JUNE 2023

Goldsborough

Quarterly financial planning news and views

Four big decisions for super funds

Jonathon Shapiro from the Australian Financial Review wrote a great article* recently about four big decisions super funds are going to have to make and it highlights some of the big complexities that super fund trustees must be grappling with. My attempt here is to make that info more digestible for those less familiar with running a super fund.

The first point in his article is that our super system now has $3.4 trillion dollars in it, the 4th largest in the world. For a population our size, that is a staggering amount of money and only getting bigger. However, it's too much to invest in our own domestic markets and already if a large super fund decides to change its investments, small changes can affect all Australians. The tail ends up wagging the dog so super funds will need to invest more overseas in the future where there is more opportunity to grow.

1: Passive vs active investing:

This is simply do super funds use active investment managers who strive to beat the market returns (but might not) or just copy what the market is doing itself (passive). Passive is cheaper because there really isn't many investment decisions to make other than invest the same way others are. The downside is that opportunities can be missed and when markets fall, passive investors will fall by the same amount. The challenge is that the government are setting new rules around market benchmarks (Your future, Your super) and the risk of not meeting that requirement means trustees of funds may be more inclined to simply hug the benchmark and not seek to exceed it. The outcome is everyone ends up just getting the average.

2. In house fund managers or outsource:

In theory it makes sense to keep your Fund Managers as employees but what if the good ones' leave? What if there are better fund managers elsewhere but to lure them, you have to pay more which increases the cost to the super fund? If the trend is to hug the index or a benchmark, then really (as per decision 1), a super fund can employ an average fund manager to get an average return. Essentially, an in-house fund manager with certain skill sets can't just be good at investing in all asset classes so when a super fund needs to change investment directions, they may be stuck employing staff who have the wrong skillset or simply aren't good at their job.

3. Hedging currency:

If we invest overseas, we need to convert AUD to that country's currency. If the currency exchange moves the wrong way, it can wipe out returns on an investment that is otherwise doing well. So fund managers can hedge the currency, meaning they pay a small amount extra to minimise the impact of any changes in the value of the AUD. Or they don't hedge, take the risk, save the extra cost and hope it works out. In recent years, the risks for our currency have been more favourable, but due to changing economic conditions, the need for that hedge may well increase. Meaning the cost of investing overseas goes up and return (and risk) goes down.

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4. Listed or unlisted (private) assets:

This one is the big sleeper issue and there has been plenty written about it in the media. Listed assets are traded on an open market where the price is transparent. For instance, BHP is listed on the stock exchange and every day, the value of one BHP stock is determined by the market (public). Unlisted assets are privately owned and their value is not determined every day. For example, an investor can buy shares in a listed company that owns a shopping centre or buy a shopping centre directly themselves (unlisted). The listed shares are valued every day and can be quickly sold, whereas unlisted assets are valued only when a valuer is paid to assess the asset and generally far less liquid to sell. As unlisted are less regularly valued, the value and therefore return is assumed but may not actually be accurate. It's a sleeper issue because super funds have been increasing their exposure to unlisted assets and have been accused of smoothing returns and gaming the system. If the regulators change the rules about unlisted assets, there could be a shock to the system.

The summary is that super trustees have some difficult decisions to make about how they run their funds in the future. Industry trends, market forces and government regulation are all creating competing pressures that may not actually be in the best interests of all superannuants.

Ironically, whilst the above points appear to suggest that all super funds could become homogeneous, in fact the opposite may be true. Points of difference often overlooked become more elevated: service, the investment menu, disclosure of fees, management of risk, compliance process etc.

It's not just a time for super fund trustees to look at how they run the funds, but it's time for superannuants to decide whether their super fund is right for them. ■

* Source: https://www.afr.com/markets/equity-markets/the-four-big-investment-calls-facing-our-super-funds-20230513-p5d848

MICHELLE SANCHEZ
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Greenwashing scrutiny

As a Financial Adviser, one area I am quite interested in is ethical investing. Not only does it help provide a safer future for younger generations, but it also presents incredible investment opportunities and growth potential. It has a positive impact on society and contrary to popular belief, ethical investing can generate competitive financial returns. Companies are all too aware of the shift in consumer sentiment, which is where the term 'greenwashing' comes in.

Greenwashing is a deceptive marketing strategy used by companies to make their products or services appear more environmentally friendly or sustainable than they actually are. For example, a company might use green packaging that suggests their product is environmentally friendly, but the product itself is not sustainable or eco-friendly. Or a company may claim to be carbon-neutral or use renewable energy, but not disclose that they still contribute to pollution or emissions in other ways. Alternatively, an investment option marketed as an "ethical fund" by a fund manager may not necessarily have taken adequate steps to ensure that they exclusively invest in companies that are ethical. It is a form of dishonesty that can mislead consumers into thinking they are making environmentally responsible choices when in fact they are not. It can also undermine legitimate efforts by other companies to create more sustainable products and practices.

Any company, regardless of the industry, can potentially engage in greenwashing if it wants to appeal to environmentally conscious consumers without making substantial efforts to reduce its environmental impact and alarmingly, this includes super funds.

A recent report by financial lobby group Market Forces has accused five of Australia's largest superannuation funds of greenwashing by failing to take action against the fossil fuel companies they invest in. These funds - AustralianSuper, Commonwealth Super Corporation, Australian Retirement Trust, Aware Super, and AMP - collectively manage $1 trillion of retirement savings, yet Market Forces claims they have not effectively engaged with companies expanding fossil fuels, such as oil and gas producers Santos and Woodside.

Despite claiming support for the Paris Agreement goals and net zero targets, these funds have not held climate-damaging companies accountable, exposing themselves to greenwashing claims and legal risk. The report calls for increased engagement efforts and divestment from non-compliant companies. This accusation of greenwashing comes as the Australian Securities and Investments Commission (ASIC) launches a greenwashing case against Mercer Superannuation Limited and investigates several other superannuation funds for similar offenses.

I'm hopeful that the negative publicity and regulatory action will bring an end to this unethical practice, or at the very least, decrease its occurrence so that investors can make informed decisions about where and what they are investing their money in. ■

BORIS PEDISIC CFP®
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Higher Education Loan Program (HELP)

Previously called HECS (Higher Education Contribution Scheme)

Following the March inflation data, Australian students who still have HELP/HECS debt, will be hit with a major increase come 1 June 2023.

Whilst interest is not charged on HELP/HECS loans, the amount of the debt is adjusted on the 1st of June each year, in accordance with an annually determined inflation factor. It is based on the year-on-year CPI figure, measured quarterly up to the end of March.

Therefore, the rate of indexation for 2023 will be 7.1%. This is the highest indexation rate seen in 32 years.

Key points

- HELP/HECS debt to be indexed at 7.1% from 1 June 2023, following recent inflation data.
- Those looking to avoid indexation will need to BPAY the Australian Tax Office their entire debt before 1 June 2023.
- For Australian students with an average debt of around $22,636, approximately $1,600 will be added to their loan. Those with a $30,000 debt will see $2,130 added to their loan, while a $40,000 loan would see $2,840 added.

Indexation on student debt has spiked over the past three years, starting at 0.6% in 2021 and then increasing to 3.9% in 2022 and 7.1% now (1 June 2023).

Student debts start to be paid off – through tax returns – once annual income hits $48,361, at 1 per cent of income. The repayment percentage increases with higher bands of income, as per the following table:

2022-2023 repayment threshold	Repayment % rate
Below $48,361	Nil
$48,361 - $55,836	1.0%
$55,837 - $59,186	2.0%
$59,187 - $62,738	2.5%
$62,739 - $66,502	3.0%
$66,503 - $70,492	3.5%
$70,493 - $74,722	4.0%
$74,723 - $79,206	4.5%
$79,207 - $83,958	5.0%
$83,959 - $88,996	5.5%
$88,997 - $94,336	6.0%
$94,337 - $99,996	6.5%
$99,997 - $105,996	7.0%
$105,997 - $112,355	7.5%
$112,356 - $119,097	8.0%
$119,098 - $126,243	8.5%
$126,244 - $133,818	9.0%
$133,819 - $141,847	9.5%
$141,848 and above	10.0%

Source: https://atotaxrates.info/individual-tax-rates-resident/hecs-repayment/#Repayment-Rates-and-Income-Thresholds-For-The-2022-23-Year

Around 15 per cent of Australians (3 million people) - are paying back their student loans, according to the Australia Tax Office (ATO), which estimates that 11 per cent of those owe between $5,000 and $40,000 and 3 per cent owe between $40,000 and $100,000. ■

LACHLAN HARVEY CFP®
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Retirees spending up big

Contrary to the prevailing assumption, I often find myself thinking that retirees underspend rather than overspend.

It confounds me how many people in retirement find it difficult to let go of the saving habits that have served them well throughout their working years. Some retirees have become so accustomed to frugality that they need to rewire their thinking and accept that their hard-earned nest egg is meant to be enjoyed.

Ultimately, retirement planning involves creating a plan to spend or give away all your money. Confronting but true.

A recent report from the Commonwealth Bank demonstrates that perhaps older Australians are now embracing the idea of spending money.

The iQ Report analysed the spending habits of seven million Australians. The report makes some startling observations about who's spending what in the economy.

People under 35 increased their spending by just 3.4 per cent in the year to March. This is less than inflation so in 'real' terms, they're spending about 4.3% less than last year.

Those 55-59 experienced a modest increase in spending that kept pace with inflation over the past year.

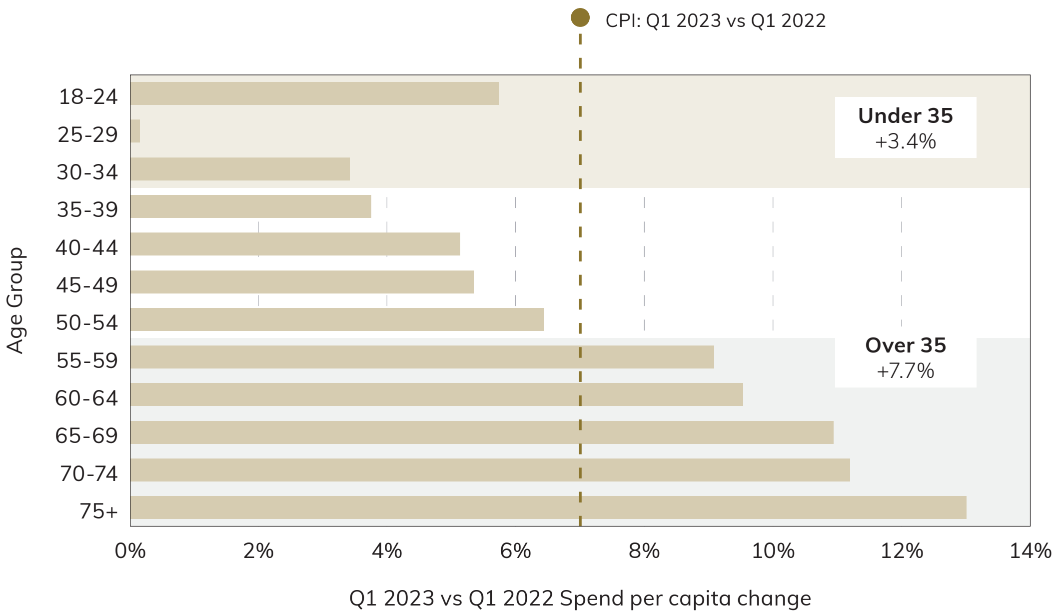
The most remarkable change was observed among individuals over 75, who increased their spending by around 13%.

Naturally, older people are more likely to own their own homes and less likely to be feeling the pressure of higher interest rates on a mortgage.

Across all age groups, there was a decrease in spending on household goods and clothing, while dining out saw an 8.5% increase.

The most significant change was seen in travel and accommodation, which surged by a remarkable 39% over the course of the year. It seems that people are eager to make up for lost time and embark on travel adventures post-Covid.

We all owe it to ourselves to strike a balance between saving for the future and enjoying the present. After all, money is just something to be exchanged for whatever it is that we value. And as we all know; you can't take it with you. ■



Source: CommBank iQ

CRAIG KIRKWOOD AFP®
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Embark on a special holiday to begin retirement

If you're about to retire but not really looking forward to it, perhaps it's time to schedule something you will look forward to.

Starting your retirement with a well-deserved holiday can ease you into this complex transition and give you a small taste of everything you have to look forward to.

Here are two reasons why you should consider planning a dream holiday right next to retirement on your timeline.

Avoid "the Monday morning after."

Many retirees will tell you that the first Monday after retirement is one of the toughest days of their lives. No matter how much you've thought about retirement and planned for it with family, friends, and your adviser, those first couple of days without work can be jarring. You might feel a profound loss of identity now that you're no longer a doctor, engineer, or CEO. You might find yourself staring at a blank weekly calendar, wondering how you can possibly fill all that time. And without the drive to execute important work tasks, collaborate with colleagues, and provide for your family, you might feel like you've lost your purpose.

Taking a spectacular holiday isn't going to erase all those anxieties. But filling in the first big block on your retirement schedule might lead to you scheduling another significant item on your bucket list, and then another. Planning for the activities ahead will give you something to do; anticipating them will give you more and more to look forward to. Pretty soon you'll be excited about filling in those smaller blocks as well, with things like sports, online learning, volunteer work, or shorter trips to see friends and family.

Taking a big trip after retirement can also be a great way to unplug from one phase of your life, reflect, and start planning for the future. You might even use some of your travel experiences as cornerstones of your new retirement schedule. If you fall in love with a new cuisine, take some classes when you get home and turn dinnertime into its own mini holiday. Explore your destination on foot, and you might find you want to make walking or hiking part of your morning routine.

Enjoy your best life with the money you have, right now.

We all have things that we want to do "someday" that get pushed off while we're working and raising a family. Some retirees continue to postpone "someday" because once they stop earning a salary, they worry about running out of money. For too many of those individuals, "someday" never comes.

The earlier you switch from a "saving" mindset to a "reward" mindset, the sooner you're going to start making the most out of retirement. It's all too easy for struggling retirees to fall into an unfulfilling routine of puttering around the house until they settle into the sofa for the night. A holiday can help you break that routine before it starts. As you become more comfortable with responsible spending, you'll start to appreciate the possibilities that all your hard work has secured for you in retirement. Hopefully, that will inspire you to try new things and visit new places while you're still able.

In your life and career, you've probably found that the best way to improve at something is to work with a coach or mentor. Retirement is no exception. If you're struggling with your transition into retirement, make an appointment to develop your Financial Plan with a Goldsborough adviser. Locking down that first bucket list holiday can be the start of a whole new way to think about and enjoy your golden years.

And once you start to slow down and move into new phases of retirement, your Financial Planner will be there as you explore new ways to keep living the best life possible with the money you have. ■

SAM MARTIN CFP®
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Minimum pension drawdown rates to double from 1 July 2023

From the onset of the pandemic the federal government temporarily halved the minimum pension drawdown rates. The aim of the reduction was to prevent the sale of assets at a reduced valuation, and it has now been three financial years since implemented, from 2019-20 through to 2022-23.

Aside from doubling of the amount required to be drawn down when taking the minimum, those who have also had a birthday tipping them into a higher bracket will need to take a further additional amount (refer to table below).

Other than an increase in the amount required to be withdrawn there are no tax implications as the pension payments are not included in taxable income.

It is also unlikely that the increase will reduce the amount of Centrelink payable. For those in their later years if the doubling of the pension does result in a reduction of your Age Pension please contact your adviser as we can make changes to your Account Based Pension and the way it is assessed by Centrelink. ■

Age at start of year/pension commencement	Usual minimum drawdown requirement	Revised minimum drawdown for 2019/2020, 2020/21 and 2022/23
Under age 65	4%	2%
65 - 74	5%	2.5%
75 - 79	6%	3%
80 - 84	7%	3.5%
85 - 89	9%	4.5%
90 - 94	11%	5.5%
95 and over	14%	7%

MATTHEW KELLY CFP®
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Residential aged care – fact or fiction?

During many conversations with clients, a few of the same questions keep coming up regarding residential aged care. Clients are often concerned about "what they've heard" from others. I thought I'd share a few of the more often-asked questions and provide some clarity.

You must pay an Accommodation Payment of $550,000 to enter Residential Care and you will need to sell your house?

- Residents are assessed according to their assets and income, and it is possible you may NOT be assessed to pay an Accommodation Payment.
- For couples, the resident's half share of assets and income is assessed, and if a spouse is living at home, the home is excluded from assessment.
- Based on current rates, you will pay if you have assets totalling more than $193,219.

You must complete the *Residential Aged Care – Calculation of your Cost of Care Paperwork (SA457)*?

- It depends! If you already receive a means tested payment from Centrelink (i.e., Age Pension) or DVA, then you DO NOT need to complete this paperwork, as your income and assets details are already recorded to work out how much pension you are paid.
- If you own or part-own your home (including retirement village), you will need to complete the Residential Aged Care Property Details for Centrelink and DVA customers (SA485). This will determine whether the home is protected from assessment.
- If you don't receive any Centrelink/DVA payments and don't complete the SA457 form, then you can potentially be charged the maximum daily means tested care fee (currently $358 per day!).

The nursing home wants me to give them details of my income and assets when I don't need to provide these to Centrelink. Why?

- It can take up to 3 months for Centrelink to notify the nursing home how much means tested care fee needs to be charged.
- In the interim, the nursing home will use your details to calculate an approximate means tested care fee and they will begin to charge this immediately.
- When notification is received from Centrelink as to the means tested care fee amount, if the nursing home has either charged too much or not enough, a credit or debit will be applied to your account.

Goldsborough are here to help with any enquiries regarding aged care. Please feel free to call us at any time on 8378 4000. ■

BRENTON MIEGEL CFP®
Authorised Representative (227297)

Is it time to start planning?

The saying "when you fail to plan, you plan to fail" emphasizes the importance of having a solid plan in place to achieve your goals. This is especially true when it comes to financial planning.

Whether you are 25 or 55, a professional financial planner can help you in several ways:

1. **Setting Financial Goals:** A financial planner can help you identify your financial goals and create a plan to achieve them. They can help you prioritize your goals and come up with a strategy that aligns with your values and objectives;
2. **Developing a Financial Plan:** A financial planner can help you create a comprehensive financial plan that takes into account your income, expenses, assets, liabilities, and investments. They can help you develop a budget, manage debt, and plan for retirement;
3. **Asset Allocation:** A financial planner can help you understand your attitude toward investment risk and help allocate your assets in a way that maximizes returns while minimizing risk. They can help you select the right mix of investments based on your goals and risk tolerance;
4. **Tax Planning:** A financial planner can help you minimize your tax liability by identifying tax-efficient investment strategies and taking advantage of tax deductions and credit; and
5. **Estate Planning:** A financial planner can help you plan for the transfer of your assets to your heirs. They can help you create a will, establish trusts, and minimize estate taxes.

In short, a professional financial planner can help you achieve your financial goals by creating a customized plan that takes into account your unique circumstances and objectives. They can help you navigate the complex world of finance and make informed decisions about your money.

At Goldsborough, we've been helping people plan for over 35 years. Our advisers offer highly personalised advice and service, with an emphasis on your personal situation, not a 'one size fits all' approach. We welcome referrals from our clients and have been able to assist friends/family members/colleagues over many years.

So, if you know of someone that needs to not "plan to fail", maybe a chat with a Goldsborough adviser is the right starting point. ■

Goldsborough
Financial Services

Seminars for 2023

We are pleased to continue hosting our quarterly seminars in 2023.

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 2 August

Wednesday 1 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 8 August

Tuesday 14 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.

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 wonderful referrals that we receive from our clients we are now drawing a winner for **each month**, to receive a $100 gift voucher!

We have pleasure in announcing the winners of our Referral Award for March, April and May 2023 are:

- Blanche Hall
- Ken & Marilyn Glen-Holmes
- Denise Harris

Congratulations and thank you again, your vouchers are on the way.

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

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