

# MONEY MATTERS.

Advice. Life. Investments. Superannuation and Retirement.

Edition 2, 2019

## Life stages – which insurance is right for me?

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Could super funds help  
solve Australia's housing  
shortage?

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Changes to  
superannuation  
legislation – what this  
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# Life stages – which insurance is right for me?

**Life insurance is an important investment, but different types of coverage can deliver even better value at different points in your life.**

Many of us put off thinking about life insurance until we've achieved a particular milestone like having kids or buying a house.

But – much like life itself – life insurance is about more than just those big game-changing moments. By looking into the coverage suitable for where you are in the present, you'll also be able to make smart decisions for where you'll be in the years ahead.

## Getting ahead while you're young

Your twenties are all about finding your place in the world. It's a decade where you're moving out of home, navigating the first steps in your career and travelling the world. While taking out life insurance so young might seem like an extreme form of 'adulthood,' it's a decision Dynamic Orange financial adviser Simon Rayner supports.

"Personally, I would recommend you take out insurance when you start earning an income," he says. "Ideally when you are young and healthy."

Rayner suggests young people consider:

- a life insurance policy which is designed to help your loved ones cope financially by paying out a lump sum if you pass away;
- total and permanent disability (TPD) cover, which pays a lump sum in the event that a severe sickness or injury prevents you from ever working again;
- income protection insurance, which pays you an income stream if you are unable to work due to sickness or injury;
- trauma insurance cover, which will pay a tax free lump sum if you suffer from a major medical condition such as heart attack, cancer or stroke.

Getting your insurance cover organised while you're young and fit means you'll be able to avoid any loadings and exclusions which may hinder you when you're older and medical conditions are more likely to be a problem. By taking out 'level premiums' you will pay a little more to begin with but in the long term you will save money.

## Settling down and protecting your loved ones

Your insurance needs will probably change once you move into your thirties, as this is the decade when most people start settling down. According to the Australian Bureau of Statistics, our early thirties are when we're most likely to marry and have our first child.

If you're getting ready to tie the knot, it's a good idea to meet with a financial adviser who can customise your insurance to meet your needs and help to provide financial security. Trauma insurance is the insurance cover that Rayner sees as the most essential policy for couples and families, as it helps to protect your loved ones financially if you suffer from a major traumatic event.

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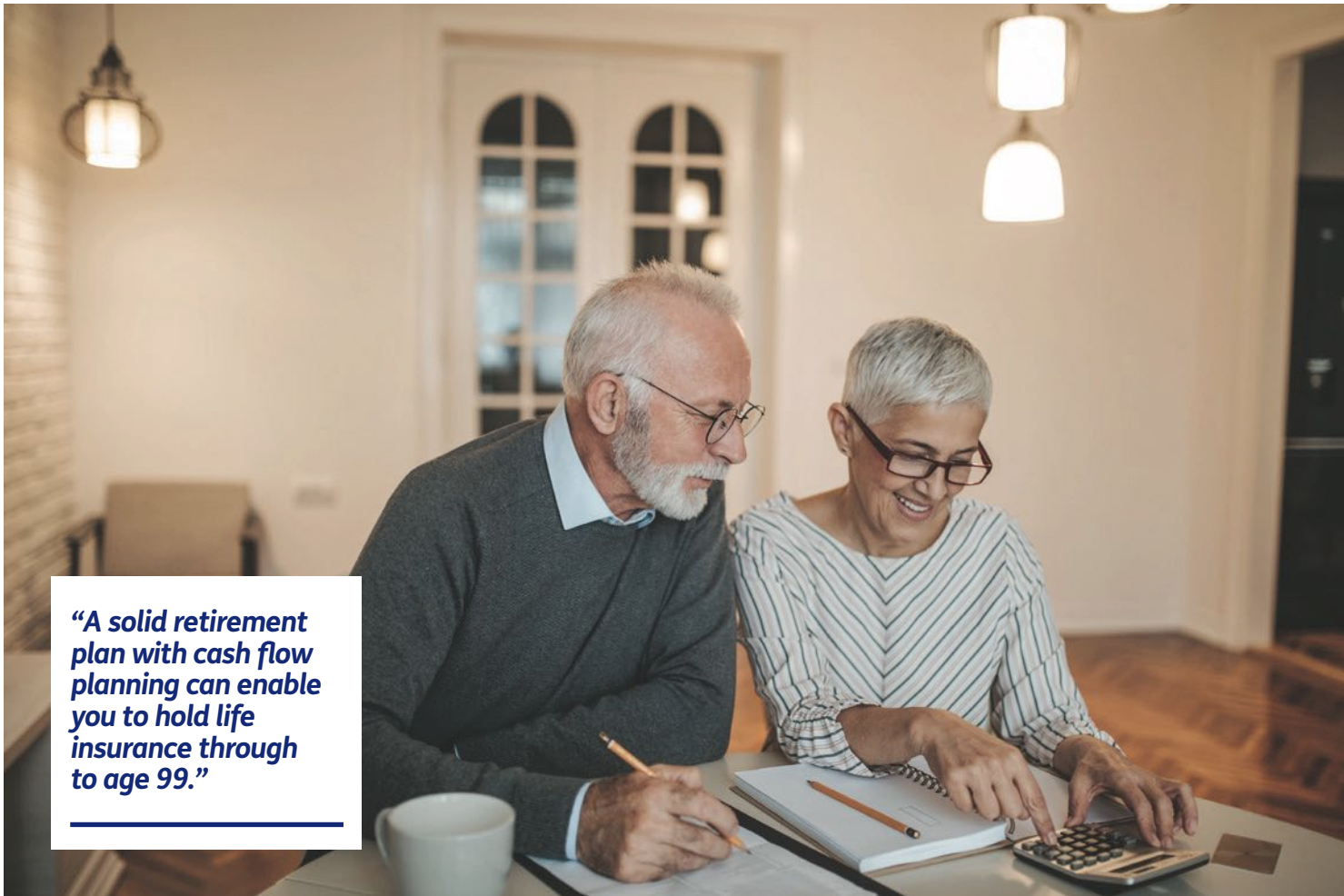


We hope you enjoy our latest edition of Money Matters.

Please contact our office if you would like to discuss anything in this edition.

A handwritten signature in black ink, appearing to read "Peter Hammon".

**Peter Hammon**  
Authorised Representative &  
Practice Owner



**“A solid retirement plan with cash flow planning can enable you to hold life insurance through to age 99.”**

If you’re starting a family, not only should you consider practicalities like the long-term affordability of schooling when sorting out your insurance coverage, you should also have a policy in place to assist you if something happens to your child. Rayner recommends taking out ‘child cover’ – a policy which includes life and trauma protection – for kids over the age of two.

“It ensures that if your child suffers from a traumatic event, you have money to pay for selective treatment, and you’re not having to risk accessing savings or using debt to fund the cost of care or replacement of income,” he explains.

With an increasing number of kids living with their parents until their mid-twenties, it’s worth being aware that a child policy also has a continuation option that enables you to convert the policy to adult cover once your son or daughter has turned 21.

## Planning for retirement and beyond

If the prospect of retirement is on the horizon, sound financial advice is key to setting you up comfortably for the years ahead. While you might be looking forward to having fewer day-to-day responsibilities and expenses, there are still benefits to having life insurance cover in your golden years.

Maintaining a life policy so that you can leave money for your partner after you die – a key part of estate planning – is a common reason retirees retain life insurance. Other circumstances that may encourage you to keep a form of coverage include the need to provide for any dependents, the wish to make a bequest to a charity, setting aside money for your funeral, or a desire to cover any outstanding debts.

Make sure you’re aware of your provider’s maximum entry and expiry ages. If you’re older than the entry age, you won’t be able to apply for the cover you’re after. Some policies will also expire sooner than others. That’s why getting your affairs in order prior to leaving the workforce is crucial.

“A solid retirement plan with cash flow planning can enable you to hold life insurance through to age 99,” says Rayner.

By planning ahead, you can ensure you have the means to keep your coverage in place for many years to come. Having that peace of mind is well worth the effort.

Do you have more questions about insurance?  
Speak to your financial adviser to ensure you have the best coverage.

# Could super funds help solve Australia's housing shortage?

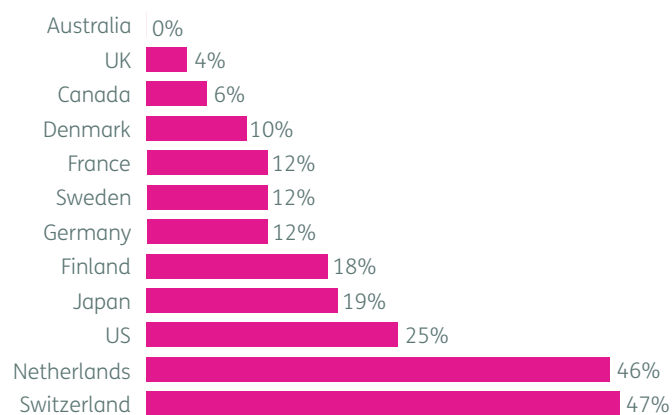
Home may finally be where the heart is for Australia's superannuation funds, who are now considering residential property as an asset class worth investing in.

Buying a home may be the largest single investment that most families ever make, but it's been a different story for superannuation funds.

While commercial property can form a large proportion of a balanced super fund portfolio, residential property has been missing in action.

It's been a different case in many overseas regions where the build-to-rent sector – typically high-end apartment complexes owned by an organisation that rents them out – has been strongly supported by institutional investors.

## Residential property as a % of global institutional portfolios



Source: IPD, NCREIF, LaSalle Investment Management as at 2015.

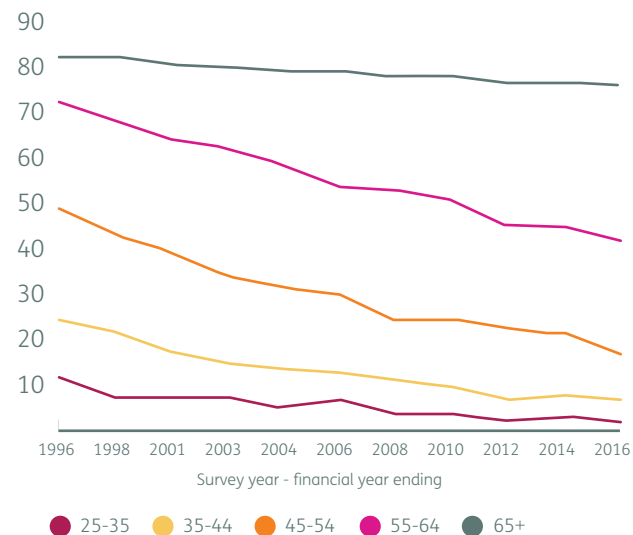
However, the situation may be beginning to change in Australia with a growing number of super funds now considering the merits of the build-to-rent model, which could also help address falling home ownership levels by making housing more affordable.

## Home ownership on the decline

Home ownership levels, which averaged around 70 per cent of the population since the 1950s, have fallen dramatically for all but the oldest households according to the Grattan Institute.

A major property boom period along the eastern seaboard was kicked off in 2009 as the RBA slashed interest rates in the wake of the global financial crisis, worsening the situation over the last decade.

## Fewer Australians at all ages own their home outright than in the past (%)



Notes: by age of household reference person. Chart shows data from all available surveys. Data from 65+ for 2005-06, 2007-08, 2009-10, 2011-12 is estimated using population shares of five-year age groups due to lack of data. Source: ABS (2007), ABS (2011c), ABS (2013b) and ABS (2015d).

That spectacular growth has cooled somewhat. Since peaking in July 2017, the Sydney market fell by 13.2 per cent while Melbourne (which peaked in November 2017) declined by 9.6 per cent up until the end of February 2019, according to researcher CoreLogic.

However, affordable housing remains a key issue with a growing number of Australians now facing the prospect of renting for life. Build-to-rent can help provide certainty while also encouraging developers and institutional owners to invest more heavily in the buildings, bringing environmental benefits.

In July last year, property developer Mirvac launched a \$1 billion build-to-rent club with the Clean Energy Finance Corporation (CEFC) taking a 30 per cent stake. CEFC will help the project achieve its target of emitting at least 40 per cent less greenhouse gas emissions than a typical apartment building. Other developers, such as Lendlease and Stockland, are also looking at build-to-rent.

Super funds are interested – many have invested in US and UK built-to-rent projects – but the property industry has called for more government support to also encourage investors, including reviewing tax settings.

The Federal Government has put some incentives in place while State Government are also beginning to move. Last year, the Victorian Government established an industry working group as part of a package to help support the build-to-rent sector while the Queensland Government established a new pilot subsidy program.

## Funds explore other residential property avenues

Build-to-rent assets typically generate lower yields than commercial office property but it is not the only possible investment that super funds can make. In the Netherlands, pension funds and insurance companies directly fund almost one-third of mortgages.

Banks still dominate the Australian mortgage market with more than 90 per cent of loans but fintech start-ups, such as Athena Home Loans, are offering an avenue for new lenders to enter the market with increased transparency about the quality of loans.

Super funds must already manage a large indirect exposure to residential property through their shareholdings in Australia's banks, which are highly leveraged to the sector.

Nonetheless, some super funds have also invested directly in affordable housing as part of an 'impact investing' strategy, although such investments remain the minority as they can deliver lower potential returns than other asset classes.

As the \$2.8 trillion superannuation sector continues to grow, funds will need to seek out a range of new investments by asset class and geographic location.

At a recent industry presentation, Peter Collins, the chair of super fund Hostplus (which is also an investor in Athena), said the super industry needed to further diversify its portfolios.

"We don't currently do residential real estate but these are open to discussion and for further exploration," he said.

It seems likely that Australia's super funds will play an increasingly strong role in residential property whether through build-to-rent or new innovative structures.

Speak to your financial adviser about how specific industries can play a part in your investment portfolio.



# Changes to Superannuation legislation – what this means for you

**A number of new super changes will apply from 1 July 2019. The changes are broadly aimed at protecting superannuation accounts from unnecessary erosion that may be incurred by insurance premiums and particular fees. This may happen where accounts have low super balances or have been inactive for some time.**

The **Protecting Your Super**<sup>1</sup> changes include:

## 1. The removal of exit fees on all superannuation accounts

Superannuation funds will now be prohibited from charging an exit fee to members (although a buy-sell spread on the underlying assets may still apply). This will help ensure that members are not disadvantaged if they choose to consolidate multiple superannuation accounts into one account.

## 2. A 3% p.a. cap on all administration and investment fees for balances below \$6,000

The legislation has placed a cap of 3% p.a. on the administration and investment fees that can be charged by superannuation funds where the member's account balance falls below \$6,000. This fee cap will be assessed either when the member exits the fund, or at 30 June each financial year. Any investment or administration fees charged on these accounts in excess of the cap will need to be refunded by the superannuation fund. For example, if your account balance was \$6,000 for the year, the 3% p.a. cap means that you cannot be charged more than \$180 in administration and investment fees per annum.

## 3. Consolidation of low balance inactive accounts via the Australian Taxation Office (ATO)

The Government believes that members receive a better financial outcome when they have fewer accounts, as they are paying fewer fees across multiple accounts.

The ATO will now match and consolidate member's low balance inactive accounts with existing active accounts where possible. Superannuation funds are required to transfer any inactive member accounts (where the account balance is less than \$6,000) to the ATO, who will have these accounts consolidated with the member's current active account.

If you have an account that may fall into the 'low balance inactive account' category, but should not be transferred to the ATO (as this forms part of your investment strategy), please speak with your adviser or your superannuation fund. You will be able to retain this account by giving instruction to the ATO.

## 4. The removal of insurance cover from inactive accounts

This requirement now makes it mandatory for a member of a superannuation fund to **opt-in** (i.e. give consent) to retain their existing life insurance cover. If an account has been inactive continuously for 16 months the Trustee will cancel the life insurance coverage.

An inactive account in this situation includes accounts where:

- no contributions have been received;
- no ad-hoc lump sum withdrawals have been made; or
- no rollovers have been made into or out of the fund.

A member with an inactive account who wants their life insurance coverage to remain in place must contact their superannuation fund to opt-in. These changes apply to all MySuper and Choice superannuation funds.

If you have any questions about what these changes mean for you, contact our office today and speak with your financial adviser.

# Three ways to boost your super by 30 June

**It's almost the end of the financial year again! Here are three of our favourite ways to boost your super leading up to 30 June, taking advantage of some great government incentives.**

## 1. Tax-deduction available for super contributions

Looking for ways to top up your superannuation balance and reduce your tax payable this financial year? All Australians under age 75 (including those between 65 and 75 who meet the work test) can claim tax deductions for personal (after-tax) super contributions.

If you contribute to your superannuation account from your after-tax savings prior to 30 June 2019, you may have the opportunity to reduce your tax come tax time. You can do this in two easy steps:

1. Make an after-tax contribution, and
2. Claim a tax deduction on your contribution.

By using this strategy there is an added benefit of growing your super savings and having this amount taxed at a maximum of 15 per cent, rather than at your marginal tax rate (which could be as high as 45 per cent).

All Australians under age 75 (including those between 65 and 75 who meet the work test) can claim a tax deduction for any after-tax contributions they make to their super fund. However, it is important to remember that after-tax contributions which are claimed as a tax deduction are treated as before-tax contributions (concessional contributions) and count towards the concessional contributions cap (currently \$25,000 for the 2018/19 financial year). Remember to check you have not exceeded your concessional contributions cap (across all super funds) for the year. For more details on concessional contribution caps talk to your financial adviser or visit [ato.gov.au/rates/key-superannuation-rates-and-thresholds](http://ato.gov.au/rates/key-superannuation-rates-and-thresholds).

### Government co-contribution for 2018/2019

Am I eligible?

Earn **less than \$52,697**

Government contributes **50c** for every **\$1** you contribute up to maximum of **\$500**, reducing by **3.33c** for every **\$1** you earn over **\$37,697**



Earn **\$52,697 or more**

You don't qualify



## 2. Top up your spouse's super and access a tax offset

Last year, the income threshold for the spouse superannuation tax offset increased from \$10,800 to \$37,000, phasing out at \$40,000 (previously \$13,800). This increase continues to apply this financial year, so it's worth considering if this saving strategy applies to you.

If you have a non-working or low-income spouse under age 70 (from age 65 they must meet a 'work test') you could claim a tax offset on up to \$3,000 of contributions to their super account. Your tax offset will be 18 per cent of contributions you make on their behalf, up to a maximum of \$540 if you contribute \$3,000.

This tax offset amount reduces when your spouse's income is greater than \$37,000 and completely phases out when your spouse's income reaches \$40,000. Your spouse will also need to have a total superannuation balance (across all super funds) of less than \$1.6 million on 30 June 2018, and importantly, cannot exceed their non-concessional (after-tax) contributions cap (across all their super funds) for the year. Non-concessional contributions include personal contributions for which you do not claim an income tax deduction. For more details on non-concessional contribution caps talk to your financial adviser or visit [ato.gov.au/rates/key-superannuation-rates-and-thresholds](http://ato.gov.au/rates/key-superannuation-rates-and-thresholds).

## 3. Co-contributions: can you get an extra \$500 into your super tax free?

Does receiving up to \$500 tax-free directly into your super fund sound too good to be true? It's not. The Australian government will make a co-contribution to the super account of lower income Australians as long as they contribute to super.

It's known as the superannuation co-contribution and you don't have to apply for this benefit or fill in any extra paperwork. You get it just by meeting the requirements below, which are determined when you lodge your tax return. But you do need to make a non-concessional (after-tax) contribution to your super in the current financial year. Non-concessional contributions include personal contributions for which you do not claim an income tax deduction.

If you have any questions or would like more information on how to contribute to your super, please call our office today and speak with your financial adviser.

# Share markets skyrocket after central banks take dovish stance



## Equity markets produced a double-digit quarter as central banks took a more dovish stance to help strengthen soft economic growth.

A more supportive approach from global central banks prompted a surge in markets over the March quarter, erasing the deep losses which ended 2018.

The MSCI World (ex Australia) equity index roared back to life over the three-month period, gaining 11.50 per cent, slightly outpacing the S&P/ASX 200 total return index which gained 10.89 per cent.

The US Federal Reserve was expected to raise interest rates at least twice this year but in March surprisingly changed tack, halting its 2019 rate hike plans in response to weaker growth and inflation expectations. The central bank also warned of slowing growth in Europe and China.

The OECD expects the world economy to grow by a slightly weaker 3.3 per cent this year and by 3.4 per cent in 2020, with emerging markets strong but the eurozone and U.K – where the Brexit debacle continues to drag on – soft.

Lower than expected Australian economic growth and inflation also prompted the Reserve Bank of Australia (RBA) to keep interest rates on hold at a record low of 1.5 per cent for its 29th consecutive meeting.

While the market has been expecting the RBA to eventually begin raising rates, it is also now factoring in a greater probability of a rate cut. This provided an unexpected tailwind for the bond market but investors with cash savings and term deposits may face even lower yields.

The RBA remains concerned that household spending is being held back by weak wages growth, despite strong

employment, and a sharp downturn in Melbourne and Sydney house prices. House prices in those two cities have shown double-digit percentage drops since the housing boom peaked in mid-to-late 2017, according to CoreLogic data.

Business confidence in future conditions weakened further in March, continuing a below average run, according to NAB's Monthly Business Survey. Listed company profits during the period were lifted by strong results from Wesfarmers and BHP but were overall soft.

While concerns remain about the state of the Australian economy, it could receive some stimulus through the Federal Budget, which unveiled more income tax cuts from July for low to middle income earners. Higher income earners are set to benefit from further cuts in later years.

The Australian economy is now predicted to generate a small surplus this year of \$7.1 billion (equivalent to 0.4 per cent of GDP) thanks to strong corporate revenue, higher personal tax revenue due to strong employment, and lower government spending.

While the outlook remains mixed, markets have continued to show resilience. The December and March quarters have shown higher than usual volatility, underlining the importance of holding a diversified range of investments structured to meet your goals.

Your financial adviser can help you structure an investment portfolio that meets your goals.  
Call our office today.



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