Goldsborough

Quarterly financial planning news and views

Interest rates, mortgages & inflation

At its November meeting, the Reserve Bank of Australia (RBA) increased the cash rate by another 0.25% – up to 4.35%. The thirteen rate increases since April last year mean that a variable rate borrower with a $500,000 mortgage will have seen approximately $1,250 a month added to their mortgage payments. That's $15,000 a year (from after tax dollars)!

New research from Roy Morgan shows a record high 1,573,000 mortgage holders were 'at risk of mortgage stress' in the past few months. Some of the pain experienced right now is the result of the RBA's predictions about the future of interest rates as the COVID pandemic subsided and lockdowns were eased. In late 2021, the then RBA Governor (Philip Lowe), said that **the RBA did not expect any interest rate increases until 2024.**

Today, almost every economist, from current RBA Governor Michele Bullock down, admit that interest rates are a blunt weapon that disproportionately affects different segments of Australian society, **particularly the 30% of population with a mortgage.** The remaining 70% of the population are not being impacted significantly.

What is causing the current high inflation levels?

Many factors affect the overall inflation rate and whilst it has fallen from a peak of 8% (late last year) to a current rate of approximately 5.4%, this is still above the RBA's long-term goal of 2% - 3%.

Some of the current excess inflation is due to "corporate profiteering." The RBA confirmed that whilst business costs rose during 2020-22, they have been trending down for most of 2023, however, many businesses are yet to reduce their prices, and in fact, continue to push prices up.

Other government (both Federal and State) led issues are also fuelling current inflation levels – high immigration levels and increased infrastructure spending.

Australia is currently in the midst of a major rental crisis. Rents have increased at the fastest pace in 20 years, in part due to strong growth in immigration after the post-COVID re-opening (600,000 arrivals are expected in 2023 – compared to an average of 150,000 per year since 1950). With an already chronic shortage of housing, this has increased demand for rental properties and in turn, weekly rents.

According to the Australian Bureau of Statistics (ABS), rents account for about 6% of the Consumer Price Index (CPI) – the second-largest contributor to the index. Experts are suggesting we scale back the level of immigration, to take the pressure off rents and therefore inflation.

Similarly, cutting back on new infrastructure spending will decrease overall demand in the economy, which should help ease inflation in the short-medium term. Currently, the government has many major infrastructure projects on the go and others planned for the future. Whilst this is great for employment, **it fuels excess demand, which in turn adds to the overall level of inflation.** Therefore, Federal and State Governments are now scaling back and/or postponing projects.

In summary, inflation is a complex beast and taming it, isn't easy. The RBA will need to tread a fine line to reach it's 2% - 3% goal. Currently it is alienating the minority (30%) of the population with a mortgage, with continual interest rate increases. ■

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Financial planning for couples – greater than the sum of two parts.

Do you have a partner in life? Are they on the same page as you financially? Do you like having a separate bank account just for you, or does everything go into a big melting pot?

Great financial planning should consider the nuance of how money works within different relationships.

Many couples have separate finances but still want to plan for a successful financial future together.

Couples often come into a relationship with different financial situations. One might have more money, the other a higher income. One solution is to combine everything together in one joint bank account with full disclosure and accountability of spending. This might work for some couples, but every relationship is different.

Keeping money separate leads to challenges too. A couple I spoke with recently had met later in life; each having had children in a previous relationship. It made sense to keep things separate. He owned the home but had no super. She had shares and super but no property. It worked fine until he retired and applied for an age pension. She was still working.

His Age Pension application was rejected because of her income. As a result, for the first time in his life, he was dependent upon her income. They worked together, compromised, and found a solution that they were both happy with.

These challenges eventually arise in every relationship. What happens if one member of a couple receives a substantial inheritance, should this be kept separate to the rest of their joint finances?

What if couples have quite different attitudes to how money should be spent? Or if they disagree about how money should be invested?

These are all very common occurrences and should not impede couples from planning **together** and seeking advice **together**.

So, it's important for me to ask how you're managing money now? How important is it to keep your financial independence?

And, if it happened to make sense financially, would you and your partner be okay with moving assets into the other person's name? These sorts of questions help to flesh out whether there are any underlying reservations about combining assets or losing individual control.

Financial planning is not just about numbers but about understanding your unique situation. It's a collaborative effort where both partners engage in decision-making, ensuring that individual views are heard and respected. By planning together, couples can create a roadmap that balances shared financial goals with the importance of maintaining individual financial independence. ■

BRENTON MIEGEL CFP®
Authorised Representative (227297)

It's Christmas time

Managing your finances during the holiday season, especially Christmas, is crucial to avoid overspending and potential financial stress. **I thought I would offer some tips to help you navigate Christmas spending:**

Create a budget

Begin by establishing a clear and realistic budget for your Christmas expenses. Consider all potential costs, including gifts, decorations, food, travel, and any other holiday-related expenses. It's also important to differentiate between needs and wants, allocating more resources to essential items and activities;

Make a gift list

Develop a list of all the people you plan to buy gifts for, along with potential gift ideas and their associated costs. This will help you stay organized and avoid impulse purchases. Consider setting spending limits for each person to ensure you don't overspend on any single gift;

Look for deals and discounts

Take advantage of sales, discounts, and promotions during the holiday season. Consider using cashback or rewards credit cards that offer additional benefits for holiday purchases;

Consider homemade or thoughtful gifts

Get creative and consider making homemade gifts. These can be both thoughtful and cost-effective. Alternatively, focus on experiences or meaningful gestures rather than expensive material gifts. This can reduce the financial burden while enhancing the personal touch of your presents;

Plan for additional expenses

Anticipate and plan for additional expenses that may arise during the holidays, such as parties, travel, or unexpected costs. Setting aside a small emergency fund specifically for holiday-related expenses can help you avoid dipping into your regular savings or relying on credit cards.

Sometimes, we look to find ways to 'fund' Christmas. Historically it was credit cards, but now services such as Afterpay and other "buy now, pay later" plans are available. These offer the convenience of making purchases and paying for them in instalments. However, like any financial service, it comes with certain risks. **Here are three potential risks associated with Afterpay:**

Accumulation of debt

While Afterpay can provide short-term financial flexibility, it may also lead to the accumulation of debt if you are not careful. Making multiple purchases with the intention of paying in instalments might make it easier to overspend, especially if you don't have a clear budget or understanding of your overall financial situation;

Late fees and interest charges

Afterpay typically charges late fees if you miss a scheduled payment. Additionally, if you fail to make payments on time, Afterpay may charge interest on the outstanding balance. It's important to be aware of all terms and conditions, including fees and interest rates, associated with Afterpay to avoid incurring additional costs;

Impact on credit score

While Afterpay itself does not perform credit checks for smaller purchases, it may conduct a credit check for higher-value transactions or if you miss a payment. Late payments or defaults could negatively impact your credit score, making it more difficult to obtain credit in the future. It's essential you are aware of your payment obligations and financial capabilities to avoid any negative consequences on your credit history. ■

Remember, the key to successful financial planning during Christmas is to be mindful of your spending, prioritize your expenses, and find ways to celebrate the season without putting unnecessary strain on your finances.

CRAIG KIRKWOOD AFP®
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Farewell to a financial guru

Charlie Munger, who helped Warren Buffett build Berkshire Hathaway into an investment powerhouse passed away in November at the age of 99.

In the last few years, Charlie relied on a wheelchair for transportation, but his mental sharpness enabled him to continue as vice chairman for Berkshire Hathaway. He even presided over their annual meeting earlier this year.

Warren Buffet acquired the company in the 1960s and was joined by Charlie in 1978. In the year Charlie became part of the team, a $1,000 investment in the stock would be worth nearly $4,000,000 today. Together they developed a philosophy of investing in stocks that were undervalued compared to their intrinsic worth. Their fund outperformed the S&P 500 index by almost twice between 1965 and 2021. This success took Berkshire Hathaway to become one of the most aspired stocks in the world.

Charlie was renowned for his straightforward investment philosophy which flowed through into his quotes, now famous, not only in the investment world but in life in general. Here are some of his best quotes characterised by their directness. ■

Curiosity

"If you're going to live a long time, you have to keep learning. What you formerly knew is not enough. If you don't adapt, you're like a one-legged man in an ass-kicking contest."

Fairness

"The safest way to try to get what you want is to try to deserve what you want. It's such a simple idea. It's the golden rule. You want to deliver to the world what you would buy if you were on the other end.

There is no ethos in my opinion that is better for any lawyer or any other person to have. By and large, the people who've had this ethos win in life, and they don't win just money and honours. They win the respect, the deserved trust of the people they deal with. And there is huge pleasure in life to be obtained from getting deserved trust."

Patience

"The big money is not in the buying or selling, but in the waiting."

Crypto currency

"I don't like either fraud or delusion. And the delusion may be more extreme than the fraud."

Envy

"Here's one truth that perhaps your typical investment counsellor would disagree with: if you're comfortably rich and someone else is getting richer faster than you by, for example, investing in risky stocks, so what?! Someone will always be getting richer faster than you. This is not a tragedy."

Wisdom

"People are trying to be smart. All I am trying to do is not to be idiotic, but it's harder than most people think."

Reading

"In my whole life, I have known no wise people (over a broad subject matter area) who didn't read all the time – none, zero ... You'd be amazed at how much Warren reads – at how much I read. My children laugh at me. They think I'm a book with a couple of legs sticking out."

MICHELLE SANCHEZ ADFS(FP)
Authorised Representative (325471)

Become a SuperAger

I found this article recently and it was something that was of particular interest to me due to a family history of Alzheimer's. Any helpful tips to eventually avoid or postpone this debilitating disease are greatly appreciated. I hope you find this information useful and enlightening too.

Northwestern University's SuperAging Study defines a "SuperAger" as a person in their 80s whose cognitive function is comparable to an average middle-aged person. These are the "sharp" seniors who keep learning, keep growing, and keep adapting to whatever life throws at them. SuperAgers also lose brain matter at a slower rate than average seniors and may have some immunity to Alzheimer's and dementia.

While genetics may play a part in SuperAgers' mental durability, researchers have also found that these three habits can help seniors age better and improve Return on Life.

1. **Staying active**
   A three-year study by the University of Edinburgh found that those over 70 who exercised regularly exhibited less brain shrinkage than seniors who did not. The study also found that active seniors had better cognitive function and a reduced risk of dementia.

   The U.S. Government's National Institute on Aging says that regular exercise can lead to lower levels of stress, better sleep cycles, and better mental health. And the more you're moving, the greater the benefits to both your physical and mental health. In fact, the risk of developing Alzheimer's triples for seniors who have a high body mass index.

   Improving your activity level doesn't have to be as daunting as it sounds. The National Institute on Aging recommends that adults do at least 150 minutes of moderate-intensity aerobic exercise every week. If you're not a natural gym rat, you can rack up those 2.5 hours by taking long walks, riding a bike, playing golf without the cart, swimming, or even practicing online yoga from the comfort of your living room.

2. **Finding new challenges**
   A common trait among seniors who struggle with retirement is boredom. Without work and raising a family to provide structure and purpose, many seniors feel lost. Instead of building a new weekly routine around things they enjoy doing and the people they love, they potter around the house struggling to fill the time.

   SuperAgers don't get bored. They constantly seek out new ways to challenge themselves and expand their worldviews. They enroll in classes and attend workshops at their senior centres. They read, stream, listen to a variety of podcasts, and buy memberships to local museums and theatre groups. They learn new languages, take up new hobbies, and teach themselves how to repair and upgrade their homes. They work with professional coaches to lower their handicaps and smooth out their backhands.

   In other words, they keep learning. And research has found that learning creates new connections in our brains that strengthen existing pathways and improve our powers of cognition, even as we age.

3. **Maintaining an active social life**
   According to Harvard Medical School, our social connections are very important to our brain health. After all, every interaction we have with someone is another potential learning experience that stimulates the brain and provides the same learning benefits that guard against cognitive decline. Unsurprisingly, studies have found that people who don't have strong social ties and those opportunities for interaction have a higher risk of dementia.

   SuperAgers have learned to embrace the variety of ways we can connect with other people, from video chat and social media to joining social clubs and shopping at local businesses. But, as is true at any stage in life, it's not the number of relationships you have that matter. It's the quality of your connections to the people who matter the most. Devoting a significant part of your retirement to nourishing those relationships and making meaningful new connections to grandchildren, neighbors, and extended family can make anyone feel young again. ■

SAM MARTIN CFP®
Authorised Representative (252676)

Division 296 Tax Liability

Treasury has recently released draft legislation inviting responses on a new earnings tax for people with more than $3,000,000 in their superannuation accounts.

Currently everybody with money invested in superannuation has the benefit of a concessional tax rate of 15%.

The announcement flags that from 1 July 2025 the portion of an individual's superannuation above $3,000,000 would be taxed at 30% (still less than the maximum top marginal tax rate of 45% plus Medicare levy).

There are some controversial aspects to the announced tax increases.

The first is that the $3,000,000 threshold at which the higher tax rate is calculated will not be indexed. This may not seem an issue now but if is not addressed in 10- or 20-years' time $3,000,000 may seem a much smaller superannuation balance than it does now in today's dollars. Currently about 80,000 superannuation accounts have more than $3,000,000, the number of superannuation accounts would balloon over time if the $3,000,000 figure is not indexed. The government estimates that the new tax will bring in over $2 Billion in the first year.

The second controversial aspect is that the tax rate will apply to unrealised capital gains which is something new to Australian investors. Normally you would need to sell an asset to realise a capital gain and have a tax applied. Where is in this instance the tax is calculated on the difference between the account balance at the end of the financial year less its balance at the beginning of the financial year.

The new tax if legislated will be known as 'Division 296 tax liability' it is an additional 15% tax but only on the proportion of the fund over $3,000,000. The ATO will calculate the amount of tax to be paid based on the total super balance at the start then at the end of the financial year. The amount of tax payable can be either drawn from the super fund or paid with money outside of super.

There are a few other issues that will need to be ironed out but at this stage we feel super is appropriate for the majority of retirement savers, however for those with balances of $3,000,000 or over we recommend looking into other structures for investment, whether that be a company, trust or even in your own name. ■

MATTHEW KELLY CFP®
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Assessment of home for aged care

When you enter residential aged care, how your home is assessed is different from an aged care and age pension perspective.

Aged Care

Regarding means testing for aged care, your former home remains exempt from assessment as long as a "protected person" continues to reside in the home. A protected person for aged care purposes is:

- Spouse (or de facto).
- Carer who has lived in the home for at least the last 2 years and is receiving, or eligible to receive, a qualifying income support payment.
- Close relative (parent, sibling, child, or grandchild) who has lived in the home for at least the last 5 years and is receiving, or eligible to receive, a qualifying income support payment.
- Dependent child aged under 16 or full-time student of over 16 and under 25.

Where no protected person lives in the home, the home is assessed at a value up to the home cap of $197,735.20 (as at 20 September 2023) indefinitely, regardless of its actual council or market value. If a spouse vacates the home and lives elsewhere that is not their main residence (i.e., living with children), and the home is not occupied by another protected person, then the home loses its "protected" status and is assessable up to the cap amount.

However, if it is subsequently sold, then the full value of the proceeds will be assessable when calculating aged care fees, regardless of what is done with the proceeds (i.e., if used to pay Refundable Accommodation Deposit or RAD).

Age Pension

From an age pension perspective, your former home can be exempt for up to 2 years after you vacate the home and enter residential aged care. After this time, the full value of the home become assessable when calculating age pension entitlements (as opposed to the "cap" value of $197,735.20 for calculating aged care fees), and may well result in a large reduction, or even loss of, age pension.

Where a spouse remains in the home, the exemption will continue to apply whilst they are still living there. If the home was sold and the spouse then used the proceeds to buy another home and live there (i.e., possibly downsizing), then the exemption would continue. If any residual proceeds remained and depending on what is done with those funds, then they would be immediately assessed for aged care and age pension calculations (unless if paid toward a RAD then exempt from age pension assessment).

If your spouse passes away or vacates the home to enter care themselves, then the 2-year exemption commences from the date of death or the date they entered permanent residential care. ■

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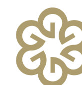
Sliding productivity

In recent months, there's been multiple media reports around falling productivity in the workplace. Apparently, recent productivity has declined at the fastest rate since records began in 1978, leading to questions of how to tackle this trend.

At the vanguard of policy development in this area is the new Chair of the Productivity Commission (PC), Danielle Wood, who commenced in the role in recent months. The PC provides the government research material and holds inquiries to shape economic policy and debate. Lately, the lens of productivity has expanded from workplaces to include retirees, making some older Australians nervous.

Michael Read, Economics Correspondent for the AFR, wrote an article with the headline **"'Political Dynamite': New PC Boss says tax inheritances, retiree super"** on Sept 11, 2023. The article's opening line is *"Incoming Productivity Commission boss Danielle Wood has argued there is 'simply no policy justification' for how little tax retirees pay…"* and then the article goes on to raise topics like intergenerational inequity, taxing retiree super earnings, changes to capital gains tax (CGT) for the worse (unless you're the government). To be fair to the PC, in the short-term thinking of political life, there needs to be an agitator of public debate with a long term view. But, needless to say, there doesn't appear to be much finesse about the messaging and proposing major changes to our tax system is not so subtly persuasive that retirees are just going to jump on board.

The government has been cautious lately to avoid advocating for changing tax structures too much but, ironically, a recent CGT case has been ruled on by the courts (not the government) which opens the door for the CGT laws to apply to a person's home, in limited circumstances. So whether it's pressure from the courts, the PC, the lobby groups or the intergenerational/demographic groups, it feels like there's a great debate coming our way in the next year or so and I don't feel it will actually address the trend of lower productivity. Time will tell. ■



Goldsborough
Financial Services

Information Sessions in 2024

Dates and times to be confirmed!

We are happy to announce that we will be hosting 3 different types of information sessions in 2024.

Please keep an eye on our Facebook page or our website for the most up-to-date details.

Super SA Members

A FAQ event on the tips and tricks unique to Super SA and how we can assist to maximise your benefits.

Retirement Living and Aged Care

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

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.

Wishing all our clients and families a very happy Christmas

Our team will all be taking a well-earned break, and our office will be closed from 12pm Friday 22nd December until 9am Tuesday 2nd January 2024.

We look forward to seeing you all in the New Year and continuing to assist you with all your financial conversations.

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 September, October and November 2023 are:

- Rob & Judy Winkenweder
- Robyn Stephen
- Lyn Martin

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

The winners each receive a $100 gift voucher!

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