Carthills
TAILORED ACCOUNTING
Personal . Commercial . Strategic

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.

March 2021

Welcome

After an eventful summer of weather extremes, on-again off-again lockdowns and the swearing in of a new US President, many will be hoping that Autumn ushers in a change of more than the season. As the vaccine rollout begins, there are also promising signs that economic recovery may be earlier than expected.

While many retires are understandably reluctant to tap into their super too quickly, super is unlikely to be your only source of retirement income. Our first article looks at ways you can make the most of your assets to fund your retirement.

The change of season is also a good time to prune back your finances to promote future growth. We show you how.

And our final article looks at how to achieve financial harmony with your nearest and dearest. It can be challenging to be on the same page with your loved one about financial matters, but clear and open communication can pave the way for a unified approach.

Kind regards

Neil McLennan – Partner
Carthills Financial Services Pty Ltd

Economic update

Australia's economy has improved and the downturn was not as deep as feared. That was the message Reserve Bank Governor Philip Lowe delivered to Parliament on February 5, citing strong employment growth, retail spending and housing. Unemployment fell from 6.6% to 6.4% in January, although annual wage growth remains steady at a record low of 1.4% after a 0.6% increase in the December quarter. Retail trade rose 0.6% in January, 10.7% higher than a year ago. While home lending jumped 8.6% in December. This helped fuel the 3% rise in national home values in the year to January, led by a 7.9% increase in in regional prices.

Business and consumer sentiment is also improving. The NAB Business Confidence Index was up from 4.7 points to 10.0 points in January, although 60% of businesses say they are not interested in borrowing to invest. Halfway through the corporate reporting season, 87% of ASX200 companies reported a profit in the December half year, although earnings were 14% lower in aggregate while dividends were 4% higher. The ANZ-Roy Morgan Consumer Confidence rating eased slightly in February but is still up 67% since last March's low.

Higher commodity prices lifted the Aussie dollar to a three-year high. It closed the month around US78.7c, on the back of a 31% rise in crude oil prices and an 8.5% lift in iron ore prices in 2021 to date.

After spending their working life building retirement savings, many retirees are often reluctant to eat into their "nest egg" too quickly. This is understandable, given that we are living longer than previous generations and may need to pay for aged care and health costs later in life.

But this cautious approach also means many retirees are living more frugally than they need to. This was one of the key messages from the Government's recent Retirement Income Review, which found most people die with the bulk of the wealth they had at retirement intact.[i]

One of the benefits of advice is that we can help you plan your retirement income so you know how much you can afford to spend today, secure in the knowledge that your future needs are covered.

Minimum super pension withdrawals

Under superannuation legislation, once you retire and transfer your super into a pension account, you must withdraw a minimum amount each year. This amount increases from 4 per cent of your account balance for retirees aged under 65 to 14 per cent for those aged 95 and over. (These rates have been halved temporarily for the 2020 and 2021 financial years due to COVID-19.)

One of the common misconceptions about our retirement system, according to the Retirement Income Review, is that these minimum drawdowns are what the Government recommends. Instead, they are there to ensure retirees use their super to fund their retirement, rather than as a store of tax-advantaged wealth to pass down the generations.

In practice, super is unlikely to be your only source of retirement income.

The three pillars

Most retirees live on a combination of Age Pension topped up with income from super and other investments – the so-called three pillars of our retirement system. Yet despite compulsory super being around for almost 30 years, over 70 per cent of people aged 66 and over still receive a full or part-Age Pension.

While the Retirement Income Review found most of today's retirees have adequate retirement income, it argued they could do better. Not by saving more, but by using what they have more efficiently.

Withdrawing more of your super nest egg is one way of improving retirement outcomes, but for those who could still do with extra income the answer could lie in your nest.

Unlocking housing wealth

Australian retirees are some of the wealthiest in the world, with median household wealth of around $1.4 million. Yet close to $1 million of this wealth is tied up in the family home.

That's a lot of money to leave to the kids, especially when many retirees end up living in homes that are too large while they struggle to afford the retirement lifestyle they had hoped for.

For these reasons there is growing interest in ways that allow retirees to tap into their home equity. Of course, not everyone will want or need to take advantage of these options. But if you are looking for ways to use your home to generate retirement income, but don't relish the thought of welcoming Airbnb guests, here are some options:

- **Downsizer contributions** to your super. If you are aged 65 or older and sell your home, perhaps to buy something smaller, you may be able to put up to $300,000 of the proceeds into super (up to $600,000 for couples).
- **The Pension Loans Scheme (PLS)** Offered by the government via Centrelink, the PLS allows older Australians to receive tax-free fortnightly income by taking out a loan against the equity in their home. The loan plus interest (currently 4.5 per cent per year) is repaid when you sell or after your death.
- **Reverse Mortgages** (also called equity release or home equity schemes). Similar to the PLS but offered by commercial providers. Unlike the PLS, drawdowns can be taken as a lump sum, income stream or line of credit but this flexibility comes at the cost of higher interest rates.

The big picture

While super is important, for most people it's not the only source of retirement income.

If you would like to discuss your retirement income needs and how to make the most of your assets, give us a call.

i Retirement Income Review, https://treasury.gov.au/sites/default/files/2020-11/p2020-100554-complete-report.pdf

OUTSMART YOUR BIASES:

using investor psychology to your advantage

When it comes to decision making, we don't always get it right. It is human nature to fall for several behavioural traps when making everyday decisions and also when trying to predict the future. Even the smartest people can succumb to their own biases when forming judgements and making choices.

While it's unrealistic to expect to never again make a bad decision, we can of course recognise and anticipate possible biases so we can make informed decisions. This knowledge helps us to better understand how our mind works so we can use this information to our advantage for our next financial decisions, investments and life choices.

Here are a few of the most common behavioural biases (and therefore traps) to be aware of and tips for how to overcome them.

Loss aversion

This bias is ruled by fear, as you are focused on what you can lose rather than what you can gain. Mark Twain posed the example of a cat who jumps on a hot stove once and never will again, even though the stove would be cold and potentially contain food later, as a way to illustrate loss aversion.

Overcoming this bias requires confidence and pragmatism, as often the fear and expectation of loss is greater than the loss itself. It can help to lower the cost of failure (for example, if you are investing) and increase the likelihood of success to feel more assured when making decisions.

Overconfidence

On the flipside, overconfidence can cause bad decision making as it means you'll take greater risks. Facets of this bias include an illusion of control, planning fallacy (such as underestimating how long a project will take) and positive illusions.

This type of bias is often linked to people with high self-evaluations, however anyone can fall into the trap of overconfidence. To avoid it, consider the consequences of the decision and explore all possibilities rather than just the best case scenario. Be open to feedback and advice from others to help balance overconfidence and to give you more options to consider.

Groupthink

Groupthink is where you are influenced by the ideas of others in order to reach a consensus in a group situation – this is also called the bandwagon effect. Something might not sit well with you but rather than voicing your feelings and being at odds with the group, you go along with it.

It is easy to get swept along with group consensus but there are ways you can minimise groupthink. Encouraging conversation and debate allows differing ideas and opinions to be considered – in a group scenario this enables everyone to have their voices heard.

Even when making a decision by yourself you can still be swayed by the opinions of others, so don't let these overpower your instincts. Think critically and have confidence in your own analysis.

The primacy/recency effect

This bias is part of the serial-position effect: why we can often remember the first and last items in a series the most clearly (and forget what comes in the middle). The primacy and recency effect are intertwined for this reason, and they are often used by teachers, speakers, lawyers and advertising, in order to make their message most impactful.

Awareness of this effect can help you understand why you're likely not using all information presented in your decision making, but only the first and last messages. Keep a record of all information to get a more accurate picture of the situation. It also helps to do your research so you won't just be influenced by the message from one source either.

These are just some of the biases that impact our decision making, from the day-to-day to the bigger life decisions. Having a trusted adviser in your corner can help improve your financial decision making, by providing market research together with considered advice through an external, unemotional lens. In fact recent findings from Russell Investments found one significant benefit of an advisers is they prevent clients from making silly behavioural mistakes.[i]

We can offer guidance to help you overcome your biases and make better choices, so don't hesitate to get in touch today.

i https://russellinvestments.com/au/blog/5-key-ways-advisers-deliver

Carthills
TAILORED ACCOUNTING
Personal . Commercial . Strategic

Carthills Tailored Accounting
Level 1, 2072 Logan Road
Upper Mount Gravatt QLD 4122

P 07 3849 6392
E advice@carthills.com.au
W www.carthills.com.au

Love & money

achieving financial harmony

The past 12 months have been a challenging time for many of us on a personal level, with the pandemic having a far-reaching impact on so many aspects of our lives. While the Australian economy is proving remarkably resilient, personal finances have been affected in different ways by lockdowns and government initiatives put in place to soften the economic toll of the pandemic.

Whether your finances were adversely impacted, or you came out of 2021 relatively unscathed, if you are in a relationship you and your partner's attitude towards your finances may have shifted. Given that money has the potential to be a source of conflict in relationships, it's a now a good time to get in sync to ensure you are on track to achieving financial harmony.

Check in and see where you stand financially

The first step is knowing where you stand financially. This involves looking through your shared and individual accounts and being open with each other about your saving and spending habits.

This is unlikely to make for a romantic date night given the potential for uncomfortable conversations, which is why one in three Australians admit having kept a financial secret from their partner.[i] However, by being transparent with your partner, you'll be working through issues before they snowball into a source of greater financial and relationship stress.

Discuss or re-evaluate your goals

We can all lose track of our end goals, especially when life becomes unpredictable and we need to shift focus. So that you don't move too far away from your financial goals, re-evaluate your priorities. These may have changed in the past year – maybe you've had to halt those travel plans or realised you no longer need or can't afford that new car.

As you and your partner are two individuals, you might not always be aligned in terms of your approaches to saving and spending. We all have different deeply entrenched views and beliefs around money and it's one area that you may never completely see eye to eye on. That also goes for goals – we all have our own dreams and ambitions. Maybe one of you sees a need to renovate the bathroom, while the other thinks the money would be better spent on a holiday. Discuss the goals you both have and be prepared for compromise to find a plan that suits the family as a whole.

Re-evaluate your priorities and how you spend

Priorities and spending habits can change over time and more recently, in response to a changed world. In 2020, 56% of Australian households surveyed believed their financial situation was vulnerable or worse due to the pandemic.[ii] You may have less disposable income and needed to tap into savings or your superannuation or access credit as a result.

It's important to acknowledge if your financial position has changed, reassess your priorities and make any necessary adjustments. This may involve taking a look at your spending and saving habits and making changes so that your dollars go towards supporting what's most important to your family. Again, it's important to discuss this with your partner and work through it together.

Develop a budget

Budgeting is an obvious step, but you'll need to ensure that the budget works for both of you and supports your shared goals. There are great budgeting apps you can use, but what you'll both need to bring to the table is a commitment to sticking with the agreed upon budget. Discuss your household needs, such as mortgage or rent payments, utilities, etc, as well as your individual needs and what your shared goals are.

Try to agree on a system that keeps you both accountable. It can be as formal as filling out a spreadsheet every week, or perhaps having a monthly family meeting around how things are tracking and if there's any room for improvement.

Money talk in relationships can be tricky as it's often a loaded and emotive topic that can bring up other issues. This is why an adviser can help with these conversations, facilitating discussions in a safe and neutral environment and providing expert advice, tailored to your situation.

Please reach out if we can be of assistance.

i https://www.moneymag.com.au/talk-money-relationships

ii https://www.bt.com.au/insights/perspectives/2020/australian-consumer-spending-changes.html