May 2018

It's May, and many parts of the country will be grateful that cooler Autumn temperatures have finally arrived. On the national economic stage, this year's Federal Budget was handed down by Treasurer Scott Morrison on the evening of Tuesday May 8.

April was a month of market volatility against a backdrop of ongoing global economic growth. In the US, 10-year bond yields broke through 3 per cent for the first time since late 2013. This, along with rising commodity prices, reignited inflationary fears and pushed the US dollar sharply higher. Oil prices (using the benchmark Brent Crude) rose more than 5 per cent in April, and 44 per cent for the year, to around US$74.5 a barrel. Spot iron ore prices rebounded 3 per cent in April to US$67.5 a tonne. The strong US dollar was behind the Aussie dollar's sharp fall to around 75.5 US cents.

In contrast to the US, local inflation is stubbornly low. The March quarter consumer price index (CPI) lifted 0.5 per cent for an unchanged annual rate of 1.9 per cent. While secondary education, household power, pharmaceuticals and vegetables are rising faster than the headline rate, prices for women's clothing, household appliances, audio and computer equipment are falling. National house prices recorded their smallest annual growth in over 5 years in March, with the CoreLogic Home Value Index up just 1.2 per cent. Consumer confidence improved over the month with the ANZ/Roy Morgan rating up 2.1 per cent to a 5-week high of 118.4 in the final week of April. The Reserve Bank's cash rate remains steady at a record low 1.5 per cent where it is expected to stay for some time.

growing together.

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They say 60 is the new 40. And while it's true that today's over-50s are healthy and active for longer than previous generations, many in this position begin to dream about scaling back their work commitments so they can start ticking off their bucket list.

You may want the flexibility to travel more, volunteer or take up a hobby. Perhaps you want to look after the grandkids for a day or two a week. It might be you see your 60s as an opportunity to switch careers or try your hand at freelance work or consulting where you control the amount of time you work. Services such as Airbnb and Uber are also providing opportunities to earn an income on your own terms.

Alternatively, you may have planned to retire early but now find you are not in a financial position to stop work completely. Your savings may have been adversely impacted by the GFC, divorce or remarriage or you may still have mortgage or other debts to repay.

Either way, there is a trend towards more people working well into their 60s and beyond but not necessarily full time. According to the Australian Bureau of Statistics, 56.9 per cent of 60 to 64-year-olds are in the job market, while the percentage of those working over the age of 65 has jumped to a record high of 12.7 per cent.[i]

Winding back the hours

One way to achieve a better work/life balance in the lead-up to retirement is to adopt a transition to retirement income stream (TRIS). Once you have reached your preservation age, which is currently at least 57 (depending on your date of birth), then you can access between 4 per cent and 10 per cent of your superannuation as an income stream. This will let you work fewer hours but maintain your standard of living.

Despite losing some of their tax advantages on July 1 last year, a TRIS strategy still holds its appeal for people who want to use it as it was originally intended – to aid in the transition to retirement.[ii]

In the past no tax was payable on earnings from your TRIS investments; now you will be taxed at 15 per cent. But the favourable tax treatment of withdrawals remains the same. Once you reach 60, any monies withdrawn from your TRIS pension are tax free. For those aged 56 to 60, you will pay tax at your marginal rate but then enjoy a 15 per cent offset.

Boost your super

Another change to the super legislation is that you can only contribute a maximum of $25,000 a year as salary sacrifice regardless of your age. As a result, there may not be so much money beyond your employer's Superannuation Guarantee contributions that you can add to your super to fully take advantage of the scheme.[iii] Even so, if you salary sacrifice as close to this limit as possible, you will help boost your super for when you do completely retire.

Despite these changes, a transition to retirement strategy can still work for you, largely because super continues to be one of the most tax-effective investment environments for your retirement savings.

Supplementing part-time income with a TRIS might also give you an opportunity to reduce your mortgage or other debts before you leave the workforce completely.

A win-win solution

Easing your way out of work can be as good for you financially as it is for you psychologically. To go cold turkey from working one day to retirement the next can be difficult without careful planning.

Working out what to do in the run up to retirement needs careful consideration. We can help you decide what will work best for you.

i 'Older Australians working longer', Commsec Insights, 23 November 2017.

ii https://www.ato.gov.au/Individuals/Super/Super-changes/Change-to-transition-to-retirement-income-streams/

iii https://www.ato.gov.au/super/self-managed-super-funds/contributions-and-rollovers/contribution-caps/

ESCAPE the winter blues

– without breaking the bank!

Have you been feeling a bit sluggish as the winter weather sets in? Are you craving richer meals, sleeping in a bit more, and generally feeling a bit flat?

There could be a scientific explanation. Seasonal affective disorder (SAD), otherwise known as the winter blues, is a real condition. It's more common than you might think in this country as it's estimated that up to 54% have some of the symptoms.[i]

Even if you're not afflicted by SAD, it's pretty common at this time of year to feel a bit lacklustre as the days get shorter and the drizzle sets in. One thing guaranteed to put a spring in your step is the idea of escaping the cold weather and heading on holiday somewhere for days of endless blue sky and balmy warm nights.

Escape the grey skies by heading north

The good news is that Aussies have plenty of options when it comes to getting away to somewhere warmer. It doesn't cost much for those on the southern and eastern seaboards to head to the Northern Territory or Queensland, where it can seem like summer all year round to those from the cities in the southern half of the country. Darwin and the wider Northern Territory have plenty of natural and cultural wonders to explore. There's nothing quite like swapping out the grey palettes of city streets for the rich reds and vibrant aquamarines of the Kimberley gorges. Tropical Queensland is home to plenty of luxury resorts, not to mention national treasures like the Great Barrier Reef. A few days soaking up the sunshine can be had for well under $1,000 for a couple, all inclusive, if you take some time to do your research.

Overseas destinations

If you've got a bit more time and you're willing to go further afield, south east Asia has a plethora of budget-friendly destinations. According to the ABS, the most popular holiday spots during the winter months are Indonesia (including Bali), Thailand, and Malaysia.[ii]

Emerging destinations, where luxury getaways can be had for the price of a hostel stay back here in Oz, are also worth considering. For example, visitor numbers to Cambodia and Vietnam are increasing, with tourism to these countries having really opened up over the last couple of decades. Vietnam offers world famous cuisine, coupled with stunningly diverse landscapes, from the balmy south to the mountainous north. Cambodia is also a unique cultural experience, home to delightful villages where you can still get that feeling of being somewhere fresh and un-explored.

Finding the best deals

To find the best deals, look at packages being offered by bigger travel companies, which can use their buying power to your advantage. Alternatively, keep an eye out for airfare sales with lower cost airlines, and build your own holiday from there. There is a 'sweet spot' in terms of timeframes for nabbing the best fares. Booking between three months and six weeks in advance and avoiding peak times like school holidays will get you the cheapest deals.[iii]

Many carriers also offer bargain fares in the middle of winter, when fewer people are taking time off for holidays compared to the summer months. If you prefer hotel accommodation and steering clear of questionable street food 'adventures', an all-inclusive resort deal can help you keep costs under control.

Budgeting for a break

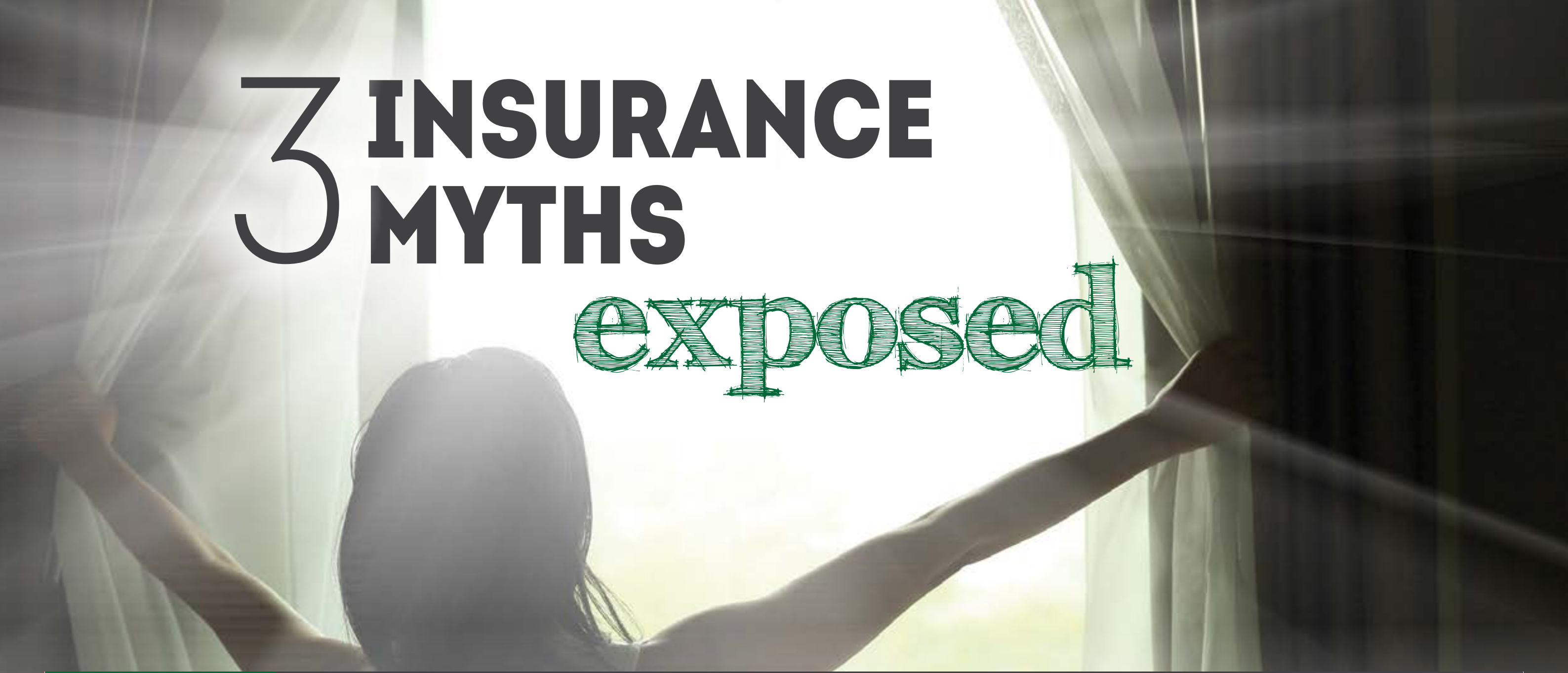
Putting some money aside for upcoming travel and building up some savings can help you to avoid racking up a high credit card debt that you then have to deal with on your return.

And of course, if you can't beat 'em, why not join 'em and embrace winter? Take a leaf out of the book of European après ski culture and make a day trip to the snow, rent a cabin in the country (complete with roaring fireplace), rug up and go for long walks. Alternatively, just bunker down at home and enjoy lounging around on the couch with a hot choccie in your hand.

i http://mccrindle.com.au/the-mccrindle-blog/winter-blues-having-real-impact-in-australia

ii http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3401.0Jul%202016?OpenDocument

iii Source: Airlines Reporting Corporation (ARC)



3 INSURANCE MYTHS *exposed*

In the unlikely event that you break a leg or, heaven forbid, die prematurely you and your family have got it covered, right? You've got life insurance care of your super fund, not to mention that pricey health insurance policy. And if worst comes to worst, there's always a government pension to fall back on, isn't there?

Actually, most Australians don't have nearly enough insurance. The nation's underinsurance gap has been estimated at a whopping 1.8 trillion dollars.[i] Part of the reason for that is the trio of misconceptions outlined above.

Let's go through them one by one.

Myth one:
My super will cover me

The reality is that the overwhelming majority of people that have insurance attached to their super are underinsured. One in two super fund members has less than half the life insurance cover they need. Nearly three quarters are underinsured for total and permanent disability cover.[ii]

Here's another sobering statistic: Rice Warner found a couple in their mid-thirties with young children would need at least $680,000 worth of life insurance cover. The default super fund cover was just $200,000 – less than a third of what's required.

Super policies typically don't automatically include income protection or total and permanent disability (TPD) cover. While it's true that many super funds will allow you to purchase these types of insurance, often at an attractive price, you'll almost always have to contact your fund to put special arrangements in place. What's more, trauma insurance is not available inside super.

If you haven't already, you should read over your super policy carefully or contact us to determine exactly what kind of insurance is being provided. You'll likely find the money your super fund would pay out in the event of a calamity is far less than you imagine.

Myth two:
My private health insurance will cover me

Private health insurance is a wise investment, but even at the highest level of cover it won't even cover the full amount of your medical bills. And it certainly won't pay the mortgage or other everyday living costs such as utilities, groceries or school fees.

Granted, there are moves afoot to allow private health funds to provide more comprehensive cover, possibly eliminating costs such as gap fees. But, by definition, health funds will only ever cover health costs and only until a set monetary or time limit is reached.

Myth three:
The government will look after me

The Australian government does provide a range of payments to support people if illness or disability leaves them unable to work. But unless you lead an extremely modest lifestyle, trying to survive on a pension is an enormous challenge. The Disability Support Pension currently provides $867 a fortnight if you're single and over 21, or $653.50 a fortnight for each member of a couple.

That translates to $433.50 a week for a single person, or about 65 per cent of the minimum wage. Interestingly, the government also estimates the average person under 35 spends $869 a week on living expenses – which provides some idea just how tough it is trying to make ends meet on a disability pension.

The truth will set you financially free

In a worst case scenario you or your family would be unlucky to be left entirely on your own to cope. Your super and health funds, the government and possibly even friends, family and charitable organisations might provide some assistance.

But wouldn't you prefer to know that in the event of a serious health challenge you have the right level of insurance cover? That you and your family wouldn't need to worry about financial issues on top of everything else?

If so, call us to discuss whether your current level of insurance is appropriate to your situation.

i 'Underinsurance in Australia', Rice Warner, July 2015

ii www.lifewise.org.au