



**Consilium  
Financial**



## Winter 2018

Australia's national economic agenda in May was dominated by the Federal Budget and the promise of tax cuts. Consumers rode a wave of optimism until the final week of May when the ANZ/Roy Morgan consumer confidence index fell for the first time in 7 weeks, down 3.2 per cent to 117.7. Confidence is up 4.3 per cent this year, with the late pull-back attributed to a cooler sharemarket, rising fuel prices and on-again off-again US-North Korea peace talks.

The price of benchmark Brent Crude is up 13.5 per cent this year although the price dropped back to below US\$75 a barrel late in the month on talk of OPEC and Russia increasing production to make up for losses in Venezuela and possibly Iran. Australian motorists are paying more at the pump, with average national wholesale petrol prices at a 3-year high of 138.7c.

At the same time, the housing market is cooling. The CoreLogic Home Value Index of capital city prices fell 0.3 per cent in April while the number of home loans to owner-occupiers fell 2.2 per cent in March, the sixth fall in 7 months.

Unemployment rose slightly from 5.5 per cent to 5.6 per cent in April but hours worked and the participation rate both rose.

The Australian dollar ended the month around US75c, down 3 per cent this year on US dollar strength.

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# READY... SET...

## Are you good to go for the new financial year?

The end of the financial year is the cue for most of us to look at our financial position heading into tax time. Hopefully you've made progress towards your goals. But if you find that your expenses are trending higher than you'd like or—shock, horror!—higher than your income, this could be the perfect time for a fiscal makeover.

The starting point is gathering up as much information as possible, beginning with the household budget.

### Take a budget snapshot

You can't set realistic financial goals and savings targets without knowing how much money you have at your disposal. If you don't already track your income and spending, then take an annual snapshot as you go through your records to prepare your annual tax return.

Deduct your total spending from total income and what's left is what you have to work with. Any surplus could be used to kick start a regular savings plan. If you discover a budget black hole, identify areas where you are overspending and could cut back.

### Pay yourself first

Did you manage to save anything this year or are you are constantly counting on this month's income to pay last month's bills? Do you spend first and hope to save what's left?

Instead of making saving an afterthought, pay yourself first and allocate a percentage of your income to a regular savings plan. Setting up a weekly or monthly direct debit will remove temptation and encourage you to live within your means.

### Review your mortgage

If you have a mortgage this is likely to be your biggest monthly expense so it's a good idea to check your progress at least once a year. Why not use some of the savings you've identified and increase your repayments to save interest? If your mortgage has a redraw facility you could use this to create a cash buffer for emergencies.

While you're at it, go online and compare interest rates. If your rate is no longer competitive ring your lender to negotiate a better deal and consider switching loans if they won't budge. Just beware of any exit fees.

### Negotiate better deals

Your home loan is not the only expense worth haggling over. These days if you want to get the best deal on your electricity, phone, internet or insurance you need to ask. Before you do, ensure you understand what your current plan/policy covers and research what's on offer elsewhere.

Make a practice of doing this once a year, when your plan or policy is due for renewal. The savings can be substantial and can be put to much better use reducing debt or growing your wealth.

### Check your super

Do you know how much you have in super and how it's invested? When you retire superannuation is likely to be your biggest asset outside the family home, yet almost one in four Australians don't know which risk profile their super is invested in.<sup>i</sup> This can cost you thousands of dollars in retirement savings and takes only minutes to correct.

Go to your fund's website or call the helpline to ask for your current balance and where it's invested. As an example, a 25-year-old woman on \$80,000 in a conservative option until she's 70 could improve her retirement balance by \$294,000 if she switched to a risk profile more in keeping with her age and circumstances.<sup>i</sup>

### Protect your wealth

Reaching your life and financial goals is not just about growing your wealth but protecting it.

It's important to review your insurance policies annually—or as your circumstances change—to make sure you and your family have adequate cover. Insurance can be a significant cost for families, but the income it provides when accidents or illness strike is worth every cent.

*So why not go beyond the usual search for last-minute tax deductions this June to do a thorough review of your current position. If you would like us to help you make the most of the year ahead, give us a call.*

i MLC Wealth Sentiment Survey, 5 April 2018, [https://www.mlc.com.au/personal/blog/2018/04/how\\_to\\_add\\_thousands](https://www.mlc.com.au/personal/blog/2018/04/how_to_add_thousands)





# Budget changes

## support a brighter retirement

With tax cuts grabbing most of the attention in the May 2018 Budget, some quiet tweaks to superannuation and retirement income were drowned out in all the noise. But these small changes could have a big effect on the amount of money that ends up in your nest egg when you retire.

**Here's a rundown of some of the more significant proposed changes:**

### Income opportunities for retirees<sup>i</sup>

The expansion of the Pension Loan Scheme will allow all Australians of Age Pension age to boost their income using the equity in their home. Under the scheme, retirees will be able to borrow up to 150 per cent of the Age Pension (currently 100 per cent), or \$11,799 a year for singles and \$17,787 for couples who are on the full Age Pension.

The loan is a reverse mortgage with an interest rate set at 5.25 per cent a year, about 1 per cent below the average commercial rate.<sup>ii</sup> The loan is typically not repaid until the home is sold and the Government guarantees that the debt can never exceed the value of the home. Currently, only part-pensioners can access the scheme.

In addition, all age pensioners will be able to earn up to \$300 a fortnight in employment income, or \$7,800 a year, without reducing their pension. This is an increase of \$50 a fortnight and, for the first time, self-employed pensioners will also be eligible.

Recent retirees aged 65-74 with an account balance below \$300,000 will be given an extra year to make voluntary super contributions without having to meet the work test.

### Super help for young members

Younger Australians at the start of their working life could also receive a boost to their retirement savings – of more than \$500 a year in some cases.<sup>iii</sup> From July 2019, insurance premiums won't be taken out of your super (unless you request it) if you are under 25, your account balance is less than \$6,000, or you don't make contributions for 13 months and the account is inactive.

While life insurance is not a priority and can eat away at small balances for many young, single people, the change will mean younger fund members with dependents will need to take extra steps to ensure they have adequate cover.

Younger members will also benefit from a 3 per cent annual cap on passive fees for account balances below \$6,000 while exit fees will be banned on all super accounts.

### Finding lost super

The Government also hopes to reunite more people with their lost super by requiring super funds to transfer inactive accounts (where contributions have not been received for 13 months) with a balance below \$6,000 to the Australian Taxation Office (ATO). The ATO will automatically reunite inactive accounts with active accounts where the combined balance will be at least \$6,000.

At the other end of the scale, people who earn more than \$263,157 from multiple employers will be able to exclude wages from certain employers from the Superannuation Guarantee (SG) from 1 July 2018. This will help employees avoid unintentionally breaching the \$25,000 a year concessional contributions cap. Employees may then be able to negotiate with their employer to receive additional income taxed at marginal tax rates.

### Easing restrictions on SMSFs

Self-managed super funds (SMSFs) will be able to add more members, with the limit increased from four to six members. This will give larger families the flexibility to include more than two adult children.

Well-run SMSFs will also be rewarded with a reduction in their administrative burden and compliance costs. Funds with three consecutive clear audits and annual returns lodged on time will be able to switch from annual to three-yearly audits from July 2019.

All these Budget measures are simply proposals for now and will need to be passed by both houses of Parliament. If passed, they should provide opportunities for many Australians to save more during their working lives to boost their income in retirement.

*If you would like more information or if this has got you thinking about your retirement income strategy, give us a call.*

<sup>i</sup> <https://www.budget.gov.au/2018-19/content/factsheets/3-financially-prepared.html#pwb>

<sup>ii</sup> <https://www.canstar.com.au/home-loans/reverse-mortgages/things-consider-reverse-mortgages> (3 August 2017)

<sup>iii</sup> <https://www.canstar.com.au/superannuation/budget-2018-super-changes-save-young-people-500-per-year/> (9 May 18)



# HELPING YOU FIND **YOUR** *financial path*

When it comes to personal finances and ways to build your wealth it seems that everyone has an opinion – and a preferred pathway for wealth accrual. From your mate down the pub who likes to share his stock market tips to your friend at work who has a constant stream of ‘get rich quick’ schemes, to your mother-in-law who exposes a more prudent ‘slow and steady and sock it in super’ approach.

The truth is there is no one-size-fits-all approach to generating wealth and setting yourself up for the future. Everyone has different objectives, preferences and levels of comfort.

When deciding on your own financial path, there are a few things that you need to consider.

## **Your preferred lifestyle**

This is really about understanding what you value in life and what’s going to make your existence meaningful. Success means different things for different people. For some, it’s a big house, two cars in the garage and lots of space to entertain. For others, it’s being able to take an overseas trip once a year. Others still might be dreaming of a tree or sea change and an early retirement. You don’t have to fit into anyone else’s idea of an ideal situation. You just need to work out the lifestyle you want and to set financial goals that allow you to lead it.

## **Stage of life**

It’s also worth taking stock of what stage of life you’re in. You may be just at the start of your career and beginning to build your wealth, thinking of starting a family and saving for a home deposit or setting your sights on retirement and trying to maximise your nest egg. Your goals and needs shift as you move through life and the world’s a

very different place to what it was thirty years ago, meaning the perspective of those in different generations may not be applicable to your own financial pathway. No matter where you’re at, it’s important to have a plan that enables you to meet your immediate needs as well as work towards your long-term goals.

## **Focus on your goals and objectives**

When it comes to goal setting the important thing is to make them precise and achievable. If goals have tangible outcomes they are easier to measure and reward. Rather than just hoping to ‘build your wealth’, set something concrete like ‘own my home outright within ten years’, or more immediately, ‘set aside enough to take the kids to the beach for the summer’. Again, keep in mind that everyone is different and your goals won’t necessarily mirror those of your peers or colleagues.

## **Comfort with risk**

Once you’ve set your goals, you need a plan of action. Incremental, actionable steps you can take to make your dreams a reality. An essential part of making a plan is understanding your comfort with risk. There are a lot of factors determining your risk tolerance: your own life experiences, the amount of time you have set to meet specific goals,

your ability to cope with market volatility etc. In general, diversifying your portfolio helps mitigate risk (it’s seldom a good idea to have all your eggs in one basket), but the most important thing is having an informed risk strategy that works for you and doesn’t keep you up at night.

## **Knowledge is power**

As with anything, having a good investment strategy requires know-how. But with so many different people offering their opinion and the constant buzz of the 24-hour new cycle, it’s easy to get confused or worse, spooked. This is where a financial advisor comes in. Our job, first and foremost, is to listen – to be a sounding board for you to bounce ideas off and help you clarify your goals. We’ll then work with you to devise a plan that’s going to help you achieve them.

And don’t forget, we are with you for the long haul. Your finances and investments can never be a ‘set and forget,’ for just as economic circumstances change so will your own. What you need then is an expert in your corner guiding you through the rough times and the windfalls. One who understands your dreams, attitude and resources – who has the skills to keep you on the right track.

*It’s good to have a partner to work with you on the journey to help you find and stay on your financial path. Talk to us today about how we can help.*