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QUARTERLY INSIGHT

InterPrac Financial Planning Newsletter Edition 1 2022

Autumn update

It's officially Autumn which, of course, also means that the long-awaited footy and netball seasons are well and truly upon us!

This year, it also means there's a Federal Election to be run. In an environment of some uncertainty and upheaval, both domestically and abroad, there will be anxious times ahead as Australians have their say at the ballot box.

While cooler Autumn weather may be welcomed by many, it is very sobering to truly appreciate the immense damage and destruction caused by the recent floods across parts of the country. Please spare a thought for those that have been affected and particularly those who have tragically lost loved ones. Let's help each other where we can and rebuild together.

In this edition we look at the market's volatile start to the year and how some events have had an impact on it.

While it may seem to be too early to think of the financial year end, we give you a few points to consider and act on well before the event.

It's true that there is no longer a set point in one's life to retire. There are ever-increasing opportunities to make a transition from full-time work to retirement and we take a closer look at this important topic.

We also look at why we should go home on time from work every day and how to plan our working day to improve work-life balance.

Enjoy Easter, stay safe and, as your Financial Adviser, we are here to help you. Please don't hesitate to call us if you require our assistance.

Markets Outlook CY22...

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Volatile start to the year

The start to CY22 has been anything but smooth, with gold the only asset registering a positive return so far this year. The markets were initially sold off in January when the U.S. Federal Reserve turned decidedly hawkish in their public comments, which then led to the market pricing in aggressive interest rate hikes in the U.S. over CY22. Whilst investors were trying to determine how aggressively global central banks were going to pull back liquidity this year, the conflict between Russia and Ukraine escalated to an all-out war. Since this time, we have seen a very typical risk off environment in markets - safe havens U.S. Treasuries, U.S. dollar & gold are all higher, whilst risky assets have been sold off further.

How do geopolitical events impact markets?

It is worth highlighting that on average geopolitical events do not tend to have a significant impact on markets. Analysing data from 18 geopolitical events since 1940 which led to S&P 500 Index (a proxy for global equity markets) declines highlights that on average, the total drawdowns from these events was -5.4% and it took approximately 15 days for the S&P 500 Index to bottom. The other takeaway from these past events was that the biggest drawdowns in S&P 500 took place in U.S. Terrorist Attacks (2011), Iraq Invasion of Kuwait (1990), North Korea Invades South Korea (1950) and Pearl Harbor Attack (1941) - which all resulted in the U.S. going to war. With the U.S. just coming out of the Afghanistan debacle, we do not believe the U.S. has the appetite for another drawn out war. Further, to date, U.S. President Joe Biden and NATO have ruled out sending troops to Ukraine. All else being equal, we believe this geopolitical event should follow similar trends of the past geopolitical events.

However, the conflict will impact economic growth

Even prior to the Russian / Ukraine conflict, the International Monetary Fund (IMF) had lowered its own 2022 global growth outlook this year, noting that the global economy *"enters 2022 in a weaker position than previously expected."* Among the reasons the IMF lowered its growth outlook was removing Joe Biden's Build Back Better fiscal plan, earlier than expected withdrawal of accommodative monetary policy in the U.S. and economic slowdown in China. Earlier this year we wrote to clients noting that the Euro-zone economic growth could potentially disappoint expectations citing Covid-related restrictions. However, the Russia / Ukraine conflict will add further downward pressure on economic growth in the Euro-zone which relies on Russia for key energy source.

Central banks will become nimble with monetary policy

In our view, developed market central banks led by the U.S. Federal Reserve will still look to raise interest rates from ultra-low levels to combat current inflationary pressures. However, they will take a more cautious approach to raising rates too aggressively as it may derail the economic recovery.

If corporate earnings growth holds up, then we are unlikely to see a long bear market

The current sell-off in the equities market is largely macro driven (threat of tighter monetary policy & Russia / Ukraine conflict). Broadly speaking the outlook for earnings remains healthy, though some corporates do face near term earnings risk due to Covid-19 disruptions and fallout from Russia/Ukraine conflict. It is not uncommon for markets to experience sell off despite a healthy earnings outlook - e.g., the 2018 equity market sell-off also took place during healthy earnings reporting season. However, over the long-term, fundamentals invariably drive equity prices. Hence, given the current expectations for solid earnings growth over this year, it is hard to see a long bear market ensue.

Conclusion: expect ongoing volatility in CY22 but opportunities are emerging

We expect volatility in equity markets to remain elevated over CY22 as global central banks try to pull back ultra-loose monetary policy, global economic growth moderates and it appears there will be no quick resolution to the Russia / Ukraine conflict. However, we believe investors with a long-term view and style agnostic investment approach should use this opportunity to purchase good quality companies. Banyantree's **Australian Core Equity** and **Australian Small Companies Managed Portfolios** on the Hub24 platform are significantly outperforming their respective benchmarks since inception by **+1.88% p.a. and +3.32% p.a.**, respectively.

Investors seeking an actively managed solution to Australian equities should contact their adviser to see whether this solution will be appropriate for them.

Easing into retirement

As the nation drifts back to work after the summer break, it's often a time goals for the new year are put into place. For some, an extended holiday may have convinced you that you are ready for more of the good life and that it's time to retire.

In the past, that would have meant leaving work for good. These days, retirement is far more fluid.

You might simply want to wind back your working hours. Or you may want to leave your full-time job but keep your career ticking over with part-time or consulting work. Others may dream of leaving the nine to five to run a B&B or buy a hobby farm.

Changing retirement patterns

There are already signs that people's retirement plans are changing.

In 2019, the average retirement age for current retirees was 55 (59 for men and 52 for women[i]), but the age that people currently aged 45 intend to retire has increased to 64 for women and 65 for men.[ii]

There are many reasons for this gap between intentions and reality. Only 46 per cent of recent retirees said they left their last job because they reached retirement age or were eligible to access their super. Many retired due to illness, injury or disability, while others were retrenched or unable to find work.[iii]

Retired women were also more likely than men to retire to care for others. But for people who can choose the timing of their retirement, there can be good reasons for delay.

Reasons for delaying retirement

As the Age Pension age increases gradually from 65 to 67, anyone who expects to rely on a full or part pension needs to work a little longer than previous generations.

We're also living longer. A man aged 65 today can expect to live another 20 years on average while a woman can expect to live another 22 years.[iv] So, the longer we can keep working the further our retirement savings will stretch.

And then there's COVID. If you lost your job or your hours were reduced during the pandemic, you may need to work a little longer to rebuild your savings. Even if you kept your job, you couldn't go anywhere so you may have postponed your retirement plans. But now the COVID fog is lifting, retirement may be back on the agenda.

Whatever shape your dream retirement takes, you will need to work out how much it will cost and if you have sufficient savings.

Sourcing your retirement income

If you plan to retire this year, you will need to be 66 and six months and pass assets and income tests to apply for the Age Pension. But you don't have to wait that long to access your super.

Generally, you can tap into your super once you reach your preservation age (between age 55 and 60 depending on the year you were born) and meet a condition of release such as retirement. From age 65 you can withdraw your super even if you continue working full time.

But super can also help you transition into retirement, without giving up work entirely.

Transition to retirement

If you're unsure whether you will enjoy retirement or find enough to do to fill your days, it can make sense to ease into it by cutting back your working hours. One way of making this work financially is to start a transition to retirement (TTR) pension with some of your super.

Most super funds offer TTR pensions, or you can start one from your self-managed super fund (SMSF). But there are some rules:

- You must have reached your preservation age
- Money can only be withdrawn as an income stream, not a lump sum
- There is a minimum annual withdrawal
- The maximum annual withdrawal is 10 per cent of your TTR account balance
- Income is tax-free if you are aged 60 or older; if you're 55-59 you may pay tax on the TTR income, but you receive a tax offset of 15 per cent.

One of the benefits of this strategy is that while you continue working you will receive Super Guarantee payments from your employer. A downside is that you will potentially have less super in total when you finally retire.

Retirement is no longer a fixed date in time, with far more flexibility to mix work and play as you make the transition. If you would like to discuss your retirement options and how to finance them, give us a call.

i https://www.abs.gov.au/statistics/labour/employment-and-unemployment/retirement-and-retirement-intentions-australia/latest-release

ii https://newsroom.kpmg.com.au/will-retire-data-tells-story/

iii https://www.abs.gov.au/statistics/labour/employment-and-unemployment/retirement-and-retirement-intentions-australia/latest-release

iv https://www.aihw.gov.au/reports/life-expectancy-death/deaths-in-australia/contents/life-expectancy

Getting in early to make the most of End of Financial Year

It seems like June 30 rolls around quicker every year, so why wait until the last minute to get your personal finances in order?

With all the uncertainty and special support measures of the past two years, it's possible your finances have changed for better or for worse. So it's a good idea to ensure you're on track for the upcoming end-of-financial-year (EOFY).

Starting early is essential if you want to make the most of the opportunities on offer when it comes to your super and tax affairs.

New limits for super contributions

A key task for EOFY is maximising your super contributions to boost your retirement savings and take advantage of the available tax benefits. Annual contribution limits for super rose this financial year, so this strategy is even more attractive.

From 1 July 2021, most people's annual concessional contributions cap increased to $27,500 (up from $25,000). This allows you to contribute a bit extra into your super on a before-tax basis, potentially reducing your taxable income.

If you have any unused concessional contribution amounts from previous financial years and your super balance is less than $500,000, you may be able to "carry forward" these amounts to further top up.

Another strategy is to make a personal contribution for which you claim a tax deduction. These contributions count towards your $27,500 cap and were previously available only to the self-employed. To qualify, you must notify your super fund in writing of your intention to claim and receive acknowledgement.

Non-concessional super strategies

If you have some spare cash, it may also be worth taking advantage of the higher non-concessional (after-tax) contributions cap. From 1 July 2021, the general non concessional cap increased to $110,000 annually (up from $100,000).

These contributions can be a great help if you've reached your concessional contributions cap, received an inheritance, or have additional personal savings you would like to put into super. If you are aged 67 or older, however, you need to meet the requirements of the work test or work test exemption.

For those under age 67 (previously age 65) at any time during 2021-22, you may be able to use a bring-forward arrangement to make a contribution of up to $330,000 (three years x $110,000).

To take advantage of the bring-forward rule, your total super balance must have been less than $1.6 million at 30 June 2021. Some people can only access two years of bring-forward, so it's a good idea to talk to us before making your contribution.

More super things to think about

If you plan to make tax-effective super contributions through a salary sacrifice arrangement, now is a good time to discuss this with your employer, as the ATO requires an effective arrangement to be documented prior to commencement.

Another option if you're aged 65 and over and plan to sell your home is a downsizer contribution. You can contribute up to $300,000 ($600,000 for a couple) from the proceeds without meeting the work test.

And don't forget making a contribution into your low-income spouse's super account could score you a tax offset of up to $540.

To take advantage these super tax concessions, ensure your contributions meet all the eligibility rules and are received by your super fund well before June 30.

Know your tax deductions

It's also worth thinking beyond super, to see what else you can do to reduce tax.

If you've been working from home due to COVID-19, you can use the shortcut method to claim 80 cents per hour worked for your running expenses. But make sure you have detailed records of hours worked to substantiate your claim.

You also need to prepare supporting documents to claim work-related expenses such as car, travel, clothing and self-education. Check whether you qualify for other common expense deductions such as tools, equipment, union fees, the cost of managing your tax affairs, charity donations and income protection premiums.

Review your investment portfolio

After a year of strong investment market performance, now is also a good time to do a thorough analysis of your finances outside super.

Review your investment strategy, benchmark your portfolio's performance and check whether any assets need to be sold or purchased to rebalance the portfolio back into line with your strategy.

You might also consider realising any investment losses, as these can be offset against capital gains you made during the year.

There's a lot to think about, so if you would like to discuss EOFY strategies and super contributions, call our office.

New super rules passed in Parliament

Some of the last sitting days before this year's Federal election saw changes to the superannuation rules finally pass through both houses of Parliament. Here's a roundup of some of the key developments.

Several reforms to the super rules were legislated during the final marathon full Parliamentary session before this year's Federal election.

Low-income earners and superannuation guarantee contributions

Removal of the current $450-per-month threshold for payment of Superannuation Guarantee (SG) contributions means from 1 July 2022, employers will be required to make contributions for employees earning less than this amount.

The Morrison Government committed to removing this threshold in the 2021-22 budget to improve the economic prospects of women.

Changes to the work test for non-concessional and salary-sacrificed contributions to super

Other key changes to the super rules include the removal of the work test for individuals aged 67 – 75 to meet the work test to make salary sacrifice contributions or non-concessional contributions. The work test will continue to apply for those aged between 67 –75 who claim a deduction for personal contributions.

To pass the work test, people have to work for at least 40 hours within 30 consecutive days in a financial year before voluntary contributions can be accepted by a super fund.

Bring forward arrangement changes

From 1 July 2022 contributors over age 67 will be able to make or receive non-concessional super contributions using a bring-forward arrangement.

If you meet all the eligibility criteria, the bring-forward rules allow you to make non-concessional contributions of up to three times the annual general contributions cap in a single year (3 x $110,000 = $330,000 in 2021–22).

Downsizer age limit reduction

The new legislation also includes a reduction in the age limit for downsizers wanting to make a one-off contribution to their super when they sell their family home.

Downsizers will be able to leverage the post-tax contribution of up to $300,000 per person at the age of 60 rather than 65.

The government hopes this will encourage more older people to downsize and free up more large homes for younger families.

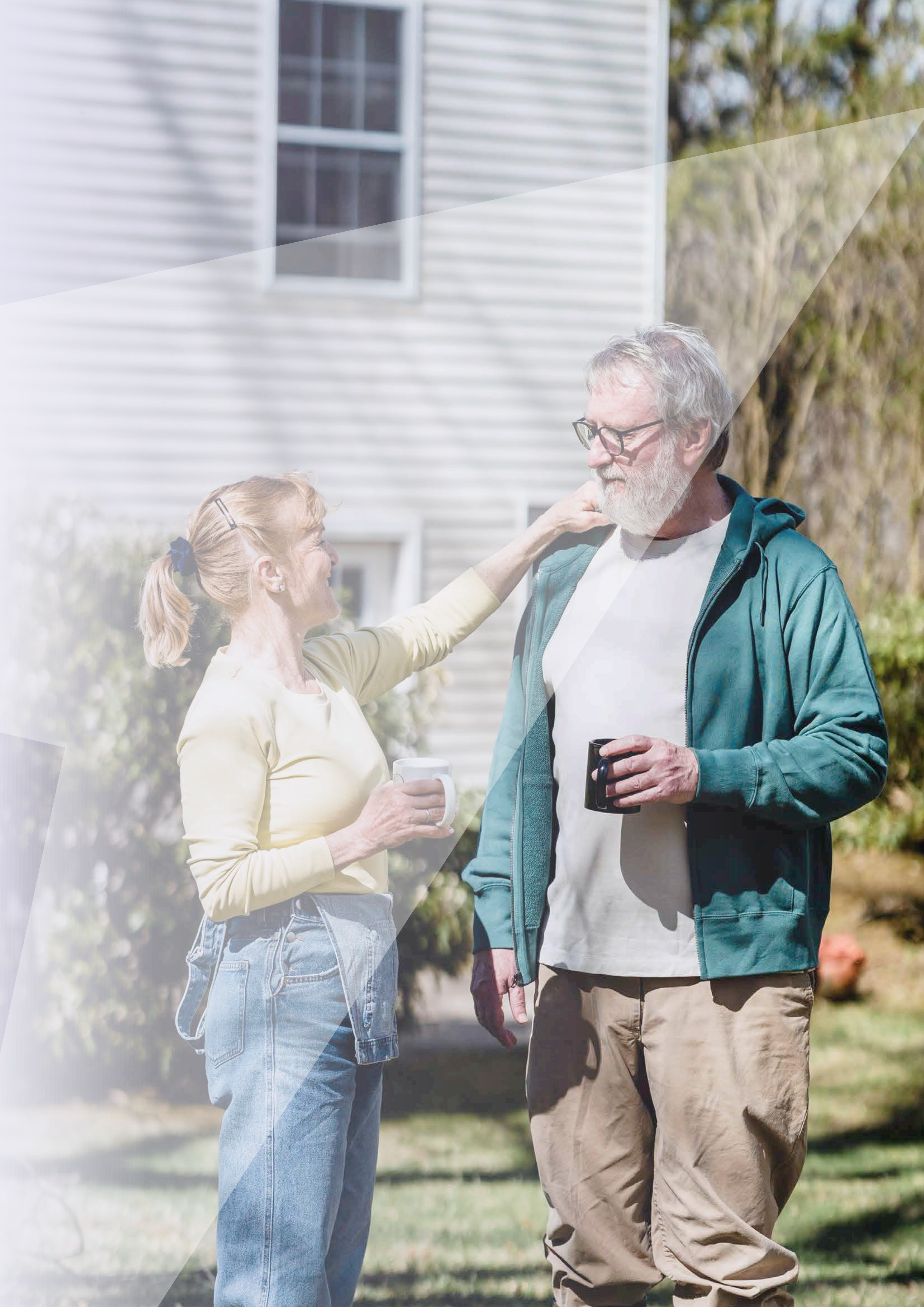
First-home buyer super savings

First-home buyers have been able to use their super accounts as a savings vehicle, under what's known as the First Home Super Saver Scheme (FHSSS) since 2017.

By making voluntary contributions to their super, first-home buyers pay the lower super tax of 15 per cent instead of income tax, helping them to save for a house deposit.

The Government has now upped the amount that can be saved this way, from $30,000 to $50,000, to reflect rising house prices.

Contact us if you'd like more information on how these legislative changes could impact you.



Why you should go home on time every day

Working overtime on a regular basis doesn't guarantee increased productivity. Learn how to get work done without the long hours.

How many days a week do you stay back late? Sometimes leaving work on time isn't always possible, especially when you're juggling tight deadlines. But if you're working late on a regular basis it may be time to take a step back and re-evaluate your work-life balance.

Working overtime is common practice in our society, with many people in Australia working an average of six hours' unpaid overtime a week, according to a survey conducted by The Australia Institute.

The last 18 months has presented additional challenges in this space. Many employees worked remotely for much of this stretch, which further blurred the line between work and home. This was especially relevant during periods of lockdown, where the ability to socialise and do activities outside of work was limited.

The detrimental effects of excessive overtime on both our physical and mental health are considerable. It can increase fatigue and stress, while decreasing wellbeing and quality sleep. It can also place a strain on our relationships both in and outside of work. If left unchecked, an unhealthy work-life balance can result in complete burn out.

Research shows that working more than 48 hours a week is linked with significant declines in productivity, more errors, and an increased risk of mental health conditions such as anxiety and depression.

'Go Home on Time' Day, reminds us of the importance of looking after our mental health and wellbeing at work. Think about your average working day ¬– perhaps it's time to make a few changes?

Working within your core hours and taking regular breaks can actually help you be more productive at work. You'll likely adopt better work practices, get better at saying no and managing your time.

Feeling better equipped to tackle life's challenges is another upside to a better work-life balance. You're also more likely to make healthy lifestyle choices and build and maintain healthy relationships.

Beyond leaving work on time, there are several things you can do to improve your work-life balance.

Plan ahead

Schedule meetings during core work hours and avoid taking work home with you. If you're working from home or are self-employed, try to establish and stick to your normal working day so that it doesn't interfere with your home life.

Take a break

Whether it be your lunch break or your annual leave, taking some time out to reset can help increase productivity and reduce work-related stress, which in turn lowers the risk of anxiety and depression. Don't have time? Make time. Block out 10-or-20-minute breaks in your calendar to take a break and step away from whatever you're working on.

In terms of a proper break, try to plan extended holidays a few months in advance. This will allow everyone time to plan for your absence, so you don't wind up checking in with work when you're meant to be on holiday.

Set realistic deadlines

We all know the feeling of getting to the end of the day and seeing you haven't checked everything off your list. Avoid that disappointment by splitting up tasks and setting achievable goals for the day ahead.

Just say no

It's OK to say no. In fact, many would argue we don't say it often enough. Giving yourself the option to turn work down can help manage your workload, so you don't end up with too much on your plate.

Switch off

Take time away from your phone or computer. Consider not having your work emails connected to your phone, or at least turn off work-related notifications. When you're not working, do things that energise you and bring you joy – and try not think about work!

Be flexible

If you're finding that your working hours are not fitting into your everyday life, explore your options. Laws exist to support employees who meet certain criteria. This could mean working an hour earlier so you can leave earlier to pick up your children.

Or look into working from home at least one day a week. The uplift in wellbeing and productivity makes this an increasingly popular move, both for both employees and employers.

On this Go Home on Time day, as well as going home on time, think about how you can improve your work-life balance and make some key changes.

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