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Client Referrals

We are often asked by our clients if we are taking on new clients. The answer is **YES!**

Our practice is built on continued client referrals and we appreciate our clients recommending our services to their family, friends & colleagues.

Autumn 2020

Welcome

After an unprecedented summer of bushfires, we hope that Autumn brings cooler temperatures and soaking rain for all those who have been affected.

The rapid spread of the coronavirus has prompted a wave of panic selling on global share markets, so the first article in our Autumn newsletter looks at the big picture and the reasons why it pays to stay the course.

The bushfires have prompted many of those affected to wonder if they can tap into their superannuation to help get back on their feet and our second article clarifies the rules around when you can access your super.

Finally, with International Women's Day just around the corner we also look at ways in which women can get ahead financially.

As always, if you would like to discuss anything in this newsletter don't hesitate to call.

Kind regards

Neil McLennan – Partner
Carthills Financial Services Pty Ltd

Economic update

Data released in February give an early indication of how the Australian economy has been impacted by the bushfires and coronavirus, on top of the US-China trade war. The Reserve Bank of Australia lowered its near-term growth forecast for the year to June 2020 from 2.5% to 2.0%. New business investment fell 2.8% in the December quarter and 5.8% over 2019. Retail sales rose 0.5% in the normally super busy December quarter but were up just 0.3% over 2019, the slowest year on record. New vehicle sales were also sluggish, down 8.2% last year while the value of construction work done fell 7.4%. Consumers have perked up a bit since then, with the Westpac/Melbourne Institute consumer sentiment index up 2.3% in February.

Australian, US and European share markets all fell by more than 8% in February. Commodity prices also fell, although gold was up more than 5% due to its safe haven status. And the Aussie dollar dipped below US$66c, its lowest level since 2009.

Despite the economic challenges, the Australian corporate sector remains in good health. As the interim profit reporting season comes to an end, more than 90% of companies reported a first half profit (although a bare majority lifted profits), while record numbers issued dividends.

The low dollar, a rise in unemployment to 5.2% in January, annual wage growth stuck at 2.2% in the December quarter and sluggish economic growth make another cut in official interest rates more likely.

Hold on... bumpy markets ahead

After period of optimism, global investment markets have hit the panic button on fears about the possible economic impact of the coronavirus (COVID-19).

At times like these, it's good to get some perspective.

Australian shares rose 24 per cent last year, touching record highs, and 10 per cent a year over the past seven years. Global shares rose 28 per cent last year and 17 per cent over the past seven years.[i] After such a good run, many observers have been saying shares were looking fully valued and that a correction was likely.

The thing with market corrections is that it is impossible to predict what will trigger them or how long and severe they will be.

Avoid knee-jerk reactions

At this point, markets are responding to uncertainty. Nobody knows what the extent of the economic fallout will be, so the temptation is to bail out of shares and put your cash in the bank. Or jump ship and switch to a 'safer', more conservative option in your superannuation fund.

While the urge to act and protect your savings is understandable, knee-jerk reactions can be a mistake.

It's near impossible to time the markets. Not only do you risk selling when prices are near rock-bottom, but you also risk sitting on the sidelines during as the market recovers. As history tells us it always does.

In an ever-changing world, the basics of investing stay the same. By sticking to some timeless rules it's much easier to avoid emotionally driven reactions and focus on your investment horizon.

Have a plan

Investing is a lifelong journey and like all journeys you are more likely to reach your destination if you plan your route. Without a plan, it's easy to be distracted by the latest market worries and short-term price fluctuations.

Think about your personal and financial goals and what you want to achieve in 1, 5, 10, 20 years' time. Be specific, put a dollar figure on your goals and plan how to reach them.

Low risk comes with lower returns

Many people are wary of investing in shares because of the perceived risks. Growth assets such as shares and property do entail higher risk than cash in the bank, but they also deliver higher returns in the long run.

Perhaps the biggest risk of all is not earning the returns you need to achieve your goals. While domestic and international shares produced stellar returns last year, cash returned just 1.5 per cent which was below the level inflation. Cash returns were not much better over the past seven years, averaging 2.2 per cent a year.

Spread your risk

Shares, property, bonds and cash all have good years and bad. While shares and property tend to provide the highest growth over time, there will be years when prices fall or go sideways. In some years, bonds and even cash produce the best returns.

A good way to reduce volatility and enjoy smoother returns over time is to diversify your investments across and within asset classes. That way, one bad investment or difficult year won't sink your ship.

The most appropriate mix will depend on your age, the timing of your goals and your risk tolerance. You will need cash for emergencies and short-term goals, with enough money in growth assets to last you through your retirement.

Let your savings grow

The effect of compound interest is often referred to as magic, but there's no trickery involved. Better still, it requires no work on your part, just the willpower to reinvest the income you earn on your investments, so you earn interest on your interest.

Rather than sell shares in quality companies in a panic, you could continue to collect your share dividends and reinvest them in more shares or other quality assets. This way, you avoid crystallising short-term paper losses and benefit from the inevitable market recovery.

That's the simple but powerful concept behind superannuation which locks away your savings and all investment earnings until you retire.

When fear is driving markets, it's important to get back to basics and think long term. If you would like to discuss your overall investment strategy, don't hesitate to get in touch.

i https://www.chantwest.com.au/resources/2019-a-standout-year-for-super-funds

HATCHING YOUR nest egg early

The summer bushfires have touched the lives of all Australians. For individuals who lost homes, businesses or livelihoods, the financial hardship lingers, prompting many to ask whether they can dip into their super to tide them over.

The short answer is generally no. According to the Australian Taxation Office (ATO), there are very limited circumstances where you can access your super early, mostly related to specific medical conditions or severe financial hardship.

Before we discuss these special circumstances, let's look at when you can legally access your super under normal conditions.

Accessing super before age 60

Under superannuation law, there are strict rules around when you can start withdrawing your super.

The first hurdle is reaching what is referred to as your preservation age. Once you reach your preservation age – between age 55 and 60 depending on the year you were born – and retire, you can access your super in a lump sum or as a pension. But as a disincentive to early retirement, there may be tax to pay.

Even if you keep working, once you reach preservation age you can access a portion of your super by starting a transition to retirement pension. This can be an effective way to scale back your working hours while supplementing your reduced wages with income from super. However, you can only access 10 per cent of your pension account each year. You pay tax on the taxable portion of pension income at your marginal rate less a 15 per cent offset. Earnings on assets supporting your pension are taxed at the normal super rate of 15 per cent.

Accessing super from age 60

From age 60, you can access your super tax free provided you are no longer working. And once you turn 65 you can access your super tax free even if you haven't retired.

Anyone who has suffered financial hardship as a result of the bushfires and has already reached their preservation age could dip into their super under the normal rules, provided they retire or start a transition to retirement pension.

But what about people who don't qualify under the normal rules? That's where the early access rules governing severe financial hardship or compassionate grounds come in.

Severe financial hardship

There's no question the recent bushfires have caused severe financial hardship for many people in the community. But for superannuation purposes, the definition of hardship will mean few people can use it to gain early access to their super.

You can gain access to at least part of your super as a lump sum if:

- You have been receiving certain government income support payments continuously for at least 26 weeks, and
- You are unable to meet your reasonable and immediate family living expenses.

Even then, you can only receive a maximum payment of $10,000 a year before tax.

If you have reached your preservation age plus 39 weeks, you may be able to access your entire super balance as a lump sum or pension (as opposed to 10 per cent of your balance each year with a transition to retirement pension) if:

- You are employed for less than 10 hours a week, and
- You have received government income support payments for at least 39 weeks since reaching preservation age.

Access on compassionate grounds

You may be able to take some money out of super early on compassionate grounds but, once again, strict rules apply. The money can only be taken as a lump sum and used to cover unpaid expenses including:

- Medical treatment or transport for you or one of your dependents, but only for a chronic or life-threatening illness not available through the public health system,
- Modifications to your home or vehicle to accommodate a severe disability,
- To prevent foreclosure on your mortgage if your lender threatens to repossess or sell your home.

Unfortunately, the rules governing early access make it extremely difficult to qualify. That's because super is meant to be used for the sole purpose of providing retirement income.

If you would like to discuss when and how you can access your super, under the normal rules or due to special circumstances, please give us a call.

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WOMEN AND Money

As the world celebrates International Women's Day and all that women have achieved, it's a good opportunity to take stock. Women have undoubtedly come a long way in terms of workplace participation, equal pay and financial independence, but there is still some way to go.

These days, women make up almost half the workforce although 43 per cent work part-time. Women also make up over half of university enrolments (58.4%), but on graduation they earn $5,000 less than similarly qualified men.[i]

By the time retirement comes around, women face a triple whammy. Not only are women likely to earn less than men and take time out of the workforce to care for children, they can also expect to live longer than men, so their retirement savings need to stretch further.

Watch the gap

The upshot is that women currently retire with an average superannuation balance of $213,140, compared with $292,000 for men. One in four women retire with no super at all and more than 80 per cent retire with inadequate savings to fund a comfortable lifestyle.[ii]

According to the Association of Superannuation Funds of Australia (ASFA), single retirees need an annual income of $43,787 to live comfortably, while couples need $61,786.[iii] This is considerably more than the Age Pension, which currently pays around $24,000 a year for singles and $36,000 for couples.[iv] So how can women close the gap?

Practice money mindfulness

The single most important thing women, or men for that matter, can do to improve their financial wellbeing is to pay attention. Look online or for books about personal finance, investing and super. Also understand what your employer should be contributing to your super and how your money is invested.

People who have limited experience with investing often feel too embarrassed to ask questions, but there is no such thing as a stupid question. So talk to us about strategies such as the following to help you get ahead.

Start building your nest egg early

Even small amounts saved early in your working life can make a big difference in the long run, thanks to the magic of compound interest. When your budget allows or you receive a windfall, put some savings to work in super.

This is even more important if you are planning to take time out of the workforce to have children, study or travel. While you are working full time and have disposable income, consider making voluntary tax-deductible contributions up to $25,000 a year (including your employer's Super Guarantee payments). You can also make after-tax contributions of up to $100,000 a year.

Individuals returning to the workforce after a break may also be able to make catch-up super contributions. If eligible, you could carry forward unused amounts of your annual $25,000 tax-deductible limit for up to five years.

A sacrifice that pays

If your salary and financial goals permit, you could talk to your employer about directing some of your pre-taxsalary into super. These 'salary sacrifice' contributions are taxed at the concessional superannuation rate of 15 per cent instead of your marginal tax rate (30 per cent if you earn more than $250,000). Earnings on your savings inside super are taxed at 15 per cent, but remember to keep an eye on your $25,000 contribution cap which includes your employer's Super Guarantee payments.

Work as a team

If you are on a low income or not working, perhaps your partner could give your super a boost. If your income is $37,000 or less, your other half may be eligible to contribute up to $3,000 to your super and receive an 18 per cent tax offset of up to $540. The offset gradually reduces and phases out completely once your income reaches $40,000.[v]

Choose your super with care

It's generally preferable to have just one super fund because multiple accounts can be difficult to keep track of and cost you unnecessary fees. So consider consolidating your super accounts after researching the market to see which fund, and which investment mix, best suits your needs.

There's no doubt that women have some extra challenges when it comes to building retirement savings. If you would like to discuss ways to create a financially secure future, don't hesitate to call.

i Women in super, https://www.womeninsuper.com.au/content/the-facts-about-women-and-super/gjumzs
ii ASFA, http://www.superguru.com.au/about-super/women-and-super.
iii https://www.superannuation.asn.au/resources/retirement-standard
iv https://www.servicesaustralia.gov.au/individuals/services/centrelink/age-pension/how-much-you-can-get
v http://www.superguru.com.au/grow-your-super/contributions/spousal-contributions