PLANET WEALTH

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Newsletter - February 2020

Welcome to the latest edition of our client newsletter,

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition we discuss Company's Dividends and provide you with information on Life after work (Retirement) and How to do more Savings.

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.
In the meantime we hope you enjoy the read.

All the best,
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Make Australia save again

Are you one of the 20 per cent of Australians with less than $250 in their savings account?[i]

Recent research from AMP Bank has found that one in five Australians isn't saving any of their monthly income.

And we're all different when it comes to saving. People in Tasmania and Western Australia have the least amount of savings, while men on average have nearly 20 per cent more money saved than women. Unsurprisingly, young people (those aged 18 to 24 years old) have the lowest savings balances with nearly a third having less than $250 in a savings account.

Why are we saving so little?

With low wage growth and the cost of living increasing, it seems Australians' savings habits are changing. AMP Bank's research found that people's wages are mostly used for everyday living costs and bills, while other costs such as school and day care fees were also called out as factors preventing people from saving.

Another reason people aren't saving is that they're actually paying down debts, such as their home loan, faster, due to our record low interest rates.

But we need to save to make sure our financial wellbeing is taken care of. As AMP Bank CEO Sally Bruce points out, "For most Australians, having a pot of money to use when times are tough or to fund the nicer things in life such as a new home or a holiday can have a huge impact on health and morale as well as your wallet."

Saving for holidays and rainy days

Saving is an important part of our finances. It gives us a safety net when we need it or allows us to have enough money to afford the big things.

According to the moneysmart website, the top three savings goals[ii] of Australians are:

- **Holidays.** Whether close to home or on the other side of the world, a holiday is what a record 53% of people indicated they are saving for.
- **Rainy day fund.** 46% of people nominated a rainy day fund, or emergency fund, as their top priority for savings.
- **Buy or renovate a home.** The dream of owning property is still a goal for most Australians, with 40% of people saving to buy a home or renovate.

So what steps can we take to start saving?

- **Find the right savings account to suit your needs.** There are many different savings accounts available to you. Online savings accounts and term deposits could offer higher interest rates than a typical transactional account.
- **Set a savings goal.** Identifying your savings goal is the first step in creating good financial habits, plus you'll know exactly how much you need and when you need it by so you can commit to reaching your goal.
- **Work out where the money will come from.** For most people, this might be the money left over from their pay after they've covered all their bills and expenses each month. You could also think about getting a side gig for extra income, or cutting back on spending to free up more money.
- **Set up a regular savings plan.** Once you've identified your savings goals, you'll need to work out the best method of saving for you. The way you save might differ depending on whether your saving goals are long term or short term. For example, a separate savings account where your money is readily accessible might be useful for a short-term goal. A term deposit, where your money is tied up for a set period of time in return for higher interest, might be more suitable for a longer-term goal.

Make sure you're getting the most out of your savings account

According to the research, more than a quarter (26%) of Australians currently don't have a savings account. Of those who do, nearly half (43%) don't know their interest rate.

As Ms Bruce explains, "The more we can encourage Australians to take an interest in interest, the more they will be able to grow their wealth and reduce the impact of unexpected costs or afford the extra things in life they want."

So, when looking for a savings account, some important features to consider are:

- Does it offer attractive interest rates?
- What fees might I be charged?
- How do I access my money?
- Is there a minimum or maximum amount of funds allowed in the account?
- Will my savings be secure with the financial institution I choose?

Saving is an important part of your financial success. Making small changes to build that safety net could help to improve your financial situation. Talk to us if you would like a hand.

i AMP commissioned Pure Profile to conduct a survey among 1,000 Australians.

ii https://www.moneysmart.gov.au/managing-your-money/saving/how-australians-save-money

Life after work

Retirees reveal the magic of having more time

Retirement is instilling a new level of confidence, with almost two thirds of Australians aged 50 and over saying they are living their best years.[i]

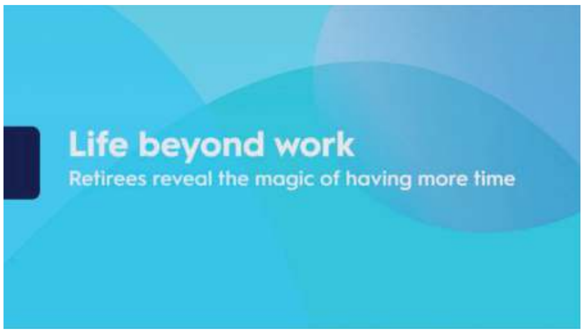
There's more time to devote to anything you can imagine, whether that means family, existing interests or developing something completely new.

The way we see retirement is changing. It's not just about tending the rose garden or sitting in a rocking chair in front of the television. People are living longer and there are more choices that ever before.

Whether you want to know about how much you'll need, when you can retire or a checklist to help you plan, we can help you to prepare for a life after work.

Check out this video for some real-life stories.

https://www.amp.com.au/insights/plan-my-future/life-after-work



In this film, three wise men and women talk about what being retired is *really* like. The blessings of more time to do what they want, as well as their hopes, fears and dreams for the future.

i Source: WPP Secrets & Lies, Ageless & Booming, 2019. National Seniors Australia and GCMA

"*Retirement is nothing like what I dreamt it'd be like – it's so much better.*

I sing in a big choir and put on concerts three times a year.

I volunteer two afternoons a week.

I would like to be part of my children's and my grandchildren's dreams. To see what universities they are going to, what job are they going to achieve. We live in a country of terrific opportunity; anyone can do anything."

Dividends explained

If you are a shareholder of a company, you may receive payments known as dividends. These payments represent your share of the company's profits and are your reward for investing.

Dividends may be a great way to boost your income and are often considered tax effective. Find out exactly how they work and how often you'll get paid.

Why and when companies pay dividends

When a publicly listed company makes a profit, its board of directors decides whether to:

- pay out the profit to shareholders in the form of dividends
- retain the profit to invest in the company's growth, or
- a mixture of both.

Australian companies tend to pay out a high proportion of earnings as dividends compared to companies listed in other countries. This currently sits around 65% compared to around 45% for global shares[i], which could make Australian shares popular with income-seeking investors.

Some Australian listed companies choose to pay dividends twice a year, known as the interim and final dividends. However, dividends are not guaranteed, and some companies don't pay any dividends at all. In fact, a company that has previously paid dividends may decide not to, and vice versa. The size of the dividend can also vary, and often depends on how the company has performed.

Dr Shane Oliver – Head of Investment Strategy and Economics and Chief Economist, AMP Capital says companies like to manage dividend expectations smoothly.

"They rarely raise the level of dividends if they think it will be unsustainable. Sure, some companies do cut their dividends at times, but the key is to have a well-diversified portfolio of sustainable and decent dividend paying shares."[i]

Large, well-established companies with stable earnings and certain industries like banks tend to pay dividends consistently.

Other companies, such as those involved in developing new technology or medical research, often choose to reinvest all their earnings for research and development and pay no dividends at all. Investors in these types of companies are typically looking for long-term growth rather than income.

How are dividends paid?

Companies generally pay dividends in cash to the bank account that you nominate or send you a cheque.

In some cases, rather than receive a cash payment, investors may be able to take advantage of a dividend reinvestment plan. This involves the company offering investors the choice to use their dividends to purchase more shares in the company, instead of receiving the cash. Often, the shares are offered at a discount to the current market price.

It's important to consider your particular circumstances and goals before deciding what's right for you. For example, investors who want to increase their income may prefer to receive their dividends as cash payments. However, investors who are more focused on growing their wealth may consider a dividend reinvestment plan to help grow the number of shares they own over time. It's a good idea to seek financial advice to help determine a strategy that suits your needs.

How are dividends taxed?

Dividends are considered income for tax purposes. Just like the income you may earn from other sources, like rent from an investment property or interest from a bank account, dividends will be taxed at your marginal tax rate.

The current income tax rates are published on the Australian Taxation Office website.

It's important to keep records of your dividends so you or your accountant can complete your tax return accurately.

You'll receive a statement when dividends are paid. If you take advantage of a dividend reinvestment plan, you still need to include the dividend income in your tax return, even if you didn't actually receive the cash payment.

Details of a company's dividend are also published both on the company's website as well as the Australian Securities Exchange (ASX) website.

What are franked dividends?

Companies are required to pay tax on their profits, which means the money they distribute via dividends has already been taxed. To avoid double taxation of company earnings, (once in the hands of the company, and then again in the hands of the investor) these dividends come with a franking credit, also sometimes referred to as an imputation credit. The franking credit represents the amount of tax that has already been paid either partially or in full.

Full-franked dividend

30% tax has already been paid by the company before the investor receives the dividend.

Partially-franked dividend

30% tax has already been paid on part of the dividend only. The exact amount will be specified by the company as a percentage.

Unfranked dividend

No tax has been paid.

When you do your taxes for the year, you will receive a credit for any tax the company has already paid. If your top tax rate is less than the company's tax rate of 30%, you'll receive a refund from the Australian Taxation Office (ATO) for the difference. That's why franked dividends are considered tax effective.

We can help you make the most of dividends and create a strategy to help you reach your goals.

i https://www.amp.com.au/personal/hub/grow-my-wealth/why-i-still-love-dividends-and-you-should-love-them-too