Goldsborough

Quarterly financial planning news and views

The global elections

Over the course of 2024, around 80 countries head to an election affecting over half the world's population.

The challenge is that businesses, governments, investment markets and more broadly the public are playing a waiting game. There will inevitably be changes in each country's economic foreign and domestic policies and since late last year, Export Finance Australia (an Australian Government org) predicted the Global Economic Policy Uncertainty Index for 2024 would be elevated. That Uncertainty Index did actually drop for a short time early this year but it's now on the rise as India's multi-month election washes up, plus the UK and France are rushing to the polls and the US election is now only months away with very divisive policies being released and questions over the Democratic nominee.

According to a study in 2012 (Julio and Yook), corporate investment expenditure drops during an election year by almost 5% relative to non-election years. Given the scale of global elections (although not all of them strictly democratic), a 5% reduction translates to a staggering amount. Investment markets don't like uncertainty and any increase in geopolitical risk will likely be felt in global markets.

The Bank of England this week has warned of a potential destabilising risks in the UK financial system due to the global elections and, coming from a country that heavily relies on investment trade, it can ill afford more uncertainty. Given our reliance on our resources sector, Australia has some budgetary insulation, but that's only as strong as the countries that buy our exports, including China.

I saw a global equities fund presentation earlier this year listing what Donald Trump has said he would change, if he does return to the White House. The presentation wasn't whether a policy was good or bad, but focussed on what could be done quickly, what would take longer and what simply was not possible, often due to legal jurisdiction. The jury is still out (pardon the pun) but US tariffs on China spells more uncertainty.

To me, it's starting to feel a bit like in 2016 when Brexit and the previous Trump victory coincided. At that time, we (as Advisers) spoke to Fund Managers about what they are doing to ring-fence uncertainty. There will be winners and losers from significant changes in policy, but the real question is that if it's a toss of the coin, why hold the coin in the first place?

Since 2016, investment products have evolved and the key for structuring portfolios during potential volatility is to understand what flexibility is available to you; plus make sure your portfolio asset allocation is aligned to your changing circumstances.

Sam Martin has written a good article here on **Strategic vs Tactical Asset Allocation** that may help manage risk in changing times but we're also happy to discuss with you. ■

Goldsborough Financial Services
AFSL 225330
ABN 89 064 640 142

160 Greenhill Road, Parkside SA 5063
T 08 8378 4000 **F** 08 8373 4544
E mail@goldsborough.com.au
W goldsborough.com.au

WILL CHAPMAN Dip FS(FP)
Authorised Representative (311745)

MICHELLE SANCHEZ ADFS(FP)
Authorised Representative (325471)

Building wealth in your 40s

For many in their 40s, retirement planning often takes a back seat to raising kids, juggling bills and school fees.

Many people view retirement as a distant concern, relying too heavily on employer contributions to fund their superannuation, but this mindset could leave them vulnerable in retirement.

The average Australian net worth is around $553,954, but this figure includes those who are already retired. For those in their 40s the average net worth is only $97,000, so there's substantial room for improvement. Relying solely on employer super contributions is unlikely to be enough to improve this figure for a comfortable retirement.

There is a general lack of confidence in retirement readiness among Australians aged 35 to 65, with only a small fraction feeling assured of their financial security post-retirement. This uncertainty only intensifies as individuals approach retirement age, emphasising the importance of early and strategic financial planning. Here's some strategies for building wealth in your 40s:

1. **Create a budget:** Establishing a budget isn't just about restricting spending; it's a roadmap to achieving financial goals. Understanding your income versus expenses is crucial for effective wealth accumulation.
2. **Maximise earning potential:** Consider further education or alternative income sources to enhance earning capabilities. Negotiating raises or exploring freelance opportunities can significantly boost wealth accumulation over time.
3. **Seek financial advice:** Engaging a financial adviser can provide tailored strategies to maximise savings and investments.
4. **Maximise super contributions:** Utilise salary sacrificing to bolster superannuation savings, taking advantage of concessional contribution tax benefits and ensuring compliance with annual contribution caps.
5. **Debt management:** Prioritise paying off non-deductible debts like mortgages and high-interest loans to reduce financial burdens and free up resources for wealth-building investments.
6. **Emergency savings:** Build a healthy emergency fund equivalent to at least three months of expenses to safeguard against unforeseen financial setbacks without compromising long-term investment goals.
7. **Avoid lifestyle creep:** Resist the temptation to inflate expenses with increased income. Instead, redirect surplus funds into investments that generate passive income and bolster long-term financial security.

As Australians in their 40s navigate this critical phase of wealth accumulation, strategic planning and proactive financial management are so important. By addressing current financial habits and leveraging expert advice, individuals can lay a solid foundation for a secure and prosperous retirement. ■

SAM MARTIN CFP®
Authorised Representative (252676)

Managed accounts

(SAA v TAA)

As advisers, we are dedicated to providing our clients with comprehensive insights into Managed Accounts, tailoring our guidance to fit the investment profiles of each individual. When evaluating different asset allocation strategies, such as Strategic Asset Allocation (SAA) and Tactical Asset Allocation (TAA), we compare offerings from various research houses and the platforms they are offered on.

SAA is favoured for its long-term, steady approach, setting a fixed asset mix that aligns with an investor's objectives, risk appetite, and investment timeline. Its resilience against market fluctuations is a key benefit, aiming to harness the long-term potential of asset classes. However, its static nature might overlook short-term market shifts and evolving economic landscapes.

Conversely, TAA offers the agility to make short-term adjustments in the asset mix, targeting market anomalies or economic patterns. This proactive strategy could yield superior returns if market movements are anticipated accurately. Nevertheless, TAA demands vigilant management, which may incur higher costs and bears the risk of misjudging market timings.

In our role as advisers, we conduct thorough comparisons of Managed Account options provided by different research houses and are happy to discuss these during our review meetings. We assess their performance history, service level, management expertise, communication offering and fee structures, ensuring that our recommendations are aligned with our clients' needs.

Our goal is to keep our clients up to date with industry developments and providing clients with informed choices, whether they seek the stability and simplicity of SAA or the dynamic potential of TAA. ■

MATTHEW KELLY CFP®
Authorised Representative (314983)

Asset and income test thresholds changing on July 1

Increase in Centrelink eligibility thresholds come into effect on July 1, with part-pensioners and also self-funded retirees, who may be close to the current limits, set to benefit from the upcoming changes. Pensioners already receiving the full pension won't see any change.

From July 1, the income test "income-free area" will rise from $204 per fortnight to $212 per fortnight (single), and from $360 per fortnight to $372 per fortnight (couple).

For the asset test, the lower threshold increases from $301,750 to $314,000 (single homeowner), with the upper limit increasing to $686,250 before the pension is cancelled. For a homeowner couple, the lower threshold increases from $451,500 to $470,000, with the upper limit increasing to $1,031,000.

The effect of these changes is that if nothing else has changed and you are on a part pension from Centrelink, you're going to see an increase from July 1.

As an example, for a single asset-tested pensioner, the current $3 per fortnight reduction for every $1,000 in assets over the lower threshold will be reduced by the effects of the increase. The pension would rise by $3 x 12.25 = $36.75 per fortnight (unless you reach the maximum pension). ■

Income test thresholds effective July 1 2024 – Fortnightly income figures

	Full Pension	Part Pension	No Pension
Single	Up to $212	Between $212 and $2,444.60	More than $2,444.60
Couple combined	Up to $372	Between $372 and $3,737.60	More than $3,737.60
Illness separated couple (combined)	Up to $372	Between $372 and $4,837.20	More than $4,837.20

Asset test thresholds effective July 1 2024 Homeowner Non-Homeowner

		Full Pension Assets less than:	Part Pension Assets between:	No Pension if assets exceeded:
Single	Homeowner	$314,000	$314,000 and $686,250	$686,250
	Non-Homeowner	$566,000	$566,000 and $938,250	$938,250
Couple combined	Homeowner	$470,000	$470,000 and $1,031,000	$1,031,000
	Non-Homeowner	$722,000	$722,000 and $1,283,000	$1,283,000
Illness separated couple (combined)	Homeowner	$470,000	$470,000 and $1,214,500	$1,214,500
	Non-Homeowner	$722,000	$722,000 and $1,466,500	$1,466,500

BORIS PEDISIC CFP®
Authorised Representative (301739)

Australia's "secret" inheritance tax

History

By 1895, each Australian State had introduced its own inheritance (estate) tax. This tax was also often referred to as "death duties."

Federal inheritance (estate) tax was introduced in 1914, however, it was abolished 65 years later, in 1979. All States also abolished their inheritance taxes by 1982.

Superannuation Death Benefits Tax

A significant area of inheritance tax "by stealth" is a deceased person's superannuation benefits. Superannuation held by a person at the time of their death may include benefits in the accumulation phase, the pension phase, or a combination of both.

When a member of a superannuation fund passes away, their superannuation savings must be cashed "as soon as practicable" following death. Superannuation death benefits can be cashed in two ways:

1. Payment of a pension to certain eligible beneficiaries – generally to a surviving spouse; and/or
2. Payment of a lump sum to nominated beneficiaries or to the estate of the deceased.

> *Superannuation law imposes restrictions on the classes of beneficiaries that can receive a death benefit directly from a superannuation fund.*

A superannuation death benefit paid as a lump sum is **tax free when paid to a "dependant" (as defined in tax law).** A tax dependant includes:

- The spouse, or former spouse of the deceased,
- The deceased's children **under** 18 years of age,
- Anyone with whom the deceased had an interdependency relationship just before they died, or
- Any other person who was financially dependent on the deceased at the time of their death.

In general terms, adult children, parents, brothers, sisters and grandchildren of a deceased person are **unlikely** to be a tax dependant of the deceased. When a superannuation benefit is paid to a person other than a tax dependant, we need to determine the components of a deceased member's death benefit.

Tax components may include one or more of the following:

1. The **tax-free component** - generally comprises of contributions made to superannuation for which a tax deduction has not been claimed. This includes non-concessional contributions and downsizer contributions.
2. The **taxable component (taxed element)** - will comprise of tax-deductible contributions (including those made by employers, salary sacrifice and personal tax-deductible contributions) as well as investment earnings on contributions.
3. The **taxable component (untaxed element)** - will include certain contributions made to an untaxed superannuation fund – **generally older style funds for public servants.** Life insurance proceeds paid to a deceased member's account following the member's death may also give rise to an untaxed element.

When a death benefit is paid, the components are taxed in the following manner:

1. Tax-free component – is exempt from tax.
2. Taxable component (taxed element) – taxed at 15%.
3. Taxable component (untaxed element) – taxed at 30%.

If a superannuation fund pays a death benefit directly to a beneficiary, rather than to the estate, Medicare Levy (2%) is added to the tax rates mentioned above.

Should I withdraw my super?

One of the questions often asked, particularly when it is likely that super will pass to **non-tax dependants such as adult children**, is whether super should be withdrawn as a lump sum while they are still living?

At the end of the day, managing superannuation in our maturing years will depend on several factors including:

1. Who is the likely beneficiary – a tax dependant or a non-tax dependant?
2. What are the components of the superannuation benefit – tax-free, taxable, or a combination?
3. What tax is likely to be payable if superannuation is withdrawn and is invested outside the superannuation system?
4. What is the member's current health status and longevity outlook?

Unfortunately, there is no simple answer to avoiding tax payable on superannuation death benefits, **however, there are strategies** that can be drawn upon to minimise tax. As every person's situation will be different, seeking advice from a licensed financial adviser is imperative. ■

LACHLAN HARVEY CFP®
Authorised Representative (227293)

Women are less confident investors but get better investment returns.

Humans are naturally overconfident. We overestimate our own ability compared to others. One of the most often quoted studies showed that 93% of drivers rated themselves better than the median. We also know that men usually rate themselves as better drivers than women. However, the data shows the opposite. Men are four times more likely to be involved in a fatal car accident. Men also pay more for car insurance.

Same with investing. A study conducted by Fidelity examined five million Fidelity brokerage accounts over a decade and concluded that women outperform men by 0.4% a year. That's a big sample size and a significant gap in performance.

The study also found women tend to create well-rounded, more diversified portfolios. Men however, tended to be over-exposed to a smaller number of riskier assets. This strategy might be okay if the investments are held for a long enough time. However, a separate Vanguard study found that men were significantly more likely to make the mistake of selling their investment in a down market.

Likewise with women, who on average, tend to be less confident with financial decisions. This can lead to something we've all experienced before, analysis paralysis. This is where the stress of having to decide between option A, or option B, leads one to choose option C - do nothing at all. You may have heard the phrase 'perfect is the enemy of the good'.

Whenever we discuss gender differences, we run the risk of generalising and perhaps polarising. This is not the intent here. It's more helpful to learn from these behavioural mistakes rather than pin them to a gender. So, when we say men need to be mindful of the effects of overconfidence bias, we really mean everyone does.

I expect this 'behaviour gap' is less pronounced in couples who might have their partner as a sounding board, moderating each other's tendencies to make more rational decisions. This is why boards and committees exist, to collate a diversity of opinions to make better decisions.

For those not in a partnership, having a professional relationship with a financial adviser can truly help overcome the uncertainty and feeling of indecision. Talking with your financial adviser might give you the confidence to push the accelerator pedal when your instinct wants to stay on the brakes.

To stretch the driving analogy just a little further, for men in particular, your adviser could be the passenger that alerts you to an unseen danger and prevents you from damaging your car – and bruising your ego. ■

CRAIG KIRKWOOD AFP®
Authorised Representative (401525)

Enhancing our service

At Goldsborough, we continuously seek to improve our services based on feedback from our valued clients.

Recently, we hosted a series of client panel lunches, gaining valuable insights.

Discover our fortnightly blogs

Many clients were unaware of our fortnightly blogs covering various financial planning topics. You can read these on our website and Facebook page. Subscribe to stay updated.

Connect with us on Facebook

Some clients didn't know about our Facebook page. Following us on Facebook keeps you informed about our latest news and updates. We invite you to join our online community.

Newsletter

Clients expressed interest in seeing more case study articles in our quarterly newsletter. There was also a strong interest in a Q&A section. You can email your questions, and we will answer them to share with others in our newsletter.

Client portal

Clients like the idea of using a client portal for secure information sharing. A client portal is designed for secure document exchange, making it easier for you to manage your financial information safely.

Building our public profile

Many clients are happy to leave reviews on platforms like Adviser Ratings and Google Reviews. Your positive feedback helps us reach more clients and improve our services.

South Australian roots

Clients appreciate that we are 100% owned and based in South Australia. This local connection fosters trust and ensures we understand the unique needs of our community.

Trust and clarity

Trust is vital in our client relationships. Your trust in your adviser allows for clarity amidst financial complexities.

Simplified portfolio reporting

Clients prefer simple and straightforward portfolio reporting, ideally 3-4 pages. We are committed to providing clear, concise reports that give a comprehensive portfolio overview without overwhelming details.

We invite you to share any feedback or ideas you have, to help us improve our process and enhance your client experience. Your insights are invaluable in shaping our services. ■

BRENTON MIEGEL CFP®
Authorised Representative (227297)

Living with the fear of running out (FORO)

The fear of running out of money in retirement, often referred to as FORO (Fear Of Running Out), is a common concern for many, particularly as they approach their retirement. It's a fear that can stem from various factors, such as rising living costs, volatile investment returns, and the prospect of longer life expectancies. These concerns are not unfounded, as they reflect the reality of financial planning in the face of uncertainty. However, there are strategies to manage this fear and ensure a more comfortable and confident retirement.

One effective approach is to redefine your relationship with money, shifting focus from accumulation to sustainable income stream drawdowns that align with personal longevity and lifestyle needs. This involves an analysis of expenses, potential income sources, and the balance between spending and saving.

Additionally, prioritising spending can help retirees focus on what truly matters to them, ensuring that their funds are used in a way that maximises personal fulfillment and happiness.

Investment portfolio management is another crucial aspect. Rather than just seeking income generation, it's important to consider the 'total return' needed from an investment portfolio to fund living expenses over the longer term. This may involve diversifying investments and adjusting exposure to different asset classes based on you risk tolerance and time horizon.

For many, the Age Pension provides a safety net against longevity risk, offering some peace of mind for those who might potentially outlive their savings. The family home also presents an opportunity for a cash injection during retirement, which can be a significant source of funds when managed properly.

Moreover, annuities can play a role in guaranteeing income for life, removing some of the uncertainties associated with investment returns and market volatility. By incorporating annuities into a retirement plan, retirees can create a buffer against the risk of depleting their savings too quickly.

Ultimately, overcoming FORO involves a combination of financial planning, lifestyle adjustments, and psychological readiness. It's about creating a plan that is flexible, resilient, and tailored to your individual circumstances. With the right approach and professional financial advice, retirees can beat the fear of running out and look forward to a retirement that is both financially secure and personally rewarding. ■

MOMIR VUKSA SMSF SPECIALIST
ADVISOR™/ SSA® Authorised Rep. (1306168)

New beginnings

Retirement marks a significant new beginning in life —a time to relish the freedom from daily work obligations and explore personal interests and passions. However, the transition into retirement is not always seamless, and its success largely hinges on meticulous planning. For some retirement feels "so far away" but rest assured, it will come.

The late Gene Perret once said: "It's nice to get out of the rat race, but you have to learn to get along with less cheese."

Without adequate preparation, the financial and emotional challenges of retirement can overshadow the potential joys of this new phase.

The importance of planning ahead for retirement cannot be overstated. One of the primary reasons is financial security. As you move from a steady income to relying on savings and investments, it is crucial to ensure that these resources are managed professionally so they can maintain your standard of living.

Starting early allows for a more robust accumulation of wealth through the power of strategic planning. Even small, regular investments to retirement funds can grow significantly over time, providing a more substantial nest egg upon retirement.

In addition to saving, understanding the various retirement accounts and investment options is vital. Diversifying investments to balance risk and reward can protect against market volatility and ensure a steady income stream throughout retirement. As financial advisors we tailor plans that align with individual goals and circumstances.

Beyond financial considerations, planning for retirement encompasses emotional and social preparation. Retirement often entails a significant lifestyle change, and without a structured plan, some may struggle with the transition. Identifying hobbies, volunteer opportunities, or part-time work can provide a sense of purpose and fulfillment. Staying socially active is equally important to combat feelings of isolation and maintain mental well-being.

New beginnings in retirement can be both exciting and daunting. The key to navigating this transition smoothly for our clients lies in thorough planning. By addressing financial, healthcare, and emotional aspects early, individuals can ensure a fulfilling and secure retirement, allowing them to enjoy the fruits of their labour with peace of mind. ■

Goldsborough
Financial Services

Information sessions in 2024

We are happy to announce that we will be hosting 3 different types of information sessions in 2024. These sessions will all be held in our boardroom at 6pm on the dates listed below:

Super SA Members

Monday 26 August

Monday 25 November

at 6.00pm

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

Wednesday 6 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 12 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.

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

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 March, April and May 2024 are:

- Julie Schlosser
- Charlie and Kathy Thompson
- Brian and Julie Cakebread

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

The winners each receive a $100 gift voucher!

If you do not wish to receive future editions of this newsletter please phone Freecall **1800 633 630** or email **mail@goldsborough.com.au** and request that your name be deleted from the distribution list.

Adelaide Coastrek

Once again, Goldsborough Financial Services is participating in Adelaide Coastrek! This will be our 4th year.

We have 2 teams taking part in the 35km hiking challenge along the beautiful Fleurieu Peninsula - and we have until Friday 6th September, to get ready and meet our fundraising goal of $2,000 per team. All funds raised will go towards supporting the Heart Foundation.

We would love your support to help us reach our goal - but more importantly in helping heart health.