February 2021

It's February, the kids are back at school and the nation is getting back to business. It's still not business as usual, but with the vaccine rollout about to begin there is a growing sense of optimism.

There was a sense of relief on the global economic front in January as Joe Biden was sworn in as US President. Financial markets rallied on expectations of more US government financial stimulus and a stronger focus on containing the COVID-19 health crisis. There were also positive economic signs from our other major trading partner, China where a V-shaped recovery is underway. China's economy grew by 2.3% in 2020, the best performance of any major economy even though it was China's slowest growth since 1976.

In Australia, there also signs of a cautious economic recovery. Consumer confidence hit a 14-month high in January, due to our success in dealing with the pandemic and supporting jobs. The ANZ-Roy Morgan consumer confidence rating hit 111.2 points, just below its long-term average of 112.6. Unemployment fell from 6.8% to 6.6% in December, a time when businesses typically hire casual staff for the Christmas-summer holiday rush. Retail trade fell 4.2% in December but was still up 9.4% over the year. Inflation remains weak, with the consumer price index (CPI) up 0.9% in the December quarter and also up 0.9% in 2020 overall. The exception is house prices, up 3% in 2020. This was reflected in the value of new home loans which rose 5.6% in November due to record low interest rates and government policy initiatives. The Aussie dollar finished the month slightly lower at US76c.

growing together.

Ivy Wealth
9/39 Murray Street
Hobart TAS 7000
P 03 6245 1777
E reception@ivywealth.com.au
W www.ivywealth.com.au
Facebook ivywealth.com.au
Instagram ivy_wealth_tas

Is an SMSF right for you?

As anyone who has joined the weekend crowd at Bunnings knows, Australians love DIY. And that same can-do spirit helps explain why 1.1 million Aussies choose to take control of their retirement savings with a self-managed superannuation fund (SMSF).

As well as control, investment choice is a key reason for having an SMSF. As an example, these are the only type of super fund that allow you to invest in direct property, including your small business premises.

Other reasons people give are dissatisfaction with their existing fund, more flexibility to manage tax and greater flexibility in estate planning.

What type of person has an SMSF?

If you think SMSFs are only for wealthy older folk, think again.

The average age of people establishing an SMSF is currently between 35 and 44. They're also dedicated. The majority of SMSF trustees say they spend 1 to 5 hours a month monitoring their fund.[i,ii]

But an SMSF is not for everyone. There has been ongoing debate about how much you need in your fund to make it cost-effective and whether the returns are competitive with mainstream super funds.

So is an SMSF right for you? Here are some things to consider.

The cost of control

Running an SMSF comes with the responsibility to comply with superannuation regulations, which costs time and money.

There are set-up costs and ongoing administration and investment costs. These vary enormously depending on whether you do a lot of the administration and investment yourself or outsource to professionals.

A recent survey by Rice Warner of more than 100,000 SMSFs found that annual compliance costs ranged from $1,189 to $2,738. These are underlying costs that can't be avoided, such as the annual ASIC fee, ATO supervisory levy, audit fee, financial statement and tax return.[iii]

If trustees decide they don't want any involvement in the administration of their fund, the cost of full administration ranges from $1,514 to $3,359.

There is an even wider range of ongoing investment fees, depending on the type of investments you hold. Fees tend to be highest for funds with investment property because of the higher management, accounting and auditing costs.

By comparison, the same report estimated annual fees for industry funds range from $445 to $6,861 for one member and $505 to $7,055 for two members. Fees for retail funds were similar. Fees for SMSFs are the same whether the fund has one or two members.

Size matters

As a general principle, the higher your SMSF account balance, the more cost-effective it is to run.

According to the Rice Warner survey:

- Funds with $200,000 or more in assets are cost-competitive with both industry and retail super funds, even if they fully outsource their administration.
- Funds with a balance of $100,000 to $200,000 may be competitive if they use one of the cheaper service providers or do some of the administration themselves.
- Funds with $500,000 or more are generally the cheapest alternative.

Returns also tend to be better for funds with more than $500,000 in assets.

Even though SMSFs with a balance of under $100,000 are more expensive than industry or retail funds, they may be appropriate if you expect your balance to grow to a competitive size fairly soon.

Increased responsibility

While SMSFs offer more control, that doesn't mean you can do as you like. Every member of your fund has legal responsibility for ensuring it complies with all the relevant rules and regulations, even if you outsource some functions.

SMSFs are regulated by the ATO which monitors the sector with an eagle eye and hands out penalties for rule breakers. And there are lots of rules.

The most important rule is the sole purpose test, which dictates that you must run your fund with the sole purpose of providing retirement benefits for members. Fund assets must be kept separate from your personal assets and you can't just dip into your retirement savings early when you're short of cash.

Don't overlook insurance

If you considering rolling the balance of an existing super fund into an SMSF, it could mean losing your life insurance cover. To ensure you are not left with inadequate insurance you may need to arrange new policies.

If you would like to discuss your superannuation options and whether an SMSF may be suitable for you, don't hesitate to call.

i https://www.smsfassociation.com/media-release/survey-sheds-new-insights-on-why-individuals-set-up-smsfs?at_context=50383

ii https://www.smsfassociation.com/media-release/survey-sheds-new-insights-on-why-individuals-set-up-smsfs?at_context=50383

iii https://www.ricewarner.com/wp-content/uploads/2020/11/Cost-of-Operating-SMSFs-2020_23.11.20.pdf

Mind the insurance gap

At a time when many people have been focused on their family's health and livelihood, having adequate life insurance has never been more important. Yet the gap between what we need and what we have, has been growing.

Life insurance is all about ensuring your family can maintain their lifestyle if you were to die or become seriously ill. Even people who do have some level of protection, might discover a significant shortfall if they had to depend on their current life insurance policies.

That's because 70 per cent of Australians who have life insurance hold relatively low default levels of cover through superannuation.

Default cover may not be enough

The most common types of default life insurance cover in super are:

- **Life cover** (also called death cover) which pays a lump sum or income stream to your dependents if you die or have a terminal illness.
- **Total and permanent disability** (TPD) cover which pays you a benefit if you are disabled and unlikely to work again.

If you have basic default cover and are part of what is considered an "average" household with no children, then it's likely you only have enough to meet about 65-70 per cent of your total needs. The figure is much lower for families with children.

Indeed, a recent study by Rice Warner estimates that while current levels of insurance cover 92 per cent of death needs, they only account for a paltry 29 per cent of TPD needs.[i]

Such a shortfall means that you and/or your family would not be able to maintain your current lifestyle.

A fall in cover

The Rice Warner study found the amount people actually insured for death cover has fallen 17 per cent and 19 per cent for TPD in the two years from June 2018 to June 2020. This was driven by a drop in group insurance within super which has fallen 27 per cent for death cover and 29 per cent for TPD cover.

This was largely a result of the introduction of the Protecting Your Super legislation. If you are young or your super account is inactive then you may no longer have insurance cover automatically included in your super. You'll now need to advise your fund should you require cover.

It may make sense not to have high levels of cover, or even insurance at all, when you are young with no dependents and few liabilities – no mortgage, no debt and maybe few commitments. But if you work in a high-risk occupation such as the mining or construction industries, or have dependents, then having no cover could prove costly.

Another reason for the fall in life insurance cover has been the advent of COVID-19. With many people looking for cost-cutting measures to help them through tough times, insurance is sometimes viewed as dispensable. But this could be false economy as this may be exactly the time when you need cover the most.

There is also the belief that life insurance is expensive which is certainly not the case should you ever need to make a claim.[ii]

An appropriate level of cover for you

It is estimated that an average 30-year-old needs $561,000 in death cover and $874,000 in TPD cover. As you and your family get older, your insurance needs diminish but they are still substantial. So a 50-year-old needs approximately $207,000 in death cover and $499,000 in TPD.

These figures are just for basic cover so may not meet your personal lifestyle. When working out an appropriate level of cover, you need to consider your mortgage, your utility bills, the children's education, your daily living expenses, your car and your general lifestyle.

It's also important to consider your stage of life. Clearly the impact of lost income through death or incapacity is much greater when your mortgage is still high, your children are younger, and you haven't had time to build up savings.

While having some life insurance may be better than nothing, having sufficient cover is the only way to fully protect your family. So why not call us to find out if your current life and TPD cover is enough for you and your family to continue to enjoy your standard of living come what may?

Now more than ever, in these uncertain times, you may find that you too are significantly underinsured and need to make changes.

i https://www.ricewarner.com/new-research-shows-a-larger-underinsurance-gap/ (All figures in this article are sourced from this Rice Warner report.)

ii https://www.dnb.co.uk/perspectives/supply-chain/global-supply-risk-report-q12018-cranfield.html

EXTENDING that holiday feeling

Does the summer break already feel like so long ago? If that holiday glow and relaxation didn't last as long as you wanted, you're not alone.

New research indicates that the mental health benefits of a holiday unfortunately fade quicker than a tan. The study found that it takes us just three days to get back into our normal level of stress.[i] Fortunately, there are ways you can hold onto that holiday feeling all year round.

Incorporate holiday habits

Morning sleep-ins, days spent outdoors in the sun, having long chats with family and friends, enjoying delicious food and drink, not being tethered to your phone – no wonder we feel more relaxed on holiday than we do in our day-to-day lives!

While most of us don't have the luxury of sleeping in and turning up to work when we feel like it, you can incorporate some of your holiday habits into your regular working week. This can be as simple as taking regular breaks and scheduling in some outdoors time, whether it's finding a park near the office, or going on a bush walk on the weekend. You might also like to opt for a screen-free day and instead pick up a book or have a board game night.

Take smaller breaks

Your leave allowance and financial situation may only permit you to take a small time away from work, but rather than just focusing on long holidays, try to also take regular breaks. This could be weekends away or even just a day spent in a different town close to where you live, acting as a tourist and exploring the area. Just a day of adventuring will add some novelty into your schedule and allow you to unwind without needing to take an extensive period of leave or to travel far.

Rethink your workday

Rethinking your workday can improve your productivity. If you have the flexibility to do so, you may find changing your hours can have a positive effect on your productivity and motivation. For example, if you're someone who struggles to get going before mid-morning, starting work later can have you feeling fresher and more alert.

It can also help to split your day into 90-minute windows to allow you to focus on a set number of tasks.[ii] Doing so can improve your efficiency and give you more free time as a result.

Reduce stress

We all know that excess stress is bad for us, but it can be near impossible to remain relaxed and care-free. Being on holiday and away from our regular lives can provide insight into what we are stressed about.

If the constant beep of notifications on your phone grates on you, having phone-free time can help. Maybe you feel under pressure at work or have an unmanageable workload – can you discuss these concerns with a colleague, boss or HR? A cause of stress can even be not having enough to do and being unsure of your purpose, in which case it could be helpful to reach out to a mentor or life coach for guidance. Whatever it may be, identifying your stressors will help you work towards reducing them.

Develop a positive mindset

Hand-in-hand with being more relaxed is having a positive mindset. Our holidays give us much to feel grateful for, such as the freedom of movement and access to beautiful locations, which we may have taken for granted pre-COVID-19.

In our everyday lives, rather than pining for that next holiday, think about what you are grateful for. This focus on gratitude and positivity makes it much easier to enjoy the day-to-day, and may lead you to adjust your priorities to reduce stress and improve your overall happiness.

We hope you all have a happy, prosperous and fulfilled year and we're here to help if you need a hand. Enjoy your present, with a positive mindset.

i https://www.businessthink.unsw.edu.au/Pages/Rest-and-rejuvenate-why-your-summer-holiday-may-not-have-done-the-trick.aspx

ii https://lifehacker.com/why-we-should-rethink-the-eight-hour-workday-515742249