August 2020

August is here and the wattle is in bloom, a sign that spring is around the corner. Australians will all be hoping for brighter days ahead, as we contend with rising COVID cases and sobering news on the economic front.

After postponing the Federal Budget until October due to COVID, the government released a budget update on July 23 which gave an insight into the economic impact of the health crisis. It estimates a budget deficit of $85.8 billion in 2019-20 (4.3% of GDP) rising to $184.5 billion in 2020-21 (9.7% of GDP). This would be the biggest deficit as a share of GDP since 1946 in the aftermath of WWII. The economy contracted an estimated 0.25% in 2019-20, with a further fall of 2.5% in 2020-21, the first consecutive annual falls in over 70 years.

Unemployment rose from 7.1% to 7.4% in June, the highest in almost 22 years. The jobless rate is expected to peak at around 9% in December before it begins to fall. As a result of the economic slowdown, inflation fell 1.9% in the June quarter (minus 0.3% on an annual basis), the biggest quarterly fall since 1931 during the Depression. The biggest price falls were for childcare, petrol, primary education, and rents. This was reflected in falling consumer confidence, with the ANZ-Roy Morgan confidence rating falling to a 13-week low of 89 late in the month (the long-term average is 112.8 points).

On financial markets, gold rose to a record high of US$1975 an ounce in July, reflecting its role as a defensive asset in difficult times. Crude oil prices inched up 1% in July but are down 25% over the year. And in good news for Australian exports, iron ore prices rebounded 8% in July (down 7% for the year). The Australian dollar continued to climb, closing the month above US72c.

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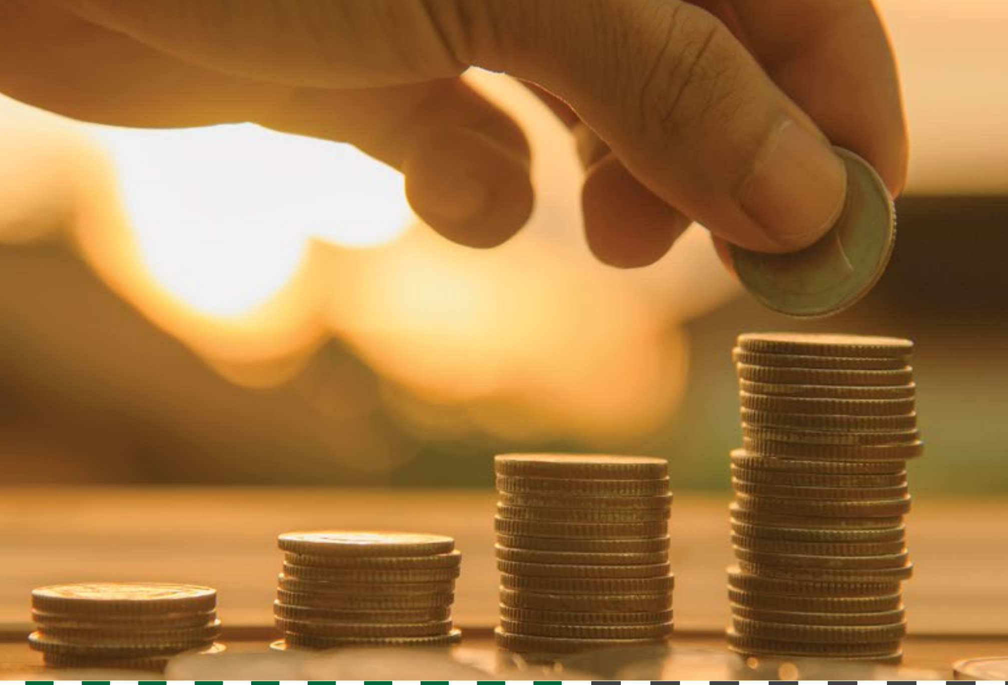

CASH IS KING in a crisis

Most of us understand the importance of saving for a rainy day, but sometimes it takes a crisis like the current pandemic to make us act on it.

With so many jobs lost and the outlook unknown, having a cash buffer means you are more able to manage unexpected expenses or the loss of regular income.

While it might be more challenging to establish a cash buffer in this current crisis, it does underline the importance of making sure you are not living from one pay cheque to the next.

For those in a position to save, it's still important to have cash reserves that can be accessed at short notice. So how much is enough to provide a reasonable level of short-term financial security? The answer will depend on whether you are still in the workforce or retired.

While you are working

Some say the equivalent of three months' pay is a good start for those still working. Others simply put a figure on it, with $10,000 often suggested.

So, what is the best way to work out what is right for you?

Firstly, calculate your monthly expenses. How much do you need to cover your mortgage, utility bills, phone and internet, insurance, food, transport, health insurance and childcare? Once you know what your commitments are, then you are in a better position to budget for that rainy day.

Consider monitoring this expenditure for two to three months to allow for quarterly bills and other one-off commitments.

Build your cash buffer

The next step is to decide how you will achieve your cash buffer.

There are various savings methods. One of the easiest is just to take an amount - either a percentage or a fixed sum - automatically out of your salary each month or each pay cycle and put the money into a separate account. After all, what you never have, you never miss.

Or if you have a mortgage, you could consider putting the money in a mortgage offset account or redraw facility. That has the added benefit of helping pay off your mortgage faster, but you need to be disciplined not to touch your savings.

Now that you know your expenditure, look for new ways to trim some fat to help reach your savings goal sooner.

Realistically to build up your buffer quickly, you would need to save a minimum of $50 a week. Even then the figure would only be $2,600 at the end of the first year.

Tax refunds or other windfalls such as inheritances could be put directly into your savings fund.

If you are retired

The landscape changes once you retire. Rather than needing just three months as a buffer for emergencies, you probably need a longer time frame.

Some say you should have two to three years of cash, although 12 months is more often suggested.

Having ready cash available in retirement means you are less likely to have to sell growth assets like shares to cover your living expenses. This is particularly important if selling coincides with a falling sharemarket.

One strategy is to employ the bucket method, where you split your savings into three separate buckets, each for a different time frame.

A bucket strategy

The first bucket is to provide money for the first two to three years of retirement. This money should be held in cash investments so it is easily accessible.

The second bucket is for the medium term. Its key role is to top up bucket number one. Investments here should still be quite conservative, perhaps low risk quality stocks and/or bonds.

The third bucket is where you take more risk to cover your longer-term living expenses. This could be investments in local and international shares or other growth assets. As a result, the balance may fluctuate from year to year, but over time it should continue to grow so you don't run out of money.

To help maintain your savings, the government has also temporarily halved the minimum amount you are required to withdraw from account-based superannuation pensions and annuities for the 2020-21 financial year. The minimum percentage payment is determined by your age.

Never has a cash buffer been more important, so contact us if you want to discuss a strategy that works to future proof your finances whatever the future holds.

Watching our online and social spending

The changes to our daily lives of late have caused us to reframe our views on ‘screen time’, an activity that now more than ever takes up a significant proportion of our day.

However, as we spend more time online we are also spending more online and it pays to be mindful of the ways our browsing habits impact our hip pocket.

With the average Australian spending over six hours on social media every week, it’s safe to say we’re affected by what we consume online.[i] This can happen consciously, from actively looking up brands and products, or subconsciously, through viewing advertisements directed at us.

Social networking to selling

When Facebook first started gaining popularity in the noughties, its focus was on social networking. By 2016 it had evolved into a marketplace so users could sell to each other, regardless of whether they were connected. Facebook also had over seven million advertisers during the third quarter of 2019 alone.[ii] So when you log into your Facebook account these days, it’s just as likely to be because you’ll buy something than to socialise.

Similarly, Instagram has developed from simply sharing photos. A 2019 survey showed that 81% of respondents use their accounts to research products and services, and 130 million users view shopping posts every month.[iii,iv]

Easy social shopping

The sophisticated and seamless purchasing experience offered by social media platforms has made shopping even easier and buy now, pay later services such as Afterpay also make it easier to purchase an online product or service through instalments.

Hard to resist targeted advertising

While users are able to search for products and purchase online, the data collected from social platforms allows marketers to target individuals based on their demographics, interests and online behaviour. Have a look at the ads that appear when you next log in – chances are they’ll be relevant to you. Your data, such as your browsing history and the apps you use, can be tracked and used to present targeted advertising on your feeds.[v] This practise isn’t a secret, but it can still be surprising (and even unsettling) as to how tailored this advertising can be. With advertising pinpointing your real and anticipated needs, it can be hard to resist buying. And with data kept of previous ads you responded to, you’ll see even more similar ads after you purchase from an ad – keeping you in the spending loop.

Influencing our buying behaviours

‘Keeping Up With The Joneses’ is prevalent on social media, where people compete for the most likes thanks to their extravagant lifestyles. But it’s not just envy which induces us to spend. We turn to those we trust when it comes to making decisions, which is why when we see friends, families and ‘influencers’ (people we respect and trust) using a product or service and having a positive experience, this acts as social proof.

Fear Of Missing Out

FOMO – it’s a thing, and something that can be worsened by social media, making it tempting to spend on the latest gadgets or lifestyle trends. Comparing yourself to others can create anxiety and also induce spending to ‘keep up’. However, there’s a growing movement towards JOMO, the joy of missing out.

With financial anxiety on the rise, JOMO is much better for our hip pocket than FOMO.[vi]

Watching your hip pocket when it comes to your social spend can be challenging. If you are concerned about your spending, set a budget which allows for the amount of online shopping you are comfortable with. It’s a good idea to keep track of your purchases to ensure your spending is not to the detriment of your day to day needs as well as your longer-term financial goals.

Finally, just having a greater awareness of how social media influences your behaviour will help you to resist the subtle enticements of social marketing.

i https://www.genroe.com/blog/social-media-statisticsaustralia/13492

ii https://sproutsocial.com/insights/social-media-statistics/

iii https://business.instagram.com/blog/how-to-sell-yourproducts-on-instagram/

iv https://blog.hootsuite.com/instagram-statistics/

v https://www.wired.com/story/whats-not-included-infacebooks-download-your-data/

vi https://www.news.com.au/finance/economy/australianeconomy/younger-australians-are-embracing-the-joy-ofmissing-out-as-financial-anxiety-takes-its-toll/news-stor y/11ac6520fa3be768d885b855ae0c8c76

Super changes add flexibility

Just when you thought you had a grip on the superannuation rules, they change again. This time though, the changes are mostly positive, especially for older super members keen to top up their savings.

From 1 July 2020, changes came into effect with the potential to help retirees as well as members suffering financial hardship due to COVID-19.

Here's a summary of the new rules.

Work test to kick in at 67

Under changes to the work test, if you are aged 65 or 66 you can now put money into super even if you aren't working. This gives people flexibility to make voluntary catch-up contributions for a few more years and give their retirement savings a last-minute boost.

Under the work test, which now kicks in at age 67, you must work at least 40 hours within 30 consecutive days in the financial year in which you make the contribution.

It was also proposed to allow people aged 65 and 66 at the start of the financial year to use the existing non-concessional bring forward rules. If eligible, this allows you to 'bring forward' up to three years' worth of non-concessional contributions (up to $300,000) in the current financial year. Legislation must be passed before this proposal becomes effective.

Couples get a super boost

Couples also have more flexibility to grow their retirement savings later in life, thanks to recent changes to spouse contributions. As of 1 July 2020, you can contribute to your spouse's super fund until they reach age 75, up from the previous age limit of 70.

What's more, if your spouse (married or de facto) earns less than $37,000 you may be able to claim a tax offset of up to $540 for your contribution to their super. The offset phases out once your partner's income reaches $40,000.

The usual non-concessional contribution limits still apply, and the receiving spouse still needs to meet the work test where applicable.

Super pension drawdowns halved

Retirees whose superannuation has taken a hit from the COVID-19 market volatility have also been given a bit more wriggle room this financial year. The government has temporarily halved the minimum amount retirees must withdraw each financial year from their account-based super pension.

This temporary measure will help retirees who might otherwise have to sell assets at depressed prices to provide cash for their pension payments.

For example, someone aged 65 would normally be required to withdraw 5 per cent of their super pension account balance each financial year. But in 2020-21 they need only withdraw 2.5 per cent of their account balance if they wish. There's no maximum withdrawal rate.

Early release of super

Younger super fund members have not been forgotten. You can withdraw up to $10,000 from your super account this financial year if you are suffering financial hardship due to the economic impact of COVID-19. This is in addition to the $10,000 you could withdraw last financial year.

It must be stressed though, that the early withdrawal of your super should be a last resort because of the adverse impact on your retirement savings. An amount of $10,000 withdrawn early in your working life could potentially be worth many times that by the time you retire.

If, after weighing up your financial options, you wish to take advantage of this temporary measure then you need to apply by 24 September 2020.

Super guarantee amnesty for employers

If you run your own business and you have taken your eye off the ball when it comes to paying the correct amount of super to your employees, then the Australian Taxation Office (ATO) is offering a temporary amnesty to set things right.

You have until 7 September 2020 to disclose and pay any unpaid Super Guarantee (SG) amounts for your employees. These contribution shortfalls can be from any quarter from 1 July 1992 to 31 March 2018.

Under the amnesty, you will not have to pay the administration charge or Part 7 penalty (up to 200 per cent of the Superannuation Guarantee Charge). You can also claim a tax deduction for your payments.

If you would like more information about any of these changes or how to take advantage of them, give us a call.