July 2020

July is here along with the winter chill. But July also signals the start of a new financial year and chances are most Australians are happy to say goodbye to the last one. This year more than ever it's a great time to plan your finances for the year ahead, to rebuild or make the most of savings you have made during months of social isolation.

With an extraordinary financial year behind us, it's a good time to take stock. After 28 years Australia's record economic expansion ended due to the COVID shutdowns. Our economy contracted by 0.3% in the March quarter and looks set to contract 8% in the June quarter, confirmation that we are officially in recession. The Budget deficit for the 12 months to May was a record $65.5 billion or 3.3% of GDP, $61 billion higher than predicted just last December. Unemployment rose to 7.1% in May, the highest since 2001, with another 1.6 million Australians on JobKeeper payments.

Yet Australia is weathering the COVID storm better than most nations, with signs of building business and consumer confidence. Retail sales rose a record 16.3% in May, after a record 17.7% fall in April, while new vehicle sales fell 35% in the year to May. The ANZ/Roy Morgan consumer confidence index is up 42% on its record lows in March, while the NAB business confidence index rebounded to -20 points in May, up from a record low of -65 points in April.

Financial markets finished the financial year mixed, but in better shape than many feared. In the year to June, US shares rose 4.6% while Australian shares trimmed their losses to 10.8% after a partial rebound in the last quarter. Falling global demand hit crude oil prices (down 33%) and iron ore (down 14%). The Aussie dollar firmed 3.7% in June to finish the year at US69c as a mark of Australia's sure handling of the COVID crisis.

See Clear Wealth Pty Ltd
Allinsure Building
18/2 Yallourn Street
Fyshwick ACT 2609
M 0474 444 480
E robert@seeclearwealth.com.au
W www.seeclearwealth.com.au
Facebook SeeClearWealth
Linkedin https://www.linkedin.com/in/rob-hollerin-816bb121/

New financial year new perspective

The start of the financial year is always an excellent time to take stock of your current situation and visualise where you'd like to be in the future.

It's fair to say this year hasn't been 'business as usual'! While no-one could have predicted the first six months of 2020, nor want to repeat them, it's likely there have been lessons learned. So as you review and set new goals, consider any takeaways from lockdown and how they have influenced your goals and path for the future.

Different priorities and new goals

Your priorities may have forcibly changed in response to the change of circumstances, or perhaps you realised that some things are more important to you than others. Do you now want to spend more time with family, improve your connection to your friends, help out in the community? Perhaps you have a reignited passion for your work or have been motivated to look for greater opportunities. Has not being able to travel in the short-term made you more determined to hit the road or jet off to a new destination?

Work/life balance remains a top priority for many people, yet it can feel elusive at the best of times. By identifying what is important to you and what you want more (or less) of, you'll be better placed to make changes to reach more of a balance.

You might have also discovered a new hobby. If you're a gym junkie, you might have made the shift to exercising outdoors and discovered a love of trail running or mountain biking. If you love visiting restaurants and cafes, perhaps you started to enjoy more time in the kitchen, trying to replicate your favourite chef-cooked meals. Whatever hobby you've picked up or re-sparked, think about how you can keep it up when life returns to a new normal. Perhaps this hobby could even be a side business or has ignited an idea for a new career path?

Awareness of your finances

It's likely your financial situation has changed in 2020. Your income and expenditure may have altered during the period of lockdown, and while we were all impacted in different ways, the period presented a degree of uncertainty for everyone, highlighting the need for financial security.

The financial goals you established last financial year or in January are likely to have shifted due to the year's upheaval. And you may also have new goals following the COVID-19 pandemic. Review your finances and your budget to set new objectives, working with your current situation to build a financial safety net and work towards your future goals.

Setting and achieving your goals

The first half of the year has shown us that plans can and sometimes, must change. But don't let this stop you from setting goals and working towards your vision of the future.

Ensuring your goals are smart, or specifically SMART – Specific, Measurable, Assignable, Realistic and Time-related, will make it easier for you to follow through and achieve them. Whether they're related to finances, your career or spending more time with family and friends, drill down into the details.

The SMART framework strengthens your goals by making sure they are thought through. For instance, if this has been a time of financial instability for you, your priority could be having more savings behind you. But how much money will you put away and how often, who will make this happen, and is this feasible? With increased uncertainty, it may be beneficial to set micro goals with shorter time frames. This will allow you to be adaptable while still progressing towards your larger goals.

Getting support

This tumultuous year has also highlighted the importance of reaching out for support. This may be a coach, friend or mentor who provides guidance, encouragement and keeps you accountable on your journey. When it comes to establishing your financial goals and working through concerns, you don't have to go it alone.

We can help keep you on track to achieving your objectives and guide you through the process, so feel free to get in touch today.

Making the most of *falling interest rates*

The Reserve Bank's decision to cut official interest rates is good news for anyone with a mortgage or hoping to buy their first home, but presents a challenge for savers. Whatever your personal situation, the question now is how to make the most of falling rates.

On July 2, the Reserve Bank cut the official cash rate for the second month in a row by 25 basis points. This second rate cut saw rates falling from 1.25 per cent to 1 per cent, the lowest on record. Many economists predict further cuts, with some suggesting rates could fall to as little as 0.5 per cent.

Just how low rates go will depend on the broader economy. Growth in the three months to March was up just 0.4 per cent, or 1.8 per cent over the year. The Reserve Bank is also concerned about sluggish wage growth, unemployment stuck at around 5 per cent and inflation of 1.3 per cent well below its target 2-3 per cent range.

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 move, although not all of them passed on the 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.

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.[i]

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 2.5 per cent.

Banks have also been cutting rates on their online savings accounts.

The best rates on offer are currently around 3 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 SUPER IS YOUR LIFE INSURANCE

For most people, life insurance provides a safety net against unexpected events. This is particularly the case if you have a mortgage, debts or family who are dependent on you earning an income.

In many cases, life insurance has been automatically offered through superannuation. Although 85 per cent of people hold life insurance this way, a recent survey found one third of them don't even realise.[i]

Now some super members may have lost their insurance cover and may not be aware of it.

Millions could lose cover

Concern that super balances were being eroded through insurance premiums and fees has led the government to introduce Protecting your Superannuation legislation.

As a result, from July 1 this year your insurance cover is to be cancelled if your fund has been inactive for more than 16 months.[ii]

Letters were sent towards the end of the financial year to those with inactive funds, advising you to contact your fund to make a contribution or risk losing your life cover. If you didn't respond, your life insurance policy may have been cancelled.

It's estimated that up to 3 million super members may have been affected.[iii] And while you can buy a new life insurance policy, you may not be able to reactivate your previous one unless your fund offered an extension of the deadline to reactivate cover. If not, you may have to face a medical examination and/or pay higher premiums in order to take out a new policy.

Younger members to opt-in

It is also proposed (although not yet legislated) that new superannuation fund members who are aged under 25 will no longer be given automatic life insurance cover as they have in the past. Instead, they would be given the opportunity to opt in to cover.

The argument in favour of this move is that young people with no responsibilities, have nothing to insure. But once you buy a home, get married or become a parent, the need for life insurance becomes paramount.

As you get older, once the family has flown the nest and you have paid off all your debts, the need for life insurance may reduce. However, with a blended family, a life insurance policy in super can prove a good financial strategy to ensure the right beneficiaries receive your money. That's because superannuation 'death benefits' don't form part of your Will but are paid out separately to your nominated beneficiaries.

SMSFs may also be caught out

Up until now, some self-managed super fund members have deliberately kept a public offer super fund active to take advantage of the cheaper insurance. But as stated above, if that public offer fund is inactive and an election to maintain cover has not been made, then cover may be lost.

The beauty of having life insurance in super is that the premiums are generally cheaper because you are charged at a group rate. In addition, it won't affect your cashflow as premiums come out of your super. Of course, that is the point of this legislation. The monies available for investment to build your balance for retirement may be eroded through those very premiums.

Another precautionary note is that it may be harder to access a payout through super if you need to make a claim. If you haven't correctly nominated a beneficiary in your super, then it is the trustees who decide who receives the payout. And because the insurer makes the payment via the fund, this can also take longer.[iv]

What happens next?

As part of the Protecting your Super changes, inactive funds with balances less than $6000 will see the monies transferred to the Australian Taxation Office. The ATO will then endeavour to amalgamate this money with an active superannuation fund of yours or hold the money for you until it is claimed.

If this happens, investment returns on the money held by the ATO may be significantly less than if you invested through your super.[v]

Don't wait until you need to make a claim to discover you don't have any insurance cover after all. If you have any questions about the changes or your insurance needs in general, give us a call.

i https://www.superannuation.asn.au/media/media-releases/2019/joint-media-release-10-june-2019

ii https://firststatesuper.com.au/member/super/manage-super/protect-your-super

iii https://www.superannuation.asn.au/media/media-releases/2019/joint-media-release-10-june-2019

iv https://www.moneysmart.gov.au/superannuation-and-retirement/how-super-works/insurance-through-super

v https://www.ato.gov.au/Individuals/Super/Growing-your-super/Keeping-track-of-your-super/ATO-held-super/