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QUARTERLY INSIGHT

InterPrac Financial Planning Newsletter Edition 3 2019

It's September and spring is in the air. It's time to shake off the winter blues, head to the stadium to cheer the footy finals or dress to the nines for the spring racing carnival.

It's also a good time of the year to think about an annual tune up to check in to see how you are tracking in terms of your goals, finances and general well-being.

We also look at the options available for assisted living given that our aging population makes it inevitable that more people will need some sort of living assistance, either at home or in a residential facility.

Low interest rates seem to be here to stay and we outline the best ways to manage your finances in a sustained low interest rate environment. We then look at what how much is enough super to fund the retirement you envision for yourself.

For those of you who are wondering what to do when that tax refund lands in your account, we outline some options to get the most benefit from it. And finally, we look at the most common scams running at the moment and the best ways to stay safe and protect your financial future.

We hope you enjoy the read. As always if you have any questions or need any additional information, make a time to have a chat. We are here to help.

Time for your annual tune-up?

Checking in on your goals, finances & health

We don't think twice about taking our car in for a regular tune up. Why? Because we know it's going to mean our car runs at its best and saves unexpected problems down the track.

It follows then that we should take the same approach to other areas of our lives. From our goals, to our finances, to our health, there's so much to be gained in checking in regularly to make sure everything's tracking well.

Kick your goals into gear

A good place to start is with your goals. If you set some at the beginning of the year, take some time to reflect on how you're tracking. If you didn't, there is no time like the present to stop and think about what you want for your future.

The next step is to make a plan. This will involve writing down your goals then looking at what resources you'll need to help you achieve them. You want to make sure you have allocated enough hours and dollars towards making them a reality. This will also dictate your overall timeframe. Set regular, realistic deadlines with measurable sub-goals and make sure you have someone in your corner to hold you accountable.

Remember too, that your goals don't need to be bigger than Ben-Hur. They might just be to see more of your friends or put a bit extra aside each month for a holiday. Reflect on the little things in life that bring you joy, and what you can do to pursue them.

Fueling up your finances

Once you've got a handle on your goals, it's a good idea to review your finances. The new financial year presents the perfect opportunity.

Start by reviewing your budget. If it's not currently working for you, what changes can you make to start taking meaningful steps towards your goals? Maybe there's an online subscription you aren't using or you're having one too many meals out. Shopping around for a better deal on your utility bills, as well as the interest rate on your mortgage and credit cards, is another worthwhile consideration.

It's also wise to take a proper look over your investments. Review your asset allocation and risk tolerance to make sure that your approach is still in line with your present situation as well as future goals.

For many of you, your biggest and most tax-effective investment will be your superannuation. It makes sense then to ensure you're comfortable with what your fund is returning as well as your current risk profile.

Your super may also include some level of insurance cover. If your circumstances have changed, it might be time to review. We can assist you in assessing whether you are adequately protected, looking at options both within and outside of super.

Get a handle on your health

Even if you're feeling fit as a fiddle, a regular health check-up can be a worthwhile investment of both time and money that could help you to live a long, happy and healthy life. If you have reached a milestone birthday it's worth speaking to your GP about any recommended tests.

Likewise, your physical health doesn't start and end with a doctor or dentist visit. Getting into some exercise habits now and changing your eating habits could bear dividends for your long-term health and well-being.

Someone in the passenger seat

No matter where you're going it's always helpful to have someone in the passenger seat to help you navigate the way. For your goals and your passions, it might be a friend, partner or family member. For your health, it's a doctor. And when it comes to your finances, we can help you protect the lifestyle you have, while mapping out the journey to achieve your ideal future.

If you need help with the financial aspects of your annual tune-up, give us a call.

Home care versus residential

– *Options for assisted living*

If there is ever a time when stress levels and emotions can run high it is facing the myriad decisions around caring for an elderly family member or loved one.

Discussions around where someone – whether it is yourself or a nearest and dearest – is going to live and how it is going to be paid for, are often fraught not least because decisions are commonly made under extreme pressure. A fall or a rapid deterioration in health can trigger the necessity for people to make crucial calls about a loved one's future care within days.

Australia's ageing population means it is inevitable that more people will need some sort of living assistance, either at home or in a residential facility. According to the Productivity Commission the number of people needing aged care services will increase from more than one million today to 3.5 million by 2030.

Home based support

While the preference for most people is to age gracefully in their own home, there are a number of reasons why it may not be an option for the long term.

Fortunately there are numerous private and Government supported services which are available to allow people to stay living in their own home for as long as possible.

The Home and Community Care program is the simplest way for people to get help which allows them to remain at home. Someone who needs services such as domestic help or basic nursing care can seek Government assisted care following a simple assessment by an approved provider. How much a person pays for services will depend on their financial situation, including whether or not they receive any Age Pension.

Where several services are needed for a person to remain in their own home,a more comprehensive Home Care Package would be required.

As with any move into residential aged care, the Home Care Package requires an assessment by an Aged Care Assessment Team. Generally these can be arranged through a General Practitioner or within a hospital. They can also be found via the Government's ACAT Finder through its website myagedcare.gov.au.

Aged Care Supported Living

Unfortunately not everyone's health allows them to remain at home. There is a wide range of residential care available for those people who for medical or physical reasons need to be in a supported living environment.

The cost of securing a bed in an aged care facility can depend on a number of factors including its location, the facility type and the level of care they require.

Where an accommodation bond is required, the payment options are generally a lump sum or periodic payments, both of which could be several hundred thousand dollars.

It will depend on an individual's financial situation as to what is the best way to pay, including whether they are in a position to and want to sell their house to make the lump sum payment.

In addition to the emotional attachment some people have to their home there may be someone still living in the home. The sale of a house can also have further financial implications, including impacting one's Age Pension.

An alternative to selling is to rent the house and use the rental income to meet the accommodation or care costs or look at alternative income producing assets such as those within a superannuation fund.

The cost of care inside an aged care facility also depends on an individual's financial circumstances.

Choosing the best form of aged care and working out the most beneficial way of paying for it from a Centrelink and personal financial point of view requires expert knowledge of various systems, including aged care, Centrelink and taxation.

Making the most of low interest rates

The current low interest rate environment is good news for anyone with a mortgage or hoping to buy their first home, but a challenge for savers. Whatever your personal situation, the question now is how to make the most of low rates.

Reserve Bank has indicated that low rates are here to stay, with some indications that they could go even lower in coming months.

Rather than wait to see how low rates will go, there are things you can do now to take advantage of lower rates or minimise their impact, depending on your personal circumstances.

Grab a better home loan deal

Many banks moved quickly to cut home loan interest rates in the days following the Reserve Bank's rate reduction in July, although not all of them passed on t he full amount.

The average standard variable rate offered by the big four banks is now between 4.92 and 4.98 per cent, saving the majority of variable rate homeowners over $100 a month.[i]

The big four also cut their discount rates, while some smaller lenders are offering rates as low as 2.89 per cent. The lowest 1-year fixed rate is below 3 per cent.

While house prices and interest rates continue to fall, the stars could finally be aligning for Australians wanting to buy their first home.

The Australian Regulation Prudential Authority (APRA) plans to relax the minimum 7 per cent interest rate banks are required to use when assessing borrowers' ability to service a home loan.[ii]

Also, the Morrison government proposes low deposit financing for eligible first home buyers who save a deposit of as little as 5 per cent up to 20 per cent to purchase property.[iii]

For people with existing home loans, it's time to check whether you are getting a good deal from your lender. If not, ring them to negotiate a lower rate and be prepared to shop around if they won't budge.

The outlook for savers

Lower interest rates can be more challenging for savers. That includes anyone with a savings account as well as retirees who depend on the income from term deposits to help with living expenses.

Term deposit rates are likely to head south of 2 per cent. The best interest rate for $10,000 invested in a 1-year term deposit is currently around 2 per cent.

Banks have also been cutting rates on their online savings accounts. The best rates on offer are currently around 2.4 per cent for the first four months, before dropping to a base rate around half that, so shop around and read the terms and conditions.

The hunt for yield

If you have a longer time horizon, growth assets such as shares and property can provide regular income. If you can ride out the short-term fluctuations in share and property prices, the income they provide in the form of dividends (shares) and rent (property) tend to be more stable and reliable.

The national average rental yield on Australian residential property is sitting at around 4.1 per cent.[iv] Coincidentally, Australian shares currently provide an average dividend yield of 4 per cent (7 per cent after franking) but many quality companies pay more.[v]

For example, the big four banks currently offer dividend yields of between 5.2 and 6.8 per cent. After franking credits are included, the yields grow to 7.5 and 9.7 per cent respectively.

Whether you plan to borrow or pump up your income, falling interest rates offer opportunities and challenges. If you would like to discuss the impact of lower rates on your investment strategy, give us a call.

i https://www.abc.net.au/news/2019-07-03/what-the-rate-cuts-mean-for-you/11273500

ii http://apra.gov.au/media-centre/media-releases/apra-proposes-amending-guidance-mortgage-lending

iii https://www.liberal.org.au/our-plan-support-first-home-buyers

iv CoreLogic, 1 June 2019, https://www.corelogic.com.au/sites/default/files/2019-06/CoreLogic%20home%20value%20index%20JUNE%20FINAL.pdf

v AFR share online market tables, 24 June 2019

How much super is enough?

Most of us dream of the day we can stop working and start ticking off our bucket list. Whether you dream of cruising Alaska, watching the sun rise over Uluru, improving your golf handicap or spending time with the grandkids, superannuation is likely to be a major source of your retirement income.

The more money you squirrel away in super during your working years the rosier your retirement options will be. The question is, how much is enough?

Estimating your needs

Financial commentators often suggest you will need around two thirds (67 per cent) of your pre-retirement salary to enjoy a similar standard of living in retirement.[i] Lower income households may need more because they typically spend more of their income on necessities before and after retirement.

The latest ASFA Retirement Standard estimates that a couple retiring today needs a retirement super balance of $640,000 to provide a comfortable standard of living. This would provide annual income of $60,977.[ii]

Singles need a lump sum of $545,000 to provide a comfortable income of $43,317 a year. These figures assume people own their home and include any entitlements to a full or part Age Pension.

How do I compare?

According to the latest figures, the mean super balance for all workers is $111,853 for men and $68,499 for women. The mean balance at retirement (age 60-64) shows most people retiring today fall well short of the amount needed for a ‘comfortable’ retirement.[iii]

The gap between men and women persists at all ages. By the time women reach their 60s they have 42 per cent less super than men on average and are more likely than younger women to have no super at all.

How can I boost my super?

If your super is not tracking as well as you would like, there are ways to give it a kick along. When your budget allows, or you receive a windfall, consider putting a little extra in super. Even better, set up a direct debit or salary sacrifice arrangement.

- You may be able to make a tax-deductible contribution up to the $25,000 annual concessional cap but be aware that this cap includes employer contributions and salary sacrifice.
- You may also be able to contribute up to $100,000 a year after tax, or $300,000 in any three-year period. You can't claim it as a tax deduction, but earnings will be taxed at the maximum super rate of 15 per cent rather than your marginal rate and you can withdraw the money tax-free from age 60. Your age and the amount you have in super can restrict the amount of contribution caps.
- If you earn less than $37,000, your other half can contribute to your super and claim a tax offset of up to $540. The offset phases out once you earn $40,000 or more.
- If you are a mid to low income earner and make an after-tax contribution to your super account, the government will chip in up to $500. To receive the maximum, you need to earn less than $37,697 and contribute at least $1,000 during the financial year. The government co-contribution reduces the more you earn and phases out once you earn $52,697.
- Speak with your employer about directing some of your pre-tax salary into super. 'Salary sacrifice' contributions are taxed at a maximum of 15 per cent (30 per cent if you earn over $250,000). But stay within your concessional contributions cap of $25,000 a year, which includes employer contributions.

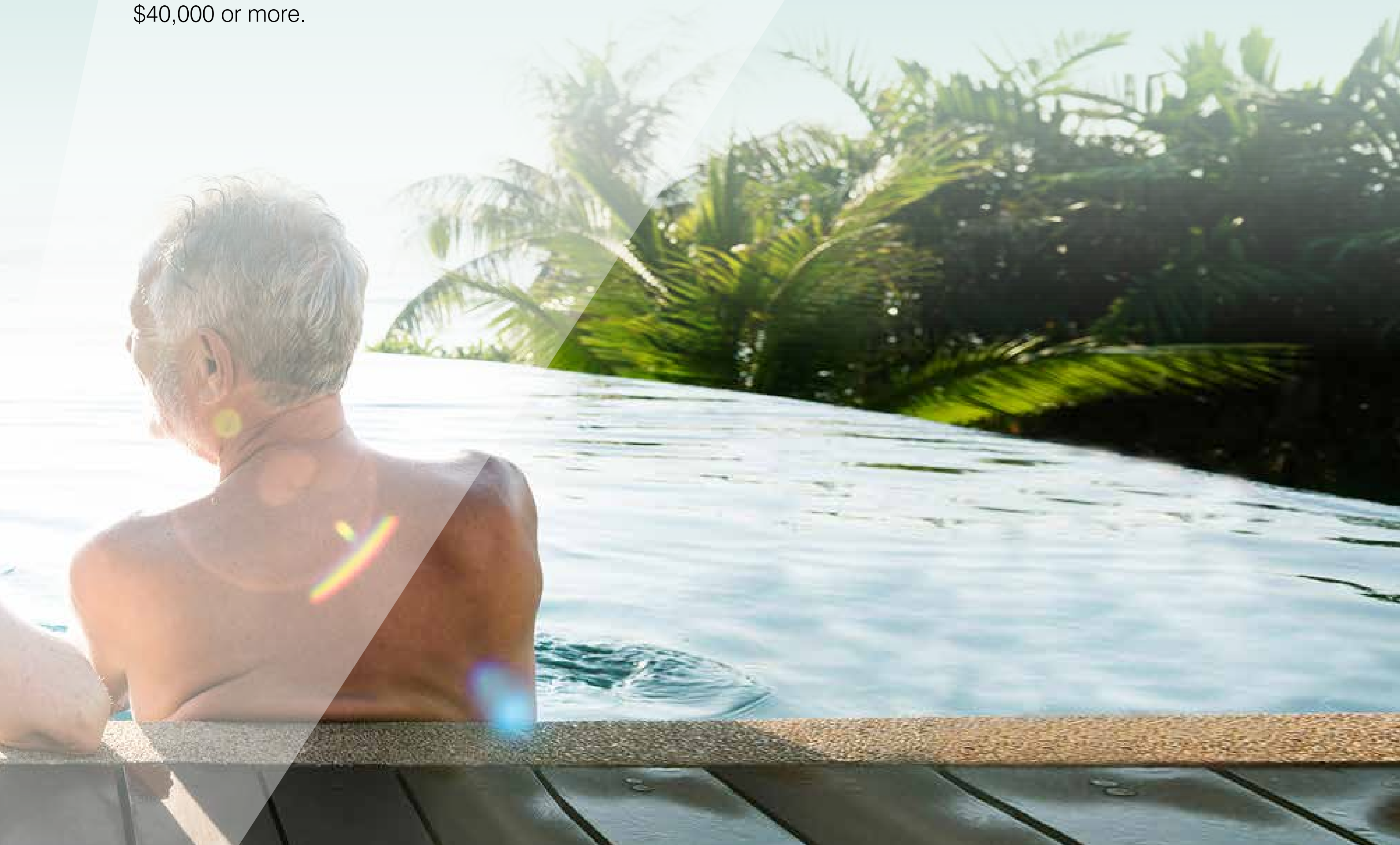
To work out the difference extra contributions could make to your retirement nest egg, try out the MoneySmart retirement planner calculator.

If you would like to talk about your retirement income strategy, give us a call.

i Moneysmart, Last updates 27 Aug 2018, https://www.moneysmart.gov.au/superannuation-and-retirement/how-super-works/super-contributions/how-much-is-enough

ii ASFA Retirement Standard, 1 December 2018, https://www.superannuation.asn.au/resources/retirement-standard

iii Superannuation Statistics, March 2019, ASFA, https://www.superannuation.asn.au/ArticleDocuments/269/SuperStats-Mar2019.pdf.aspx?Embed=Y



Smart ways to invest your tax return

Tax time can often feel like a hassle, but it's all worth it when that tax refund lands in your account. So, what's the best way to spend it?

With last year's average refund being $2,574, it's no small question.[i] And if you are one of the lucky ones to receive a refund your options are endless. From paying down debt to investing in your future to blowing it all on a big holiday, the choice of how you spend your refund will depend on your goals and your circumstances.

Pay down debt

It may not be particularly glamorous, but paying down any debts you have can be a very wise way to spend your tax refund. Especially because you'll probably save even more on the future interest you won't end up paying.

Australians have a whopping $45 billion in credit card debt.[ii] Consider clearing any overdue balance, and while you're at it why not reduce your limit so you're not as likely to go that far again.

You might also consider putting some of your tax refund towards your home loan. Again, a $2,000 reduction in what you owe now could mean a much bigger saving over the lifetime of your loan.

Invest in your future

Your tax refund could also be a fantastic way to pay for an investment in your future.

A good way to start is by putting a little more towards your super. Superannuation is still the most tax effective way of saving for the retirement you dream of, and the interest on the additional contribution now could compound to make a big difference to the overall size of your nest egg.

Investing in your future might also mean taking a short course to upskill, or diversify your talents. There are TAFEs and adult education facilities across the country that offer a plethora of short courses from the vocational, to ones that purely play to personal interest. Have a google and see what's going on in your neighbourhood.

If you're feeling generous, you might even consider directing some of your refund towards the future of a loved one. This might include starting a fund to help your kids towards a house deposit, a first car or their future education. Talk to us about what your options are.

Save for a rainy day

It's awful to think about, but you never know what the future holds, so having a little money aside for a rainy day is never a bad idea. It might help with future medical expenses or a loss of income, or even those everyday unexpected expenses such as a broken fridge or car repairs. Getting in the habit of putting a portion of your tax refund towards a rainy-day fund could make a real difference if life takes a turn for the worse.

Have a little fun

You work hard, and there's nothing quite like the feeling of having a few extra thousand in the bank. So, you'll be forgiven if you want to have a little bit of fun. From a weekend away to a retail binge, there are many ways you can blow a tax refund. Our advice to you: be cautious. By all means splurge on some pampering, but make sure you get the mix right by either reducing any unpaid debt or investing in your future.

The right mix

The truth is you can use your tax refund in a number of ways and none of them are right or wrong. Perhaps the wisest thing to do then is mix it up, spending the bulk of it prudently while saving a little bit just to do something that really makes your heart sing.

i https://www.moneysmart.gov.au/managing-your-money/income-tax/how-australians-spend-their-tax-refunds

ii https://www.abc.net.au/news/2018-07-04/1-in-6-credit-card-users-struggle-under-mountain-of-debt/9936826

How Australians are planning to spend their tax refund

- 64% are planning to save their refund
- 2% are planning to pay off debts
- 13% are planning on a holiday/ entertainment or clothes

Source: ME's Tax Back Survey 2018

How to avoid a scam

Con artists make entertaining subjects for Hollywood scriptwriters (think *The Wolf of Wall Street*, *Ocean's Eleven* and *Catch Me If You Can*), but there's nothing enjoyable about being conned and fleeced in real life.

On the latest figures available, Australians lose over $10 million every month to scammers.[i] There are plenty of rackets running at any one time involving pyramid schemes, identity theft, fake lottery wins and non-existent inheritances, but the unholy trinity of cons are:

1. Investment scams
2. Dating scams
3. Fake billing scams

Investment scams

The grift: According to the ACCC, investment scammers mainly target those in the 45-64 age group; people who are likely to have amassed some capital and wanting to set themselves up for retirement.

Investment scams usually involve traditional investment products, such as commodities, stocks and real estate. Nowadays, the investment often has something to do with cryptocurrency or binary options (i.e. betting on events, such as a company's share price rising.)

The fraudster typically cold calls, texts or emails the victim. They pose as a knowledgeable insider (e.g. a stockbroker) who's able to facilitate a low risk, high return investment. Often fraudsters will spend considerable time grooming victims and direct them to a professional-looking website or send them impressive-looking documents.

Red flags: Firstly, being called, texted or emailed out of the blue by someone offering an investment opportunity. Secondly, being assured the investment opportunity involves no or negligible risk while offering incredible returns. Visit the ASIC's MoneySmart site to review the list of companies it's identified as dodgy and we can provide advice on any investment opportunity you may be considering.

Dating scams

The grift: Almost all online daters are guilty of gilding the lily. But if an online match seems too good to be true and they start requesting financial assistance, you're at high risk of losing your shirt (and not in a good way).

Romance scammers' MO is as straightforward as it is heartless. They create a fake profile, 'love bomb' their marks and possibly encourage them to 'sext', so they have embarrassing images to use as blackmail.

Then they start asking for money, gifts or bank account details, claiming a family member needs a medical procedure, or they want to buy a plane ticket to meet in person, or they need to transfer money to another country.

Red flags: It's rarely a good sign if there are puzzling inconsistencies (e.g. someone who claims to be an educated professional making basic spelling mistakes). Equally if the relationship escalates abruptly (e.g. professions of undying love after a few brief exchanges), or if your new paramour is cagey about revealing themselves or their personal details (e.g. they claim they are unable to Skype or won't reveal their address).

Fake billing scams

The grift: Fake invoices are sent to a businessperson for things such as office supplies or a domain-name renewal. A common variant of this swindle is fake notifications from the ATO claiming a tax debt needs to be paid urgently to avoid dire legal consequences.

Red flags: Businesses do have expenses and individuals do need to pay taxes so it can be easy to be taken in by fake bills, especially if you don't examine them carefully.

Two signs a charge is dubious are mistakes (e.g. the domain name you're being asked to renew is misspelled on the bill) or odd conditions (e.g. the ATO saying it will accept gift cards or bitcoin as payment).

If you have any doubts, Google the business or government agency then ring its helpline to confirm your debt is real. (Don't use any of the contact details supplied on the invoice.)

For information on the latest scams and who they are targeting, visit the government's Scamwatch site. The ATO also regularly updates its scam alerts.

Swindlers seek to leverage powerful emotions – greed, love and fear – to encourage their victims to act impulsively. If you receive an approach or a request for money that doesn't seem quite right, hang up or exit the website and do some background checks. If you're unsure we can help you spot the scam and protect your financial future.

And remember… as the saying goes, if it seems too good to be true, it probably is.

If you've come across an online article or report that you have questions about, we'd be happy to review and discuss it with you.

i https://www.scamwatch.gov.au/about-scamwatch/scam-statistics?scamid=all&date=2019-03

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