INSIDE

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FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

Quarterly Economic Update: July – September 2023

Australia's annual inflation rate has taken an unexpected step up, increasing pressure on the Reserve Bank to push interest rates higher and once again raising the prospect that Australia will fall into recession sometime over the next few months.

The annual inflation rate for the year to August reached 5.2 per cent, up from 4.9 per cent recorded for the year to July, spurred by higher prices for petrol, financial services, and labour costs, following the 5.75 per cent wage rise for 2.4 million Australian workers in July.

Some analysts believe recent wage increases and the Federal Government's drive to reduce unemployment levels below their current historic low levels and provide more union friendly workplace regulations, will combine to push wages even higher.

The prospect of further wage hikes, low productive improvements combined with continued high levels of inflation, threatens to return the Australian economy to the dismal economic days of the seventies and with it, stagflation.

Of all the domestic price hikes though, higher petrol prices are seen as the most troubling as they have such significant flow through effects, making everything in the country more expensive to produce and so lifting the cost of living for all Australians.

The prospect of higher oil prices internationally, following a decision by Russia and Saudi Arabia to restrict production to boost prices, has cast gloom across the global economy, putting economies everywhere under pressure of higher energy costs.

Globally, US Treasury 10-year bond yields rose to above 4.5 per cent during the past month, taking them to their highest level since the global crisis started in 2007, as fears mount that climbing inflation will persist for years to come.

This, and the generally accepted downturn in growth in the massive Chinese economy, is prompting fears overseas that the US economy will certainly fall into recession next year, with developed countries around the world certain to follow.

While there was hope the Reserve Bank was succeeding in driving down inflation, this latest uptick in prices and overseas interest rates, will put the Reserve Bank under renewed pressure to lift domestic rates yet again.

Although the much talked about fixed-rate mortgage cliff seems to have been averted, where homeowners have faced the end of super low fixed rate loans and been forced to move to higher variable rate loans, pressure is emerging in the housing market.

According to figures from the research house, Core Logic, the number of homes that have been sold at a nominal loss, and which have only been owned for two years or less, has increased from just 2.7% to 9.7% during the June quarter.

Pressure is building most clearly in the sale of home units with 14.4 percent of all unit sales across Australia selling at a loss during the June quarter, compared to just 3.8 per cent of all homes sold during the same time.

There also seems to be a trend where people who moved to the regions during the pandemic are starting to sell up and drift back to the cities. Resales within two years of purchase, made up 11.1% of all regional resales, compared to a decade average of 7.2% per year.

A rare bright spot for investors remains the hefty returns to shareholders with Australia's largest listed companies paying out some $21.7 billion during the last week in September, by way of improved dividend payments.

BHP paid out $6.34 billion to their shareholders via a $1.25 per share dividend, Fortescue Metal paid out $3 billion via a $1 a share dividend and after posting a record-breaking profit, the Commonwealth Bank of Australia paid out $4 billion by way of a $2.40 a share dividend.

Sources:

https://www.corelogic.com.au/ *"Short-term loss-making resales on the rise", Eliza Owen, CoreLogic Pain & Gain Report, 21 September 2023.*

Does a part-time job in retirement work for you?

Maybe you can't wait to give up work forever. But having a part-time job in retirement offers health and income benefits that could make it worth considering for your future lifestyle.

Boosting your super

For many people in their retirement years, one of the most compelling reasons for continuing with paid work is to make ends meet. According to a recent research report from the Association of Superannuation Funds of Australia (ASFA), the average super balance at retirement is $292,500 for men and $138,150 for women**(1).** And with life expectancy on the increase for everyone**(2),** it's pretty likely your average retiree is going to need to supplement their super savings with another source of income – such as the age pension.

But relying on the age pension could mean limiting your budget for meeting day-to-day living expenses, let alone ticking things off your retirement bucket-list. By the age of 70, an average couple can expect to spend $33,784 each year to live just a modest lifestyle, or $58,326 for a more comfortable standard of living**(3)**. So if your super balance is average at best and you're planning to enjoy life to the fullest in retirement, a part-time income could be just what you need to budget for all the travel, entertainment and creature comforts you're looking forward to.

Better health outcomes

Although the majority of Australians returning to work after retiring are motivated by financial need, 32% are still working just to keep busy and stave off boredom**(4)**. That's quite a lot of people who just aren't quite ready for a life of leisure. And according to a 2009 US study published in the Journal of Occupational Health Psychology, that drive to keep busy can have important benefits for your mental and physical health. Data from interviews with 12,189 participants taking part in the six-year study shows retirees who continued to work experienced fewer major diseases and fewer functional limitations than those who fully retired**(5)**.

Outcomes for mental health weren't quite as positive across the board. For retirees who continued to work in a role related to their previous career, mental health outcomes were better compared with their fully retired peers. But these mental health benefits weren't shared by retirees who had switched to a new career. So if you want to enjoy a better income and overall well being, it seems that sticking with what you know is less stressful and more beneficial.

Maximising your super savings and your pension

If you're prepared to keep working part-time, it can have a significant impact on how long your retirement savings will last. By earning even a modest salary for a few years into retirement you can reduce the amount of income you draw down from your super. By having a higher super balance, invested for longer, you'll enjoy the benefits of greater compounding returns. With both you and your super earning that little bit more, it can make a substantial difference to how much you can afford to spend in retirement and for how long.

And if you're eligible for the age pension, you can still earn $250 per fortnight without reducing the pension you'll be paid. When you apply for the age pension, Centrelink applies an income test and an assets test to determine whether you'll be paid a pension and how much you'll receive. Under the Work Bonus scheme, anyone who is old enough to be entitled to the age pension will have their assessable employment income reduced by $250 per fortnight. So if you earn exactly $250 in two weeks, it won't affect your pension eligibility.

Let's say you earn just $200 in a fortnight, then you can put $50 towards your Work Bonus balance, and use this amount to further reduce your assessable income if you were to earn more than $250 a fortnight in the future. This gives you some flexibility in the amount you can earn from week to week without sacrificing income from your pension. You'll be adding to the Work Bonus balance when you're earning less than $250 per fortnight or when you're not working at all, however you can accumulate a balance of up to $6,500.

Making the most of all your finances

Everyone's circumstances are unique and you may already have commitments to family and community that are quite enough to keep you healthy, active and engaged after leaving work. And it's important to take a good look at your whole financial situation to make sure adding a new income stream is actually going to make you better off. You'll need to explore how a part-time income could impact your tax position as well as your eligibility for government benefits. So it's worth checking with Centrelink and the ATO to determine whether your earnings will make a positive difference overall to your retirement income.

Sources:

https://www.moneyandlife.com.au/individuals/work-and-retirement/does-a-part-time-job-in-retirement-work-for-you/

(1) ASFA Superannuation Account Balances by Age and Gender, December 2015, page 3, https://www.superannuation.asn.au/ArticleDocuments/359/ASFA_Super-account-balances_Dec2015.pdf.aspx

(2) Sydney Morning Herald, Australian life expectancy hits all-time high, Peter Martin, 27 October 2016, http://www.smh.com.au/federal-politics/political-news/australian-life-expectancy-hits-alltime-high-20161027-gsccau.html

(3) ASFA Spending patterns of older retirees: New ASFA Retirement Standard, September 2014, page 5, https://www.superannuation.asn.au/ArticleDocuments/359/ASFA-RetirementStandardOlder-Sep2014.pdf.aspx

(4) Australian Bureau of Statistics, Retirement and Retirement Intentions, Australia, July 2016 to June 2017, “Commonly reported reasons for returning to the labour force were ‘financial need’ (42%) and ‘bored/needed something to do’ (32%)”
https://www.abs.gov.au/ausstats/abs@.nsf/mf/6238.0
(5) American Psychological Association Press Release, 13 October 2009,
http://www.apa.org/news/press/releases/2009/10/working-retirees.aspx

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Roadmap to retiring young

The dream of retiring young is one that captivates many peoples’ imaginations. The freedom to live life on your own terms, doing what you want, when you want is undeniably appealing, but is it attainable?

We say yes!

It doesn’t just happen, though. As with any goal, it takes planning and dedication along with a clear understanding of when and how you expect to achieve that goal.

Early retirement, as a concept, means different things to different people. Therefore, the first step on the road to your early retirement is to be clear about what it will look like, starting with:

- Timing: when do you want to retire?
- Lifestyle: what do you plan to do? Think travel, hobbies, daily activities, etc.

With an understanding of what retirement means to you, you can begin the process of charting a course to achieving it.

Develop a roadmap to early retirement by considering:

1. **Your current financial position**
   Conduct an audit of your income, expenses, assets and liabilities. Look at where your money is going and identify areas where you can cut back on unnecessary spending. This financial health assessment will help you determine how much money you need to live on weekly, monthly, yearly. It will form the basis of how much you'll need to accumulate before you can retire.
   This is important because under normal circumstances, you won't have access to your superannuation savings until you reach your retirement age, as determined by government regulations.
2. **Charting your journey**
   Having ascertained your retirement goals and your current financial position, now consider other points such as potential investment returns, tax, inflation, and how much to put aside to build a sufficient nest-egg.
   A financial adviser will help you develop a comprehensive financial plan, tailored specifically for you, identifying clear financial milestones and outlining a roadmap for reaching them.
   Over time, as goals evolve and circumstances change, your adviser can tweak your plan so you stay on track to achieve your early retirement goal.
3. **Spending**
   A crucial step in the journey to early retirement is minimising unnecessary spending. Since you've already evaluated your spending habits, you've identified areas where you can cut back on spending without sacrificing your quality of life.
   Be mindful of the difference between needs and wants, remembering that every dollar saved can be invested towards your early retirement.
   When thinking about a purchase, ask yourself if the item is more important than the freedom of retiring young – keep your eyes on the end goal!
4. **Diversified investments**
   Whether through real estate, stocks, or other investments that generate passive income, a varied portfolio will better support your retirement lifestyle during periods of economic fluctuation.
   As you'll still be obliged to submit an annual tax return, when developing an investment portfolio, tax minimisation should also be considered.
   Your financial adviser will assist you to identify the most appropriate investment vehicles for you, and, as your retirement approaches, arrange an income stream that ensures your funds last the duration.

Attaining any financial goal requires discipline. Coach yourself to say 'no' to indulgences in the present, remembering that with the right roadmap and financial know-how, you really can make your dream of early retirement come true.

Source:
www.moneysmart.gov.au Prepare to retire (website)
www.ato.gov.au Early retirement scheme

The benefits and risks of collectable super assets

While owning collectable and personal use assets inside a SMSF may sound appealing, there's a big catch.

In the grander scheme of the $889.5 billion in assets controlled by self-managed superannuation funds (SMSFs) in Australia, $591 million is sort of a drop in the ocean.

In fact, it's less than 1% of total SMSF assets. But that's the amount of money SMSF trustees are holding in what the Australian Tax Office describes as "collectables and personal use assets" according to the ATO's March quarter SMSF asset allocation data.

Think of classic cars and motorcycles, recreational boats, oil paintings, bronze sculptures and other artworks, high-end jewellery, antiques and artefacts, rare coins and banknotes, stamps, wines and spirits, and sporting memorabilia. That's what some of Australia's contingent of roughly 606,000 SMSFs are holding in their retirement nest eggs on behalf of their members.

For all intents and purposes, the sky is almost the limit when it comes to the exotic types of assets SMSFs are legally allowed to own.

The ATO's data shows the value of assets in this segment has been steadily increasing over time. Since March 2020, for example, the total value of collectables and personal assets held by SMSFs has risen by more than 40%.

That's despite the fact that holding these types of assets within an SMSF can be extremely arduous. There are lots of rules. Breaching them risks severe financial penalties, even imprisonment.

There are advantages in holding collectables and personal use assets. Collectables can diversify an SMSF portfolio, potentially reducing risk by spreading investments across different asset classes.

Some collectables have a history of appreciating in value over time, providing the potential for capital growth.

In addition, as registered super funds, SMSFs can enjoy tax concessions including a lower tax rate on income and capital gains. This can be advantageous when it comes to collectables that appreciate significantly in value.

While owning these types of assets inside a SMSF may sound very appealing, there's a very big catch. Collectables and personal use assets held within a SMSF can't be used or enjoyed by its members or related parties.

The ATO has a very strong focus in this area. According to the regulator, data collected from Auditor Contravention Reports for the 2022 financial year of audit shows that as at 20 September 2023, 240 contraventions have been reported by SMSF auditors for funds breaching the collectable rules.

Under legislation – outlined within the Superannuation Industry (Supervision) Act 1993 – a superannuation fund must be maintained for the sole purpose of providing benefits to its members upon their retirement, or for beneficiaries if a member dies.

The guiding rule for SMSFs in this regard is the "sole purpose test".

The primary aim of the sole purpose test is to ensure that all SMSFs only invest for the purposes of providing retirement benefits to the members of the fund, or their dependants in the case of a member's death before retirement.

In other words, the assets of the fund can't be used for personal enjoyment or benefit, such as for the purchase of artworks and antiques that can be displayed around the family home, or for vehicles that can be used for everyday purposes.

They must not be stored in the private residence of any related party of the fund; and trustees must make a written record of the reasons for their decisions on where to store the collectables and personal use assets. Proper storage and maintenance records should be maintained and available for audit purposes and must be kept for 10 years.

Under the legislation relating to collectables, collectables and personal use assets must not be leased to any related party of the funds.

A related party of the fund includes the members of the fund, their relatives and any partnerships, partners of partnerships (if a member is in partnership with them), trusts and companies which members of the fund control.

Trustees must ensure that collectables and personal use assets (other than a membership of a sporting or social club) are insured in the name of the fund within seven days of acquisition.

Collectable assets must be regularly valued to ensure that they are recorded at their market value. Accurate valuations are essential for determining the fund's overall value and ensuring compliance with contribution caps. Additionally, it is crucial to have insurance coverage for collectables to protect them from loss or damage.

It's possible for an SMSF to sell its collectables and personal use assets, but any transfer of ownership to a related party must be done at a market price that's determined by a qualified independent valuer.

Valuing collectables can be subjective and may lead to disputes with the ATO. An incorrect valuation can impact an SMSF's compliance and tax status.

Collectables can be illiquid, meaning they may not be easy to sell quickly. This can pose challenges for those needing to access funds in the SMSF.

Properly storing and insuring collectibles can be expensive, reducing the overall returns on the investment.

The temptation to use collectables for personal enjoyment can be high, leading to potential breaches of SMSF rules.

A contravention of the sole purpose test may lead to a super fund being taxed at the highest marginal tax rate, losing its compliance status, and individual trustees facing civil and criminal penalties including fines and imprisonment. Higher penalties apply to corporate trustees.

The important thing is to understand all the rules around holding collectables, and not breaching them. Detailed information on owning collectables and personal use assets within an SMSF is available on the ATO's website.

Source:

https://www.vanguard.com.au/personal/learn/smart-investing/retirement/benefits-risks-collectable-super-assets
https://www.ato.gov.au/super/self-managed-super-funds/investing/restrictions-on-investments/collectables-and-personal-use-assets/

Troubleshooting family finances

Are your family finances a battleground where good and bad habits collide? Find out how to support your family towards better financial wellbeing without risking your relationship.

Sometimes money can really drive a wedge between family members. When you have a parent, sibling, child or maybe even a partner who seems determined to sabotage their finances, it can be difficult to know how to help or where to draw the line with handing over cash.

Here are five important things to think about when it comes to handling family finances so you can keep your relationships and finances healthy and stable.

1. Where does it come from?

Talking to someone in your family about why they're bad with money can be a confronting experience for both of you. But if you can tackle it without blame or judgement, it can build a more equal and understanding relationship between you. Showing genuine interest in why someone struggles with financial hardship can go a long way towards resolving the tension and conflict that often comes with talking about money.

When gambling or addiction are involved, getting professional help can allow them to deal with financial troubles as part of a larger problem they need to overcome. If holding down a job is the challenge, you can support them towards better career choices by talking to them about their strengths, looking at training options and helping with their resume. Whatever the root of the problem, getting it out in the open can help you understand the best way of offering or finding the support they need.

2. Gifts and handouts

Sometimes you'll want to act on your goodwill towards family with a cash gift or loan of some kind. In the right circumstances, giving someone a handout can be just what they need to get them out of a negative spiral or just take the pressure off so they can make a plan and a budget they can stick to. And if you want to help them financially but keep control of how the money is spent, you could offer to pre-pay bills.

If it's a cash handout, make sure you both understand whether you're making it a gift or a loan. If it's to be a loan, make a written agreement for a realistic repayment schedule you're both comfortable with. While it might be a tricky subject to bring up, talk about what will happen if they don't pay you back. Even if you've helped in the past, it doesn't mean you have an unlimited budget for gifting or lending money to family. So whatever type of financial help you're offering, you should be confident you can afford it, whether they pay you back or not.

3. When to say no

Saying no to a request for money can be tricky. You might be worried that refusing to provide a gift or loan will make your relationship come unstuck and create problems for a person you care about. But think of the strain you'll put on yourself and your relationship if you offer money you simply can't afford to give. Helping in other ways can be a good way to let a family member know you care and want the best for them. Lending tools, appliances or a vehicle can save them on the cost of buying them. Helping with childcare or housework may be just what they need to make more time for earning money. So there are lots of ways to help without actually digging into your own pocket.

4. Budgeting and other good money habits

If you've got good money-management skills, take the time to share them. Being a budget mentor is one of the best and easiest ways to help a family member who is struggling to make ends meet. Sit down with all their bank and credit card statements, bills and payslips and take a good look at how much money is coming in and where it's going. Talk about what they value and how to prioritise that in their spending and save on other things. And introduce them to some budgeting apps to make it easier for them to track their spending, if you think that's going to suit them.

Sometimes people need a little nudge to hunt down a bargain rather than take the first price they're offered. Just by introducing your family member to comparison tools for things like energy bills and insurance you can begin an important change in their approach to spending.

5. Call in the experts

You might be a budgeting maestro, but sometimes it takes an expert to get family finances on track. There are all sorts of ways that financial advice can make a difference to you and your family finances. They can help you determine if a gift or loan is affordable in the context of your other financial goals, like saving for retirement or getting debt free. And having someone step in and provide your family member with impartial advice when they're in a financial mess can be just what you all need to make sure they're getting support without putting pressure on your relationship and your own finances.

Source:
https://www.moneyandlife.com.au/individuals/family-and-life-events/troubleshooting-family-finances/

Mastering the Art of Investing

In an age where investing has evolved from an elite club to a widespread phenomenon, even the novice investor can thrive. But have you ever stopped to wonder what separates successful investors from the rest?

"Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas." - Paul Samuelson

The answer lies in mastering the art of investing, a skill accessible to anyone willing to learn but that requires patience, consistency and discipline… much like any artform.

Let's explore five essential steps that will get you on your way to mastering the art of investing -

Step 1: Understanding Risk and Return

The potential for great reward comes with inherent risks and, typically, the greater the risk; the greater the reward.

Balancing risk and return is a delicate art, where understanding your risk tolerance and aligning investments accordingly paves the way to success.

Whether you're drawn to the relatively stable bonds or the more volatile stocks, knowing your comfort zone is key.

Tip -

When investing, consider how you would feel experiencing a portfolio loss of 10%?... 20%?... 50%?

If the thought of losing 20-50% of your portfolio has your stomach in knots and you breaking out in a sweat, that's a good sign that you need to have a more conservative/balanced approach to your investing.

Step 2: Building a Diverse Portfolio

Imagine putting all your eggs in one basket and then dropping it. The losses would be devastating!

Diversification is your safety net in investing. Spreading your funds across different asset classes ensures that a poor performance in one area doesn't wipe out your entire investment.

It's about creating harmony among various investments, each playing its part in the investment symphony.

Step 3: Research and Analysis

An investor without research is like a painter without a vision.

Do you really think Michelangelo just rolled on up to the Sistine Chapel on day one and started slapping the paint on? He had to create beautiful art, suspended 20 metres in the air, hanging upside down on a curved roof… all while maintaining visual perspective from the ground below. It required planning, strategy, understanding his materials and learning new techniques that met his needs.

If you want your investment portfolio to resemble a masterpiece, it requires delving into the nitty-gritty of potential investment opportunities, understanding market dynamics, and staying abreast of economic trends.

Step 4: Setting Realistic Goals and Time Horizons

As the old adage goes 'Rome wasn't built in a day'... And neither will your investment portfolio.

Achieving investment success requires time and realistic expectations. You need to set clear and achievable goals that align your investment strategies with the time you have.

A high growth portfolio of shares may suit long-term goals such as retirement savings, but it's probably not the best place to put your home deposit savings when you're hoping to purchase in 12 months' time.

Step 5: Monitoring and Adjusting

The road to investment success isn't straight.

Regularly reviewing your portfolio and adapting to changes in the market or your life circumstances is vital. Perhaps a new job changes your risk tolerance, or global events affect certain sectors.

Continual monitoring allows you to make timely adjustments, keeping your investment strategy aligned with your goals.

The art of investing isn't confined to Wall Street's elites; it's a craft that anyone can master with dedication, guidance, and a willingness to learn.

While these steps offer a solid foundation, personalised advice can make all the difference. Connect with a financial adviser who understands your unique needs and can guide you toward financial success.

Sources:
https://www.govloop.com/a-matter-of-perspective-michelangelo-and-the-sistine-chapel/

How your insurance premiums are calculated

The amount you pay for your life insurance – usually each month or year - is called a premium. Before you purchase your insurance, you'll be provided with a quote which will estimate how much you will pay in premiums.

So how do life insurance companies decide the amount they will charge you? There are a number of factors that typically go into the final cost of your premium.

Your level of cover

The amount and types of cover you have decided to include in your insurance will play a key role in what you are charged. You may have a combination of cover types, including life cover, income protection and total permanent disablement (TPD) cover. For more information on the different types of life insurance cover.

You will also be insured for a certain amount under the benefits you've selected, and in the case of income protection and business expense cover, you will have a set waiting period before you can receive benefits, and a set time that you will be able to receive those benefits.

You may also have selected some optional add-on benefits as part of your cover, which may affect the price of your premium.

Your personal circumstances

A range of factors about your personal situation can also affect your premium. As you get older the risk of you contracting a serious illness increases, so your premiums will be higher with age, unless you've chosen the level premiums option.

Factors such as your gender, general health, whether you smoke, your occupation and lifestyle will be taken into account when calculating the premium price.

Your premium type

When you take out life insurance, you are able to choose the premium type that best suits your needs. You can choose from stepped premiums – where your premiums are recalculated each year based on your age – or level premiums, where your premiums do not increase due to age (up to age 65). However, if you choose level premiums, your premiums can still increase for other reasons, such as indexation with inflation.

Level premiums are likely to be higher when your cover begins compared to stepped premiums.

Your payment frequency

Whether you pay your premiums monthly or annually will also affect how much you pay. If you choose to pay on a monthly basis, you will need to pay an extra administrative loading to cover the cost to the insurer of collecting your premium more frequently.

Government taxes

Insurance sales duties imposed by state governments should also be included as part of your premium costs, either as part of your base rate or as an additional charge. These taxes may vary depending on where you live.

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

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INSIDE

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