brother to shut down your secret email account and leaving the executor to manage the rest, Bobbin says.

If you don't have someone to access your cryptocurrency you can lose it. In addition to bequeathing it in your will, you need to let your executor know where and how to access it.

As you change passwords, you might need to set alerts to update your will.

Similarly, if you have buy now, pay later debt or payday loans, make sure these can be taken care of quickly by someone with access to your accounts or the interest will mount.

Superannuation - perhaps your largest asset

Superannuation is often the asset no one thinks about, says Bobbin.

While your balance may not be large, typically you will have an insurance component which for an average Australian super member might be almost \$180,000 at age 30.

Griffin says many people mistakenly nominate their mum or siblings as beneficiaries, but super can only be paid to eligible beneficiaries, which include a spouse, child or other dependent.

The only way to guarantee others can receive your super upon your death is to have a will and nominate the super is paid into your estate which can then pay it to the beneficiary of your choice.

"Jump on the web, log into your account, read the nomination rules and nominate, just nominate," Bobbin says.

"People fight over the money after death and the most common source of fighting is the super fund for this age group.

"The most important thing we know is do something - if you do nothing, you guarantee disaster.

"Often the answer will be locked into your estate because you then deal with it in the will but if it goes to the estate, make sure you know who will get it and that you are happy with that."

INSIDE

FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

Clarify your relationships

If you are making a binding nomination for your super or leaving something in your will for a loved one, be sure to clarify the relationship - is it a partner or a friend?

Relationships might change after death as friends claim to be partners to make a claim on the estate.

Supporting charities after death

When making a will people often want to do the right thing.

"Sometimes that involves continuing to support charities they have supported during their life and sometimes it might be as a 'thank you' for a charity if they have had help or an illness," says Griffin.

"Younger people are often more philanthropic and socially aware, and sometimes older people who have had a wonderful experience supporting an artistic group or have a passion about arts, the environment or social justice will leave something."

Where to keep your will

Keep the original version of your will in a safe place and a copy with your tax and banking records, where they will likely be found after death.

The original could be with mum or dad, at a lawyer's office or in a safety deposit box, with a back-up copy stored securely online.

When to update your will

Griffin says births, deaths and marriages usually prompt people to update their will, however divorce should also be included.

While divorce might negate gifts given to a spouse, the breakdown in a relationship should trigger an update.

"I have a client who reviews his legal arrangements every year when he does his tax and another client who does it before the Olympics - every four years," Griffin says.

"That may be your default but if something happened in a year with no Olympics you should also review it."

Using will kits

Will kits and online wills are available starting at less than \$50.

These are useful if your estate is very simple - and you are sure that you have covered everything, appointed executors, and signed it correctly.

More expensive online kits may include some professional prompting when filling it out.

Source: <https://www.moneymag.com.au/should-have-will-20s-30s>



Devil in the detail on super changes

Proposed changes to superannuation have the potential to reshape the retirement landscape. The objective of super remains the missing ingredient in the mix.

At its most fundamental, successful investing is about getting the balance right between risk and reward. Some risks are front and centre; they are in your face (or at least on your nightly TV news or social media feed). Market risk, manager risk and specific company risk are the usual suspects when investors are considering risk within their portfolio.

After the past 12 months no-one doubts the impact of geopolitical risk given Russia's invasion of Ukraine or the turmoil that comes with a global pandemic.

But in recent weeks we have been reminded of another risk – legislative risk.

The risk that comes when governments change rules, particularly tax rules.

It is not surprising that any change to superannuation law is contentious, because inevitably there will be aggrieved people who have invested into their super based on the law of the day only to find the goalposts are going to move.

It also speaks to the success of superannuation that it has become such a key part of working Australians' financial well-being and planning for retirement that any change will be hotly debated.

Changing the rules

The debate on the proposed \$3 million cap on individual superannuation balances has a considerable way to run leading up to the Federal Budget in May and beyond, given the planned start date is not until July 2025.

The Government framed the initial debate around the question of whether very wealthy people – those with more than \$100 million in super was an example used by Assistant Treasurer Stephen Jones – will be subsidised by other taxpayers?

That is a hard principle to argue against on a public policy basis, irrespective of whether the Federal Budget needs major repair.

But the devil will be in the detail in terms of how it will be implemented. Certainly, taxing unrealised gains raises interesting questions, along with the lack of indexation of the cap limit, to highlight just two fundamental points.

This entire debate of course would be entirely academic if the reasonable benefits limit (RBL) had not been scrapped back in 2006-07. Which perhaps reminds us that the original super system design was pretty well thought out, because the concessional tax rates applied up to the RBL and above that marginal tax rates applied.

This removal of RBLs was the driver that has led to excess funds being able to be held within super at concessional tax rates. It certainly provided simplification but at a cost that was perhaps not well understood at the time.

Enshrining an objective

These types of tax rule changes always run the risk of unintended consequences and while the vast majority of people will be unaffected – at least initially – there is always the risk they may undermine confidence in the broader superannuation system.

This could particularly be the case among some younger members who may decide to not make voluntary contributions for fear of future rule changes.

The prospect of further rule changes also underlines the value of finally enshrining an objective of superannuation into legislation, something that was originally proposed back in 2014 in the Financial System inquiry.

While near-term focus of the public policy debate may well be on whether the objective should solely focus on retirement income and the definition of sustainability, hopefully, a legislated objective will provide a framework for future proposed changes to be assessed against.

The concessional tax rates on super means for most people that continuing to contribute as much as you can will make as much sense after July 2025 as it does today.

INSIDE

FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

For those people fortunate enough to have to consider the impact of caps on their balance, it likely means another thing.

That is, to factor into the annual conversation with your financial adviser what should be within super and what investments would be better being held outside of the super system.

Source:

<https://www.vanguard.com.au/personal/learn/smart-investing/retirement/devil-in-detail-on-super-changes>



Fixed rate mortgage expiring... Now what?

They say all good things must come to an end... and that includes your home loan fixed interest rate period.

If your fixed rate expiry is coming up, you might have started to think about what happens next and what action you need to take.

Or you might be sticking your head in the sand and avoiding the topic entirely. Be warned! The worst thing you can do is take no action at all.

If your fixed interest period is due to expire, then it's time for a review of your finances -

Revisit your budget

A fixed rate expiry will mean a change to what is often one of our biggest expenses - the home loan repayment.

In a rising interest rate environment, this likely means a bigger expense you will need to allow for.

By revisiting your budget, you can make sure you can afford the new home loan repayment amount, or adjust your spending where needed.

Know your financial situation

Your financial situation is going to impact what options are available to you and what options might be best for you.

If there's been recent changes to your income position such as job loss, income reduction or maternity leave, for example, this may impact your ability to refinance your loan. As a result, you may have to stick with your current lender on terms you may not be happy with.

If you have surplus cash flow that you want to use to reduce debt, a variable rate loan might be more appropriate so that you're not as limited with the ability to make repayments.

Alternatively, if cash flow is tight, you might appreciate the stability of a fixed rate loan, and knowing your repayment amounts won't increase during the fixed rate period.

By having a good understanding of your current financial position and future goals, you can determine what your needs are and what the best strategy is for you moving forward.

Look at what the market is doing

One of the main factors to consider when deciding between a fixed and variable interest rate is the current market.

While no one has a crystal ball, it's important to consider what is happening with the economy, housing markets and interest rates. Are interest rates trending up or down? And what might this mean for both fixed and variable interest rate loans?

Get clear on your options

When your fixed interest term expires, you will need to choose between either re-fixing your loan for a period or switching to a variable interest rate loan.

This is also a good opportunity to review your existing loan provider against other loan providers, to ensure you are being offered a competitive rate.

With your market research in hand, it's time to call your existing lender to request a rate review. You can let them know you are considering refinancing your loan and want to know what the best they could offer is. It might be time to switch lenders if they're not prepared to offer you a competitive rate.

INSIDE

FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

A Mortgage Broker can help

If you're unsure about your best path forward to navigate your fixed rate expiry, you don't have to go it alone.

A qualified mortgage broker can assist you through the process by determining the best loan structure for your needs, researching different lenders, finding a suitable provider with a competitive rate, and navigating the refinance process if needed. Contact your Mortgage Broker today!



Dating or de facto? Why it matters for your finances

Did you know not all unmarried relationships are de facto relationships? Unless you've officially registered your de facto relationship (yes, that's a thing), it can be tricky to determine when a couple goes from simply "dating", or seeing each other casually, to a full-blown de facto relationship.

You may be wondering, what difference does it make? It can actually make a significant difference if the relationship breaks down. Even if you're not married, you may be able to make a property settlement claim under the Family Law Act. But the Act will only apply if your relationship is determined to be de facto.

So, what exactly is a de facto relationship?

It's technically defined in the Act as a couple living together on a "genuine domestic basis".

But, it's not quite as simple as that.

The legislation makes it clear that to determine whether a relationship is a de facto relationship, you have to consider all the circumstances of the relationship. This question has recently come before both the High Court and the appeal court, and reaffirms it is not just one factor that will determine a relationship as de facto or not.

So, what sort of circumstances will the Court take into account when deciding if a relationship is de facto?

Here's just a few:

- How long have you been in the relationship?
- Are you living together and, if so, for how long?
- Is there a sexual relationship?
- Is one partner financially dependent or are you financially dependent on each other? Is there a financial support arrangement in place?
- Who owns the property?
- Are you both committed to a shared life?
- Is the relationship registered as a de facto relationship?
- Are there children in the picture?
- Are you known publicly to be in a relationship?

While none of these factors alone is an essential feature for a de facto relationship to exist, the Court will weigh up all of these circumstances to determine one way or another, what sort of relationship it is.

Battles about whether a relationship is a de facto relationship are usually difficult and complicated, and will likely involve gathering detailed evidence from the couple, their friends, family members or associates (who may, understandably, be reluctant to get involved).

It's also helpful to have as much documentary evidence as possible, which may be everything from bank records and documents lodged with government authorities, through to text messages, telephone records and travel bookings. Of course, this does not always exist.

Determining whether a de facto relationship exists, and the ability to bring a property claim within the family law jurisdiction, can mean a substantial difference in potential outcomes for both parties. For this reason, the threshold question of the status of the relationship is often hard-fought.

INSIDE

FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

It's therefore incredibly important to seek careful and strategic advice as to the possible outcomes, risks and commercial benefit of pursuing such a claim.

It may also be a good idea to get strategic advice early on in a relationship, so you know what steps to take, or avoid, to eliminate the possibility of a future argument about whether a de facto relationship exists.

Source: <https://www.moneymag.com.au/dating-or-de-facto-why-it-matters-for-your-finances>



Protect your income!

Your income is the foundation upon which your family's financial plans are built and in most people's lives there won't be a larger asset to protect than their cumulative income. Consider this - a 40-year-old man currently earning \$75,000 per annum with salary increases of 5% each consecutive year will earn over three and a half million dollars by the time he turns 65. When it's put that way your income is certainly worth insuring!

INSIDE

FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

Life has a habit of throwing up hurdles, usually at the most inconvenient times. It's impossible to know what's going to happen in your life but insuring against potential problems reduces the risk that you may not achieve your goals.

Basically, to achieve your life plans you need to maintain your cash flow, so what happens if it should suddenly stop? Income protection insurance can replace 75% of your income if you can't work due to accident or sickness and the premiums are tax-deductible.

It isn't a replacement for workers' compensation, sick leave or private health insurance. It is a long-term solution that should be tailored to work in concert with these and other insurance types.

Could this be you?

Mark was a 40-year-old carpenter who fractured his leg in three places when he fell off a trampoline playing with his son. His financial circumstances were:

- 1. Rent \$1800 per month*
- 2. Child maintenance payments of \$750 per month*
- 3. School fees \$500 per month (paid annually and due shortly)*
- 4. General living expenses (food, electricity, petrol, etc) \$1200 per month*
- 5. Car repayments \$420 per month*

Due to the severity of the break, Mark was off work for ten months. The accident cost him more than \$50,000 in lost income and all of his savings. He borrowed from his ageing father to cover shortfalls such as school fees and rent. After his recovery, Mark found it difficult to work as a carpenter because his injury affected his ability to climb ladders and maintain adequate balance.

If Mark had income protection insurance with the appropriate conditions and terms he would have been able to recuperate without the stress of huge financial pressures. Additionally he may have received ongoing partial income while he retrained for another career.

Consider your own circumstances in the event of misfortune and ask yourself honestly – how would my situation unfold? Then discuss your current protection and possible strategies with a licensed financial adviser.

Assumption of calculation: taking into account gross base salary only; not including tax, super contributions or bonuses.