June 2018

Australia's national economic agenda in May was dominated by the Federal Budget and the promise of tax cuts. Consumers rode a wave of optimism until the final week of May when the ANZ/Roy Morgan consumer confidence index fell for the first time in 7 weeks, down 3.2 per cent to 117.7. Confidence is up 4.3 per cent this year, with the late pull-back attributed to a cooler sharemarket, rising fuel prices and on-again off-again US-North Korea peace talks.

The price of benchmark Brent Crude is up 13.5 per cent this year although the price dropped back to below US$75 a barrel late in the month on talk of OPEC and Russia increasing production to make up for losses in Venezuela and possibly Iran. Australian motorists are paying more at the pump, with average national wholesale petrol prices at a 3-year high of 138.7c.

At the same time, the housing market is cooling. The CoreLogic Home Value Index of capital city prices fell 0.3 per cent in April while the number of home loans to owner-occupiers fell 2.2 per cent in March, the sixth fall in 7 months.

Unemployment rose slightly from 5.5 per cent to 5.6 per cent in April but hours worked and the participation rate both rose.

The Australian dollar ended the month around US75c, down 3 per cent this year on US dollar strength.

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Are you good to go for the new financial year?

The end of the financial year is the cue for most of us to look at our financial position heading into tax time. Hopefully you've made progress towards your goals. But if you find that your expenses are trending higher than you'd like or—shock, horror!—higher than your income, this could be the perfect time for a fiscal makeover.

The starting point is gathering up as much information as possible, beginning with the household budget.

Take a budget snapshot

You can't set realistic financial goals and savings targets without knowing how much money you have at your disposal. If you don't already track your income and spending, then take an annual snapshot as you go through your records to prepare your annual tax return.

Deduct your total spending from total income and what's left is what you have to work with. Any surplus could be used to kick start a regular savings plan. If you discover a budget black hole, identify areas where you are overspending and could cut back.

Pay yourself first

Did you manage to save anything this year or are you are constantly counting on this month's income to pay last month's bills? Do you spend first and hope to save what's left?

Instead of making saving an afterthought, pay yourself first and allocate a percentage of your income to a regular savings plan. Setting up a weekly or monthly direct debit will remove temptation and encourage you to live within your means.

Review your mortgage

If you have a mortgage this is likely to be your biggest monthly expense so it's a good idea to check your progress at least once a year. Why not use some of the savings you've identified and increase your repayments to save interest? If your mortgage has a redraw facility you could use this to create a cash buffer for emergencies.

While you're at it, go online and compare interest rates. If your rate is no longer competitive ring your lender to negotiate a better deal and consider switching loans if they won't budge. Just beware of any exit fees.

Negotiate better deals

Your home loan is not the only expense worth haggling over. These days if you want to get the best deal on your electricity, phone, internet or insurance you need to ask. Before you do, ensure you understand what your current plan/policy covers and research what's on offer elsewhere.

Make a practice of doing this once a year, when your plan or policy is due for renewal. The savings can be substantial and can be put to much better use reducing debt or growing your wealth.

Check your super

Do you know how much you have in super and how it's invested? When you retire superannuation is likely to be your biggest asset outside the family home, yet almost one in four Australians don't know which risk profile their super is invested in.[i] This can cost you thousands of dollars in retirement savings and takes only minutes to correct.

Go to your fund's website or call the helpline to ask for your current balance and where it's invested. As an example, a 25-year-old woman on $80,000 in a conservative option until she's 70 could improve her retirement balance by $294,000 if she switched to a risk profile more in keeping with her age and circumstances.[i]

Protect your wealth

Reaching your life and financial goals is not just about growing your wealth but protecting it.

It's important to review your insurance policies annually—or as your circumstances change—to make sure you and your family have adequate cover. Insurance can be a significant cost for families, but the income it provides when accidents or illness strike is worth every cent.

So why not go beyond the usual search for last-minute tax deductions this June to do a thorough review of your current position. If you would like us to help you make the most of the year ahead, give us a call.

i MLC Wealth Sentiment Survey, 5 April 2018, https://www.mlc.com.au/personal/blog/2018/04/how_to_add_thousands

Budget changes support a brighter retirement

With tax cuts grabbing most of the attention in the May 2018 Budget, some quiet tweaks to superannuation and retirement income were drowned out in all the noise. But these small changes could have a big effect on the amount of money that ends up in your nest egg when you retire.

Here's a rundown of some of the more significant proposed changes:

Income opportunities for retirees[i]

The expansion of the Pension Loan Scheme will allow all Australians of Age Pension age to boost their income using the equity in their home. Under the scheme, retirees will be able to borrow up to 150 per cent of the Age Pension (currently 100 per cent), or $11,799 a year for singles and $17,787 for couples who are on the full Age Pension.

The loan is a reverse mortgage with an interest rate set at 5.25 per cent a year, about 1 per cent below the average commercial rate.[ii] The loan is typically not repaid until the home is sold and the Government guarantees that the debt can never exceed the value of the home. Currently, only part-pensioners can access the scheme.

In addition, all age pensioners will be able to earn up to $300 a fortnight in employment income, or $7,800 a year, without reducing their pension. This is an increase of $50 a fortnight and, for the first time, self-employed pensioners will also be eligible.

Recent retirees aged 65-74 with an account balance below $300,000 will be given an extra year to make voluntary super contributions without having to meet the work test.

Super help for young members

Younger Australians at the start of their working life could also receive a boost to their retirement savings – of more than $500 a year in some cases.[iii] From July 2019, insurance premiums won't be taken out of your super (unless you request it) if you are under 25, your account balance is less than $6,000, or you don't make contributions for 13 months and the account is inactive.

While life insurance is not a priority and can eat away at small balances for many young, single people, the change will mean younger fund members with dependents will need to take extra steps to ensure they have adequate cover.

Younger members will also benefit from a 3 per cent annual cap on passive fees for account balances below $6,000 while exit fees will be banned on all super accounts.

Finding lost super

The Government also hopes to reunite more people with their lost super by requiring super funds to transfer inactive accounts (where contributions have not been received for 13 months) with a balance below $6,000 to the Australian Taxation Office (ATO). The ATO will automatically reunite inactive accounts with active accounts where the combined balance will be at least $6,000.

At the other end of the scale, people who earn more than $263,157 from multiple employers will be able to exclude wages from certain employers from the Superannuation Guarantee (SG) from 1 July 2018. This will help employees avoid unintentionally breaching the $25,000 a year concessional contributions cap. Employees may then be able to negotiate with their employer to receive additional income taxed at marginal tax rates.

Easing restrictions on SMSFs

Self-managed super funds (SMSFs) will be able to add more members, with the limit increased from four to six members. This will give larger families the flexibility to include more than two adult children.

Well-run SMSFs will also be rewarded with a reduction in their administrative burden and compliance costs. Funds with three consecutive clear audits and annual returns lodged on time will be able to switch from annual to three-yearly audits from July 2019.

All these Budget measures are simply proposals for now and will need to be passed by both houses of Parliament. If passed, they should provide opportunities for many Australians to save more during their working lives to boost their income in retirement.

If you would like more information or if this has got you thinking about your retirement income strategy, give us a call.

i https://www.budget.gov.au/2018-19/content/factsheets/3-financially-prepared.html#pwb

ii https://www.canstar.com.au/home-loans/reverse-mortgages/things-consider-reverse-mortgages (3 August 2017)

iii https://www.canstar.com.au/superannuation/budget-2018-super-changes-save-young-people-500-per-year/ (9 May 18)

THE LOST ART of conversation

When was the last time you had a lengthy chat to a friend over the phone or, rarer still, a decent face-to-face catch up? Remember spending time with a loved one making the most of precious hours having saved up every story, anecdote and interesting conversation starter up your sleeve? Nowadays the bulk of our relationships seem to be conducted via text.

It's not just SMS. We now have so many different ways to communicate 24/7, if you also include email, social media and video as well as phone calls. We are adapting the way we communicate to suit these means. Communication now tends to happen in brief, rapid-fire snatches and it can feel like conversation is becoming a lost art.

Is technology really making it easier?

It's certainly not all bad. Much is made of the way that social media makes it easier to connect with friends and family you don't see often. There's a reason that Facebook's tagline is the somewhat emotive: '...helps you connect and share with the people in your life'.

Proponents of digital communications platforms say that accessibility and human-centred design means that social platforms aren't just fads, they're representative of a real change in the way humans communicate. And they point to certain stats, like older Aussies being the fastest growing demographic of social media users, to prove their point.[i]

On the flip side, proud Luddites say that communicating might be easier than ever, but it's a lot less meaningful. Sometimes it seems like they've got a point. There's a big difference between sitting down for a cuppa and a chat with a friend and getting a text that's basically four words, perhaps with a few nonsense vegetable emojis thrown in for good measure.

It's so easy to misconstrue the tone of a text, it can be hard to tell if someone is serious or pulling your leg. Think of how much is conveyed with a smile, a grimace, an eye roll or an arched eyebrow. That's why emojis were invented, to help us to more easily navigate the complexities of not being able to see the expression on someone's face or hear the inflection in their voice.

We are also becoming more glued to our devices to the detriment of real life connections. It's not hard to miss, say, the pair of high schools girls walking side by side texting furiously, the table of friends ignoring their lattes in favour of their screens or the couple checking out their socials instead of each other.

Of course, there are exceptions to every rule in this debate. For every person who feels like they've missed out on connecting face to face, there's a person in dire straits who's been able to reach out to strangers – think things like medical crowdfunding.[ii] And that's without even touching on the millions of conversations that happen every day on dating sites.

Balancing convenience and 'real' conversation

While we are certainly not advocating forgoing the convenience of technology, being able to initiate and maintain a conversation is an important skill. Conversations are good for the soul and the river of words that flows, pauses and goes off on tangents helps you to develop and express your ideas.

If you're interested in reclaiming the lost art of conversation, there are some simple steps you can take to have a more meaningful connection with those you care about.

- Limit your use of technology at the dinner table and be 'present' with your loved ones.
- Conversations are about listening as much as speaking; ask questions and try not to interrupt the speaker.
- Look into the speaker's eyes as you talk and take notice of their body language and facial expressions.

Happy chatting!

i https://www2.deloitte.com/au/en/pages/technology-media-and-telecommunications/articles/media-consumer-survey-2017.html

ii http://www.sbs.com.au/news/article/2015/09/18/why-are-so-many-australians-forced-crowdfund-medical-costs