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Spring 2022

Welcome

Welcome to our Spring newsletter. September means it's football finals season and hopefully the beginning of warmer weather despite the recent late winter chill.

Working out how much you need to save for retirement is a question that keeps many pre-retirees awake at night. Our first article in our Spring newsletter looks at the results of recent research which indicates you may need less than you fear.

Our second article suggests that it might be time for families to start talking about estate or inheritance planning, given that Australia is on the brink of a massive intergenerational wealth transfer.

And finally, there is a lot we can learn from successful people. They tend to share common traits that contribute to their success in life and can help you on your journey to achieve your goals.

As always, if you would like to discuss any of the material in our articles, give us a call.

Kind regards

Neil McLennan – Partner
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Economic update

In August, the focus was on US Federal Reserve chair Jerome Powell's speech, and he was blunt. To hose down talk of interest rate cuts in 2023, he said the Fed was focused on bringing US inflation down to 2% (from 8.5% now), even at the risk of recession. He said this will likely require a "sustained period of below trend economic growth", and households should expect "some pain" in the months ahead. The S&P500 share index promptly fell 3.4% and bond yields rose. Economists expect the US central bank will continue lifting rates each month for the remainder of 2022.

In Australia, economic conditions are less gloomy. Australia's trade surplus was a record $136.4 billion in 2022-23. Unemployment fell to 3.4% in July while wages growth rose to an annual rate of 2.6% in the year to June, the strongest in 8 years but well below inflation. The ANZ-Roy Morgan consumer confidence index rose slightly to a still depressed 85.0 points. Half-way through the June half-year reporting season, CommSec reports ASX200 company profits increased 56% in aggregate while dividends are 6% lower on a year earlier.

The Aussie dollar fell more than one cent over the month to close around US68.5c. Aussie shares bucked the global trend, finishing steady over the month.

How much do you need to retire?

Working out how much you need to save for retirement is a question that keeps many pre-retirees awake at night. Recent market volatility and fluctuating superannuation balances have only added to the uncertainty.

So it's timely that new research shows you may need less than you fear. For most people, it will certainly be less than the figure of $1 million or more that is often bandied around.

For most people, the amount you need to save will depend on how much you wish to spend in retirement to maintain your current standard of living. When Super Consumers Australia (SCA) recently set about designing retirement savings targets they started by looking at what pre-retirees aged 55 to 59 actually spend now.

Retirement savings targets

SCA estimated retirement savings targets for three levels of spending – low, medium and high – for recently retired singles and couples aged 65 to 69.

Significantly, only so-called high spending couples who want to spend at least $75,000 a year would need to save more than $1 million. A couple hoping to spend a medium-level $56,000 a year would need to save $352,000. High spending singles would need $743,000 to cover spending of $51,000 a year, and $258,000 for medium annual spending of $38,000.

While these savings targets are based on what people actually spend, there is a buffer built in to provide confidence that your savings can weather periods of market volatility and won't run out before you reach age 90.

They assume you own your home outright and will be eligible for the Age Pension, which is reflected in the relatively low savings targets for all but wealthier retirees.*

Retirement planning rules of thumb

The SCA research is the latest attempt at a retirement planning 'rule of thumb'. Rules of thumb are popular shortcuts that give a best estimate of what tends to work for most people, based on practical experience and population averages.

These tend to fall into two camps:

- A target replacement rate for retirement income. This approach assumes most people want to continue the standard of living they are used to, so it takes pre-retirement income as a starting point. A target replacement range of 65-75 per cent of pre-retirement income is generally deemed appropriate for most Australians.
- Budget standards. This approach estimates the cost of a basket of goods and services likely to provide a given standard of living in retirement. The best-known example in Australia is the Association of Superannuation Funds of Australia (ASFA) Retirement Standard which provides 'modest' and 'comfortable' budget estimates.

SCA sits somewhere between the two, offering three levels of spending to ASFA's two, based on pre-retirement spending rather than a basket of goods. Interestingly, the results are similar with ASFAs 'comfortable' budget falling between SCA's medium and high targets.

ASFA estimates a single retiree will need to save $545,000 to live comfortably on annual income of $46,494 a year, while retired couples will need $640,000 to generate annual income of $65,445. This also assumes you are a homeowner and will be eligible for the Age Pension.

Limitations of shortcuts

The big unknown is how long you will live. If you're healthy and have good genes, you might expect to live well into your 90s which may require a bigger nest egg. Luckily, it's never too late to give your super a boost. You could:

- Salary sacrifice some of your pre-tax income or make a personal super contribution and claim a tax deduction but stay within the annual concessional contributions cap of $27,500.
- Make an after-tax super contribution of up to the annual limit of $110,000, or up to $330,000 using the bring-forward rule.
- Downsize your home and put up to $300,000 of the proceeds into your super fund.

Thanks to new rules that came into force on July 1, you may be able to add to your super up to age 75 even if you're no longer working.

While retirement planning rules of thumb are a useful starting point, they are no substitute for a personal plan. If you would like to discuss your retirement income strategy, give us a call.

*Assumptions also include average annual inflation of 2.5% in future, which is the average rate over the past 20 years, and average annual returns net of fees and taxes of 5.6% in retirement phase and 5% in accumulation phase.

i CONSULTATIVE REPORT: Retirement Spending Levels and Savings Targets, Super Consumers Australia,

ii 2020 Retirement Income Review, The Treasury

iii Association of Superannuation Funds of Australia (ASFA) Retirement Standard

A WILL TO give

As baby boomers shift into retirement, Australia is on the brink of the nation's biggest ever intergenerational wealth transfer. Yet estate or inheritance planning is rarely discussed by families.

Talking openly about how you want your assets to be passed on can help avoid family disputes that take a toll both financially and emotionally. It provides a certain peace of mind for you – that your intentions will be met – and for your family and friends.

Certainly the stakes have never been higher, with growing house prices and healthy superannuation balances contributing to a considerable increase in the wealth of many older Australians in the past two decades.

Around $1.5 trillion was transferred in gifts or inheritances between 2002 and 2018. In 2018 alone, some $107 billion dollars was inherited while $14 billion was handed out in gifts.[i]

The importance of planning

With so much at stake, having an estate plan in place helps to protect the interests of those you care about and to fulfil your wishes. It takes careful thought and professional advice, but that is no excuse for putting the task aside for later. If something happens to you in the meantime, your assets may not be distributed as you would like and there could be tax implications for your beneficiaries.

An estate plan includes a Will and, in some cases, funeral arrangements and instructions for the care of children and animals. Without a Will, your assets will be distributed according to state inheritance laws which may not be what you intended.

A plan may also include instructions for a testamentary trust to hold assets that are then distributed in a tax-effective way to your beneficiaries. And don't forget your 'digital will', a list of any online accounts and passwords that may be important.

Meanwhile, to protect your interests in case you are incapacitated in some way, an enduring power of attorney and a medical power of attorney nominate the people you would like to handle your affairs until you are better.

Complex families

Estate planning is even more important in the case of blended families or for those with complex family relationships, especially where the emotional issue of the family home is concerned.

Disputes often centre around who gets the house when there are children from a previous marriage, but your new spouse is living in the family home. You could allocate other assets to the children and leave the home to your spouse or require that the house be sold and the proceeds distributed to all. Alternatively, your Will could grant lifetime tenure in the home for your spouse with it passing to your children after your spouse dies. Having conversations early about your intentions, can help alleviate possible conflict.

If you are concerned about protecting the interests of a family member with mental health or addiction issues, a testamentary trust can help to look after your assets and distribute funds in a controlled way. A testamentary trust is also often used to provide for young children, holding the assets until they reach adulthood.

Dividing it up

When it comes to deciding how best to allocate assets among children, some prefer to hand out equal shares no matter their individual financial circumstances, while others prefer to give extra to one who may be struggling. Given that Wills are frequently challenged by family members or others who believe they are owed a share or an even bigger share, it's wise to make your intentions clear in your Will including reasons and documentation.

While people who receive inheritances are usually well into middle age – on average 50-years-old[ii] – and perhaps comfortably well-off, you could choose to bypass the next generation. Instead, you might consider leaving your estate to grandchildren, to help set them up with a deposit for a home or covering school fees.

Another option is to begin distributing your estate while you are alive and can share the enjoyment of the benefits the extra financial help might bring.

What's not covered?

It is important to note that some assets are not covered by your Will. These include assets jointly held with someone else (such as a bank account or a house), super benefits and life insurance.

In the case of jointly held assets, ownership generally passes to the surviving partner and life insurance is paid to the beneficiary named in the policy. For super, it's vital to complete a binding death benefit nomination to ensure the funds are paid to the person you choose.

With so much to consider, expert advice is critical when preparing an estate plan, so call us to begin the discussion.

i https://www.pc.gov.au/research/completed/wealth-transfers

ii Wealth Transfers and their Economic Effects - Commission Research Paper - Productivity Commission (pc.gov.au)

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SECRETS OF SUCCESS: learning from high achievers

'If I have seen further, it is by standing on the shoulders of giants' – Isaac Newton

We all want to be the best that we can be but achieving your version of success takes effort. You can take a step in the right direction by learning from those who have gone before you and achieved success in their various fields.

Success is a concept that is different for every person. Whether it means having a great career, thriving business, loving family or achieving excellence on the sports field or in your personal endeavours, achieving your definition of success can provide a profound sense of accomplishment.

There is a lot we can learn from successful people. They tend to share common traits that contribute to their success in life and can help you on your journey to achieve your goals.

Dream big and follow your dream

Successful people have a vision and pursue that vision. Mary Barra, CEO of General Motors had a vision for the company which has seen them invest millions in electric and self-drive vehicles, and in ride share applications, anticipating future customer needs. She also pivoted production during the pandemic to help make critically needed ventilators.

To support that sort of visionary thinking, make sure you have some time in your life for introspection. It can help to be quite concrete about your ambitions and write down exactly what you want to achieve, then start to think about how you'll go about realising your dreams.

Set short term realistic goals

Once you have identified what you want to achieve the end goal can seem a little daunting. A good way to work towards the success you dream of is to set short term, achievable, incremental goals.

Six-time Olympic track and field medallist Jackie Joyner-Kersee, in her memoir speaks of how setting incremental goals helped her. 'So you want to jump 23 feet in a long jump but you only jump 20 feet right now. Why not go for 20 feet 5 inches? If I was running, I aimed to see myself improve a tenth of a second or half of an inch if I was jumping.'

Think about the steps you need to take to reach success and approach your goals one step at a time.

Move out of your comfort zone

While it may not feel like it at the time, a little bit of discomfort goes a long way in terms of nudging you along the path to success.

Jeff Bezos, former CEO of Amazon who also happens to be the world's richest person, attributes much of his success to getting outside his comfort zone. He has even gone as far as to suggest to his employees that some level of discomfort can spur one on to greatness "I constantly remind our employees to be afraid, to wake up every morning terrified".

Learn from losing and recover from failure

Success takes time and can also mean overcoming adversity and failure.

Walt Disney's first film production company went bankrupt, but his legacy is as an extraordinarily successful creative whose visions as an animator, filmmaker and theme park developer resulted in one of the most successful and powerful entertainment companies in the world.

The critical thing that successful people do when they have experienced failure is to reframe the failure and think about not what they have lost, but what they learned from the experience. They then apply that hard-earned knowledge to their next venture.

Ask for help and get the best from others

You don't have to go it alone on your path to success. Founder of Boost Juice, Janine Allis, asked other franchise operators for tips on how to set up and run a successful franchise. "If you surround yourself with the right people who bring out the best in you and have your back, not only will you enjoy the journey, but it also increases your chances of success," says Janine.

And finally, one fundamental trait shared by all successful people is self-belief. Believe that you have the power to make your dreams come true.