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Autumn 2023

Welcome

With Autumn underway, the changing season is a reminder to take stock and prepare for what's ahead as the financial year heads towards its final quarter and the May Federal Budget.

If taking stock also means contemplating your retirement plans, there is a trend towards fewer people working towards a final retirement date and then clocking off for good. Our first article provides some food for thought to help you to weigh up the options for funding your retirement.

And speaking of weighing up options, our second article looks at the difference between stepped versus level insurance life insurance premiums.

And finally, with the rise of wearable devices and apps to help us manage our health it can be tricky knowing what to track and how to make improvements, so here are some tips.

Kind regards

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Economic update

The gloomy prospects for economic growth, both in Australia and overseas, are occupying the minds of investors, businesses and political leaders.

The Reserve Bank of Australia believes global growth will remain subdued for the next two years and that Australia's economy will slow this year because of rising interest rates, the higher cost of living and declining real wealth.

There have been some economic bright spots recently such as the rebound in retail trade in January of 1.9% after a 4% plummet in sales figures in December. And, Australia's current account surplus increased $13.3 billion to $14.1 billion in the December quarter 2022 supported by sustained high commodity prices including $400 billion worth of mining commodity exports during 2022.

That positive news was enough to lift the Australian dollar slightly to just over US67c, halting a slow decline during February.

Australian shares were down by almost 3% during February, while US stocks were down by just over 2% for the month and more than 7% for the past year.

FLEXING YOUR RETIREMENT PLANS

The concept of retirement is changing, with fewer people working towards a final retirement date and then clocking off for good.

Instead, those who have the flexibility to choose are often transitioning out of the workforce over several years, or even returning after a break.

Whether you simply want to wind back your working hours to explore other interests, or don't want to cut your ties with work completely, to make it work you need to plan.

Choosing your retirement date

There is no set retirement age in Australia, but most people will not be eligible to receive an Age Pension until they reach age 67.[i] This means you need enough savings to provide another income source if you retire earlier.

Although most of us have super, you are not permitted to access it until you reach your preservation age, which can vary.

Withdrawing your super also requires you to meet a condition of release. There are various conditions, but the most common one is reaching age 60 and permanently retiring from the workforce. Once you turn 65, you can access your super whether you are working or not.[ii]

Keep in mind, tax also affects your super, with different rates applying depending on your age. Most people can access their super tax-free once they reach 60.

Paying for your retirement

Unfortunately, there is no simple answer to how much income you will need in retirement. It depends on your current lifestyle and planned retirement activities, but a good place to start is the ASFA Retirement Standard.

For around 62% of the population aged 65 and over, the main source of retirement income is the Age Pension and government payments.[iii]

Eligibility for an Age Pension is assessed using your age, residency status and personal income and assets. These determine whether you receive the full fortnightly payment rate, which is currently $1,547.60 a fortnight for a couple.[iv]

As part of your planning, check for other potential sources of income from investment assets, contract work, or rent from investment or Airbnb properties.

Using your super savings

While you may dream of retiring early, many of today's retirees can expect to live well into their 80s, so your super may need to provide income for more than 20 years. If you are unsure whether your super is on track, we can help you check your progress and put strategies in place to achieve your retirement goals.

Most super funds provide online calculators to give a rough estimate of your likely retirement balance and how much income it will provide.

ASIC's MoneySmart Retirement Planner is another resource for working out your retirement income and potential Age Pension payments.

Transition-to-retirement (TTR) pensions

If you would like to ease into retirement, it can be worth investigating a TTR pension. These allow you to cut back working hours while using your super to supplement your income without compromising your lifestyle.

If you are aged under 60 you will pay some tax on pension payments, but they are tax-free once you reach age 60.[v]

TTR pensions also allow you to continue topping up your super through a salary sacrifice arrangement with your employer. You only pay 15% tax on these contributions, which may be lower than your marginal tax rate.[v]

Giving super a late boost

If you have income to spare as you move towards retirement, perhaps from an inheritance or downsizing your home, there are now additional opportunities to continue adding to your super.

You can make personal after-tax contributions of up to $110,000 a year until you reach age 75, even if you are not working. You may even be eligible to use a bring-forward arrangement and add up to $330,000 in a single year.

Once you hit 60, if you are planning to sell your current home you can also make a downsizer contribution of up to $300,000 ($600,000 for a couple) into your super account.

Retiree concessions

When you are doing your retirement sums, don't forget some of the concessions on offer to older Australians. If you are aged 60 and over and working less than 20 hours per week, your state's Seniors Card can provide discounts on public transport and some goods and services.

You may also be eligible for the Commonwealth Seniors Health Card for cheaper prescriptions and medical appointments, or a Pensioners Concession Card for discounted public transport.

If you would like to discuss your retirement options and how to fund them, give us a call.

i https://www.servicesaustralia.gov.au/who-can-get-age-pension?context=22526
ii https://www.ato.gov.au/Individuals/Super/
iii https://www.aihw.gov.au/reports/australias-welfare/age-pension
iv https://www.servicesaustralia.gov.au/how-much-age-pension-you-can-get?context=22526
v https://moneysmart.gov.au/retirement-income/transition-to-retirement

STEPPED VS LEVEL PREMIUMS: WHICH IS BEST?

These days, most people hold some form of life insurance in their super account. While this is a welcome safety net, the level of cover held this way is often inadequate.

A Rice Warner study back in 2020 found that life cover within superannuation only met about 65-70 per cent of actual need.[i]

With the impact of Covid since that time, that figure is growing.[ii]

Holding the appropriate level of life insurance, whether inside or outside super, and reviewing it regularly as your circumstances change has never been more important. After all, how would your family cope if the unexpected happened? How would the mortgage be paid? What about the school fees?

While life insurance should be considered a non-negotiable part of your financial plan, there is flexibility and potential cost savings in the way you pay for it.

Stepped vs level premiums

The regular and ongoing payments you make for life insurance cover are known as premiums.

You can choose either a stepped premium, or a level premium, or a combination of the two.

A stepped premium is where the amount you pay each year increases while a level premium generally stays the same each year.

While stepped premiums are always cheaper at the outset, over time the total cost of the stepped premium will outstrip that of the level premium. Ironically, the time when you consider cancelling the policy because it is becoming too expensive is likely to be just when you need life insurance cover the most. That is, when the demands on your income from your mortgage, childcare and private school fees are at their highest and the loss of your income would hurt the most.

Level premiums meanwhile start at a higher level but are less likely to change over time. That does not mean they won't increase but this would only be in circumstances where the policy is indexed to inflation or if you decide to increase your cover.

The earlier, the better

The younger you are when you take out a life insurance policy, the lower the premiums. This is the case whether you opt for stepped or level payments.

Say you are a male non-smoker seeking $1 million of life insurance cover. When comparing stepped and level premiums, it is estimated that if you are aged 30 when you start the policy, a level premium is about 60 per cent more expensive than a stepped policy at the outset. This jumps to 120 per cent more if you are aged 40 when starting the policy and 170 per cent higher if you are 50.[iii]

But at some stage there will be a breakeven point where you start to make substantial savings with a level premium.

This is particularly the case if you hold on to the policy till aged 65.

If you take out a policy at aged 30, then you will break even after 23 years. If you hold on to the policy for another 12 years until you are 65 then your savings over that 35-year period would be $58,700. This drops to a $46,000 saving if you take the policy out age 40 and a much smaller $10,000 if you wait until you are 50. Nevertheless $10,000 is a decent sum of money to save.[iii]

It's a personal decision

There are many reasons why you might choose a level premium, not least because it allows you to have certainty when it comes to budgeting.

But for many, the lure of cheaper premiums at the beginning can steer you to favour stepped premiums. Also, if you do not plan on holding life insurance for an extended period, but perhaps just until your children become independent or the mortgage is paid, then stepped premiums might work out best.

Some insurers can offer you a combination of stepped and level premiums which might help with your cash flow.

If you would like to know more, or would like to discuss your life insurance needs, give us a call.

i https://www.insurancenews.com.au/life-insurance/super-reforms-reveal-scale-of-underinsurance

ii https://www.choosi.com.au/life-insurance/articles/do-australians-have-enough-insurance

iii https://www.insurancewatch.com.au/stepped-vs-level-premiums.html

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HOW BENEFICIAL IS TRACKING OUR HEALTH?

We all want to live healthier lives and the rise in apps and wearable devices like smart watches and fitness trackers that help us to monitor various aspects of our wellbeing show that we are taking an interest in our health via data.

In fact, over 350,000 mobile phone applications claim to help with managing a range of personal health issues.[i] And it's estimated that 320 million people have taken up wearing mobile devices to track aspects of their health and fitness.[ii]

So, given how popular these are becoming, how helpful is it to track and measure various aspects of our health, and what metrics are the most beneficial to track?

Getting moving

Most wearable devices have evolved from being simple step-trackers to provide more sophisticated data on a myriad of health parameters.

On that note, one of the key metrics that people have been using as a target for their fitness goals – the 10,000 steps a day – has been found to not be backed by science. It was in fact, a marketing ploy from a Japanese company selling a personal fitness pedometer, with 10,000 steps created as an arbitrary figure for the campaign.

However, even though the magic 10,000 steps may not be the magic bullet for health, tracking your exercise does tend to get us off the couch and has been proven to inspire us to move more.[iii]

Listening to your heart

Features such as heart-rate monitoring and pulse-oximeter tracking, have become increasingly popular in wearable devices.

Tracking your heart rate can be useful to ensure you're pushing yourself hard enough during bouts of high-intensity exercise and recovering adequately afterwards.

Keeping an eye on your heart rate can also tell you a bit about your cardiovascular health but any data that's being generated needs to be interpreted cautiously as there are differences in accuracy between devices. It also needs to be noted that tracking your heart rate and heart health is no substitute for medical advice if you have concerns about your heart health.

Watching what we eat

Another aspect of our health that is being monitored using apps is our dietary intake. There has been a move away from simply counting calories to apps that can help us manage unique dietary needs such as cutting back on sugar, drinking more water, lowering fat, increasing protein, eating more vegetables and much more.

You don't even have to follow a rigid diet via an app to see benefits. According to a recent study, those who simply tracked their diet for eight weeks, ate two or more servings of vegetables a day.[iv]

Tracking your sleep

Sleep plays an important part in our health and wellbeing and sleep cycle apps can help identify disordered sleep patterns. Many sleep trackers rely on an accelerometer, a device built into most smartphones that senses movement. This then measures how much you move around during the night and the data is then used in an algorithm to estimate sleep time and quality.

The theory is once you know how much (or little!) you are sleeping you can make lifestyle changes to improve the quality and duration of your sleep. The danger is in getting too attached to the metrics as obsessing over your sleep patterns can cause anxiety that impedes a healthy night's sleep. As with all apps and devices, the data should be taken as an estimate as the accuracy may vary.

A helping hand

When it comes to the use of technology to help you manage your health it's important to remember that as sophisticated as it is becoming, it is simply a device to assist you to take responsibility for your own health and wellbeing. You need to decide what aspects of your health you'd like to be more across and take an active interest in them.

Putting it simply, "What gets measured, gets managed." There is something powerful about gaining an understanding of the metrics, taking measures to bring about change and seeing a change in the figures – whether that is by noticing your heart rate change as you become fitter or seeing your daily steps increase.

i https://www.mobihealthnews.com/news/digital-health-apps-balloon-more-350000-available-market-according-iqvia-report
ii https://www.techrepublic.com/article/2022-healthcare-trends-will-be-driven-by-ai-wearables-and-virtual-medicine/
iii https://www.thelancet.com/journals/landig/article/PIIS2589-75002200111-X/fulltext
iv https://ijbnpa.biomedcentral.com/articles/10.1186/s12966-017-0563-2

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