MAY 2022

Goldsborough

Quarterly financial planning news and views

The RBA's tightrope challenge

Most advanced economies of the world have largely not had to worry about rising inflationary problems for a long time and here in Australia, it's been very well controlled since the early 1990s.

Throughout the pandemic, the financial world has been talking about transitory inflation which has been seen as a positive economic development as it reflects when financial stimulus (in this case from Governments) creates a surge of economic activity (think Job Keeper spending) that temporarily increases the demand and therefore cost of things (think toilet paper).

A short term slugging of $5 for a single roll of toilet paper doesn't sound like a positive development but think how much worse things would have been if people didn't get Job Keeper and/or businesses went broke (hopefully no toilet paper businesses!).

However, it's clear the advanced global economies are preparing for inflation that is more than just transitory, where the cost of goods and services continues to rise or stay uncomfortably elevated particularly in the energy and fuel sectors. Essentially, we've seen the global stimulus go a bit too far for a bit too long and now our Reserve Bank has to contend with the compounding inflationary pressure of the Ukraine invasion that has completely disrupted the gas and oil markets, among many other commodities.

Luckily for Australia, we are big suppliers of things the world wants; iron ore, coal and gas in particular so our economy is coping relatively well and enjoys very low unemployment putting upward pressure on wages. This is good news for Australia but creates a double-edged sword for the RBA:

- Raise interest rates too slow and, combined with possible wage increases, inflationary pressure is compounded.
- Raise interest rates too fast to slow inflation, they risk handbraking the economy like we saw after cash rates hit 17.5% in 1990.

Threading this needle is an unenviable task for the RBA and one tool they have used effectively is to communicate their intentions well in advance.

In November last year, the RBA commented that "it is now also plausible that a lift in the cash rate could be appropriate in 2023". Since then, the monthly RBA statements have been preparing Australians for multiple cash rate increases sooner, starting with this month's rise to 0.35%, which the investment markets had already adjusted in anticipation. Equity markets continue to reprice on inflation data announcements and property price growth has slowed, now tipped to slightly fall in the eastern states. The point is that even in times of a global pandemic/war/tech disruption, the RBA's system of managing inflation by communicating monetary policy well in advance has thus far worked and served Australia well. ■

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Getting retirement ready – from when you start work!

Whether you've just started out in the workforce, or you're getting ready to retire, it's always a good time to start planning for life after work. I thought I would offer a decade-by-decade guide to getting your superannuation into shape, so you can enjoy a comfortable retirement.

With Aussies living longer than ever, you could be spending many happy years in retirement. To help achieve that financially, did you know that to maintain your standard of living you'll need around two-thirds of your pre-retirement income, for the duration of your retirement? That's amounts to a sizeable nest egg!

It's likely that superannuation will play a big role in funding your retirement lifestyle. So it makes sense to pay it some attention over the course of your working life. It's never too early or too late to start taking an interest in your super. Here's what to focus on at each stage of life.

In your 20s

Many people join the workforce **for real** in their early 20s, making this a great time to get the super fundamentals in place. Here are some steps to take:

1. Choose a superannuation fund

At this age, there are many years ahead before you're able to access your super (generally from age 65). Such a long investment timeline means you can consider taking on more risk, as your investments will have more time to recover from any market ups and downs. There's lots to consider when choosing a super fund, and the level of risk you're happy to accept is one factor. You'll also need to consider what the fees are, and perhaps you'd even like to know what your money is being invested in.

2. Consolidating your super

If you've worked several part time or casual jobs in your teens and early twenties, chances are you may already have more than one superannuation fund set up in your name. Finding and consolidating all of your super into one account is fast and easy using the ATO's online services. Simply login to your MyGov account, choose 'ATO' from the service menu (you'll need to link it if you haven't already), and then, once on the ATO site, select 'Super'.

3. Adding to your super

With so many years to go before you retire, it's worth salary sacrificing a little extra, and adding any windfalls like a bonus or tax return, into your super. The power of compound interest means funds invested in your 20s will be worth much more by the time you retire.

In your 30s

This is the decade when you'll really start to see your superannuation take off. As your income rises, so too do your employer sponsored super contributions. This can work wonders for your super balance, especially if you're able to salary sacrifice a little extra into your super each month. It's also a good time to conduct a super health check and review your strategy to make sure it's working for you. Compare the performance of your super fund, and check whether you're on track to having enough super to retire on.

Personal insurance becomes much more important at this age, as your responsibilities grow. Many of life's major events happen in your 30s, such as marriage, children and buying your first home! Obtaining insurance through your superannuation fund can be a cost-effective option.

In your 40s

With retirement starting to feel more real, your 40s are a good time to focus on paying down debt and ensuring your super balance remains on track. Look into how much super you'll need to retire and check whether you're going to reach that figure. If not, consider making extra payments, and review your investment strategy with a professional.

Your earnings are likely to peak sometime between 45 – 54 years, so you'll have more income than ever. However, this is often matched by higher expenses (think kids education and a mortgage) as well as unexpected expenses, like health issues and even divorce. So aim to live within your means and put aside a little extra for retirement.

Remember, if you've taken time out of the workforce to care for children or family, you'll need to consider being more active with your superannuation once you return to work. The good news is you can make up the difference by salary sacrificing and making lump sum contributions to top up your super in later years.

The new Goldsborough Financial Services website has some fantastic resources for you, including the different life stages that we go through. I'd invite you to have a look at this.

And finally, if you have any questions at all about preparing for retirement, it really is worth seeking advice from a professional. Your Goldsborough adviser can review your investment strategy and help you develop a financial plan that will put you on track for a worry-free retirement. ■

CRAIG KIRKWOOD CFP®
Authorised Representative (401525)

Strategies to grow your super contributions

Superannuation funds and super contributions form a strong foundation for life after retirement.

If your super contributions are well managed, you can not only save taxes but also save more for your retirement. As complicated as the super system can seem, ultimately there are two types of super contributions, pre-tax and after-tax.

Before-tax (concessional) contributions are contributions added to your super account before your income tax has been deducted. These are generally taxed at 15% when added your super account, instead of your marginal income tax rate, which can be as high as 47% (including Medicare).

After-tax contributions: The other alternative is to pay into your super fund from your after-tax salary. These super contributions are termed non-concessional as taxes have already been paid on your funds, and no tax is deducted when added to your fund.

Five of the more common super contributions to consider before June 30 include:

1. Salary sacrifice and one-off contributions

Consider making additional contributions to your super account, either from pre-tax salary as salary sacrifice or from after-tax salary as one-off contributions. Both methods add to your post-retirement savings and can be tax advantageous. Your monthly take-home salary reduces, but your savings in your super account rises. If you hadn't set that up for this year but think you may want to for next, speak with an Adviser to understand the impacts of that choice and then work with your employer.

2. Government co-contribution:

In order to encourage low- to middle-income earners to boost their retirement savings, the government offers a super co-contribution. If you expect your income to be less than $41,112 this financial year, you might benefit by making an after-tax contribution. The maximum government payment is $500 and phases out until your income is above $56,112.

3. Super contributions on behalf of spouse:

If your spouse earns less than $37,000, you can make a super contribution to their super account to boost their retirement savings and earn a tax deduction for yourself. Super contributions of up to $3,000 into a spouse's account can earn tax benefits of up to $540 (partial payment if between $37,000 and $40,000). Additionally, you may also submit a request to split your super contributions with your spouse to even up any significant balance differences.

4. Downsizer contributions

People aged 65 and over can make a voluntary contribution to their super of up to $300,000 using the proceeds from the sale of their home (if it's their main residence) – regardless of their work status, super balance, or contributions history.

For couples, both people can take advantage of this opportunity, which means up to $600,000 per couple can be contributed toward super.

5. Contribution from savings

Another way to invest more in your super is with some of your after-tax income or savings, by making a personal non-concessional contribution. Although these contributions don't reduce your taxable income for the year, you can still benefit from the low tax rate of up to 15% that's paid in super on investment earnings. This tax rate may be lower than what you'd pay if you held the money in other investments outside super.

You will need to meet certain eligibility conditions before benefiting from the above super contributions. If you're thinking about making a contribution before June 30 now is a great time to act to avoid last minute stress and to maximise your tax benefits. Contact you adviser to help decide what is most appropriate for you. ■

LACHLAN HARVEY CFP®
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Bond markets suffer losses

Global bond markets have suffered significant losses since last year's peak, as central banks worldwide tighten monetary policy to combat rising inflation.

We don't normally associate bond funds with negative returns but many of these investments are currently showing negative returns for the past 6-months.

In Australia and elsewhere in the world, inflation has been rising. Inflation eats away at the purchasing power of cash. Inflation was a major economic issue in the 1980s and 90's. In the early 1990's, the Reserve Bank of Australia (RBA) introduced a target inflation rate of 2-3% and it has been successful in keeping inflation within this band since. The current inflationary pressure has seen the RBA raise the cash rate to 0.35% in May; and possibly higher in the coming months. The US Federal Reserve increased US interest rates in March for the first time since 2018.

I've commented before that people find the language around bonds confusing. This is because we have become accustomed to the language of the share market where rising prices are a good thing. Bond markets have been experiencing rising yields. In bond markets, the price of bonds is the opposite to the yield. So, the expectation of rising interest rates, leads to rising bond yields and hence falling bond prices.

Repricing in bond markets is an ongoing process. The difference this time is the speed which the market has had to adjust to the change in the interest rate outlook. The question of whether we will see bond yields continue to rise, will depend upon how aggressively reserve banks around the world raise rates. The consolation for fixed interest investors in the longer term is the higher interest rates from bonds, term deposits and other interest-bearing investments.

So, how bad has it been?

The graph below shows the falling price of bonds since the start of 2022. The Bloomberg AusBond Composite is a benchmark for Australian Bonds and the Bloomberg Global Aggregate is an index for the global market more broadly.

31 December = 100

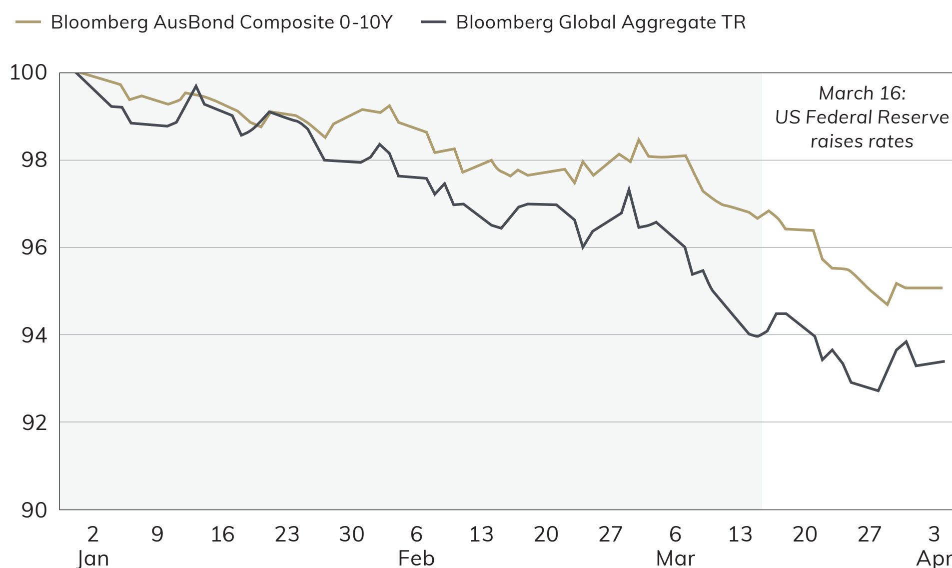


Chart: Lewis Jackson • Source: Morningstar

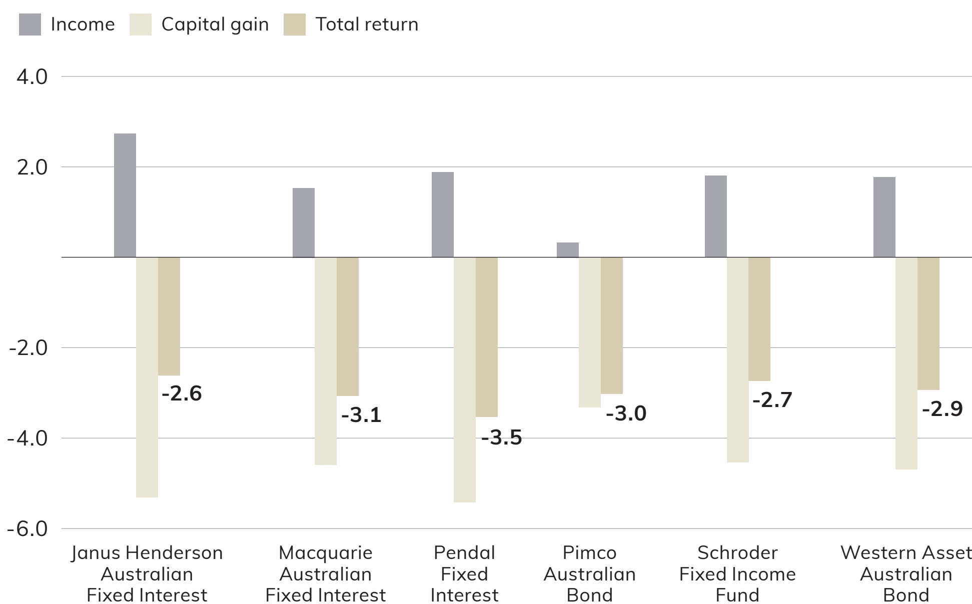
How has this affected fixed interest funds?

The graph below shows the return from a selection of Australian Bond funds during the calendar year 2021. Note the income return remains positive but it is the capital value that has fallen.

The portfolio objectives of these funds vary, and performance of these funds does not represent an investment recommendation. Data is provided by Morningstar.

Australian bond fund performance – 2021

Total return is split between income and capital gain



Source: Morningstar

The role of bonds in a balanced portfolio?

Fixed interest investments will continue to be a critical part of a well-diversified portfolio. A key investment characteristic of bonds is that on average, they tend to go up when share markets go down. This is likely to continue to be the case in future and in the event of an economic recession, bonds are likely to provide a buffer against falling share markets. ■

SAM MARTIN CFP®
Authorised Representative (252676)

MySuper Heat Map

The Australian Prudential and Regulatory Authority (APRA) is the body responsible for banking, insurance and superannuation businesses in Australia. In the super space they are endeavoring to improve outcomes for super members by eradicating poor performing funds and improving transparency across the industry.

They have recently published "Heatmaps" to provide information for product comparison with the aim to pressure poor performers from the market. These heatmaps have been tied into the Government's 'Your Future, Your Super (YFYS) performance test. The first YFYS performance test only included information from the MySuper Heatmap. This year will be the first to include a broader range of products in a Choice Heatmap.

Together these Heatmaps will cover 60% of member benefits excluding defined benefit and self-managed super funds.

Scale is the magic bullet for super fund providers to lower administrative costs.

APRA's statistics show that funds with less than $10 billion of funds under management have admin fees on average of 0.57% compared to 0.33% for funds with more than $50 billion.

APRA focusses on three metrics for sustainability, member accounts, cash flows and rollovers. Those that fail these metrics and are under $10 billion in size are named. I'm not going to name them here, the message to take from all this is that most of these small funds are engaging in merger discussions.

Completed

First State Super + Vicsuper + WA Super + VISSF (rebranded as Aware Super)
Equip + Catholic Super + BOC Super
Tasplan + MTAA (rebranded as Spirit Super)
LGIAsuper + Energy Super
Hostplus + Intrust
AustralianSuper + Club Plus
Sunsuper + QSuper (rebranded as Australian Retirement Trust)
Cbus + Media Super

There are currently 175 funds and industry experts are forecasting only 50 funds will be remaining by 2025. A list of current mergers from the Super Guide website is outlined below.

Advisers are in the box seat to assist those confused with which super fund is right for them. If you have an existing super and would like to compare the fees and features of another provider, we can do that and can also outline any consequences of a switch of provider with regard to tax or insurance etc. ■

In progress

LGIAsuper + Suncorp Portfolio Services
Hostplus + Statewide
Australian Retirement Trust + Australia Post Superannuation Scheme (APSS)
AustralianSuper + LUCRF

Under discussion

UniSuper + Australian Catholic Super
Hostplus + Maritime Super
Christian Super and Australian Ethical

MATTHEW KELLY CFP®
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Aged Care means tested care fee caps

Depending on your level of assets and income, you may be asked to pay a means tested care fee in addition to the other costs associated with aged care. The means tested care fee is a contribution toward your day-to-day care costs such as nursing and personal care. This fee applies whether you are receiving a home care package **(based on income only)** or you are in residential aged care **(based on income and assets).**

However, to know that some of the fees associated with aged care are capped may provide some comfort to anyone daunted by the numbers involved. There is a lifetime cap, as well as upper annual limits on the means tested care fee (or income-tested care fee if home care). These annual and lifetime caps are indexed on 20 march and 20 September each year.

How do the caps work?

Home Care – Income Tested Care Fee

If you are single and receiving a home care package (established after July 2014), and you have income below $56,035, the maximum income-tested care fee you will pay is $16.15 per day or $5,879 per year.

If you have income above $56,035, the most you will be asked to pay toward the package is $32.30 per day or $11,759 per year. Once you reach these caps, you won't be asked to pay any more income-tested care fees until the anniversary of the date you signed up to receive the home care package.

Residential Care – Means Tested Care Fee

The maximum amount of means-tested care fee you can be asked to pay each year is $29,399.

As with home care, once the means-tested care fee annual cap is reached, you won't be asked to pay any more until the anniversary of the date you became a permanent resident in the aged care facility.

For both home and residential care, there is a lifetime cap on the care fees. This cap is indexed and is currently $70,559.

It is important to note that any income tested care fees you pay while you are receiving home care will count towards the annual and lifetime caps if you then move into residential care.

Once these caps are reached, you will not be asked to pay any more income-tested or means-tested care fees. The government will pay these fees once you reach these caps.

The abovementioned annual and lifetime caps are as at 20 March 2022. ■

MICHELLE SANCHEZ
Authorised Representative (325471)

Finfluencer crackdown

You might remember a newsletter article I wrote last year on the rise of finfluencers (finance influencers). Finfluencers are social media content creators that talk about money matters such as budgeting or investing. Social media influencers have been treading the tightrope of giving financial advice on platforms such as TikTok and Instragram, often without any real qualifications.

Last year, Senator Jane Hume rejected claims to address the increasing amount of financial advice by influencers on social media. "We have to back Australians to be sensible enough to judge for themselves whether to put their hard earned money into higher-risk assets," Hume said, comparing it to a taxi driver giving a stock tip to a passenger.

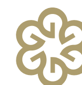
According to a 2021 ASIC survey, 28 percent of 18-21 year olds follow at least one finfluencer on social media, so their reach and influence is quite substantial. I'm pleased to update that ASIC have recently released information outlining what's expected from finfluencers on social media.

So what are the new rules that apply to them now?

1. They must avoid providing financial advice or arranging for any of their followers to deal in a financial product, unless they hold an AFS license.
2. They must make sure their content is accurate and balanced, and not misleading or deceptive.

They can't rely on disclaimers on posts or an exemption that applies to media commentators. But they **can** give factual information such as "what is a share?" or "what are different types of investments" without sharing their opinion. If a person is found to be in breach of these rules, there are hefty penalties which could include jail time, which has led to a scramble of influencers removing previously posted content.

Thankfully, common sense has prevailed. ■



Goldsborough
Financial Services

Seminars in 2022

As we hope to continue hosting the 2022 seminars in our new boardroom, the number of guests allowed per session will be restricted to ensure we comply with social distancing requirements current at the time. Appropriate hygiene measures will also be in place to ensure everyone's health and well-being.

If you would like to register for any of our seminars, please contact our office on **08 8378 4000** or via email at **mail@goldsborough.com.au** Please also keep an eye on our Facebook page or website for the most up-to-date details.

Retirement Living and Aged Care

Wednesday 3 August

Wednesday 2 November

at 6.00pm

If you or a loved one will need Retirement Living support and/or Aged Care in the coming years, then this seminar will explain the different options that are available.

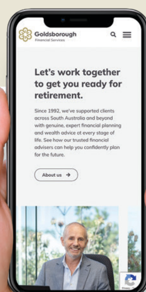
Retirement Planning Talk

Tuesday 9 August

Tuesday 8 November

at 6.00pm

There's never a better time to plan for tomorrow than today! We'd love to help you start planning your financial future, and it's as simple as attending one of our free Retirement Planning Talks.



Other exciting news..

Have you seen our **NEW WEBSITE?** We'd love you for you to have a look – please visit **goldsborough.com.au** – and don't forget to subscribe to our ***"Blog alerts"*** to ensure you receive all the articles that are of interest to you!

Referral award

Goldsborough is a referral-based business. **The biggest compliment any client can give us at Goldsborough is the referral of a friend, relative or business associate who could benefit from our services.** To show our appreciation for the referrals that we receive from our clients each quarter, we enter all names into a random draw and the winner receives a $100 gift voucher!

We have pleasure in announcing the winners of our 'Referrers Award' for the March 2022 quarter are **Sue and John Nash** — congratulations **Sue and John**, your voucher is on its way.

The winner of the draw receives a $100 gift voucher!

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