PLANET WEALTH

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Newsletter - April 2021

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 “Making the most of record-low interest rates” and provide you with information on “How to rebuild your Super after COVID-19 withdrawal” and “Reviewing your personal insurance policy: when, why and how”.

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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Making the most of record-low interest rates

In its first board meeting of 2021, the Reserve Bank of Australia (RBA) decided to keep the cash rate at a record low of 0.1%. Find out why rates are so low and what it may mean for you and your financial goals.

Why does the RBA keep rates low?

Lower interest rates and rate cuts are a way for the RBA to help stimulate the economy. The idea is, when the official cash rate is low, banks may follow suit and lower interest rates on the loans they provide.

When rates are lower, you pay less interest on your debt, freeing up money for you to spend elsewhere. You may also be more likely to borrow money. This increased spending has a ripple effect through the economy, giving it a boost.

It's important to note that when the RBA cuts the official rate, or keeps it low, there's no guarantee that the banks will do the same. For example, in recent times, some banks have only passed on part of the rate cut.

In a statement from the RBA[i], they advised they will not increase the cash rate until inflation is within the target range of 2-3%. For this to occur, wages growth will have to be higher than it is currently, requiring significant gains in employment and a return to a tight labour market. The RBA isn't expecting these conditions to be met in Australia until at least 2024.

What could low interest rates mean for me?

So, it looks like low interest rates may be around for a while. This could be good news or bad news, depending on your financial goals. Here's what low rates could mean for four common financial goals:

Paying off debt

If you have a variable rate loan, a rate cut can work in your favour, provided your lender passes on the cut. This could be a good opportunity to start clearing debt. One strategy to consider is to keep your loan repayments the same despite the rate cut, so that you pay off more of your loan, faster. Or, you may consider using the money you save on repayments to invest elsewhere to help grow your wealth.

It generally makes sense to pay off bad debt first (ie debt used to pay for day-to-day expenses like credit card debt, rather than debt used to pay for an income-generating asset like an investment property). It's also usually a good idea to start paying off the debt with the highest interest rate first.

If you have a fixed-rate loan, it may be a good time to crunch the numbers to see if refinancing is worthwhile, so you can take advantage of the lower rates on offer. When you're working this out, make sure you factor in, not only the amount you could save on repayments, but also the break costs associated with the current loan, as well as any set-up fees associated with the new loan.

It's important to consider your circumstances and goals before deciding what's right for you, so financial advice may help.

Buying a property

If you're in the market to buy a property, a reduction in interest will probably be welcome news. That's because lower rates will influence how much you can borrow and how much you can afford to repay on your loan.

While it may be tempting to borrow more, keep in mind that interest rates will eventually increase and so will repayments. It's a good idea to check whether you can afford the home loan if rates were to go up.

Increasing your savings

A low-rate environment is generally less favourable for savers with cash in the bank and may prompt some investors to consider whether their money could be working harder for them elsewhere.

With little interest to be earned by keeping money in the bank, alternative options such as income-generating shares that pay attractive dividends may be worth a look.

Before making any changes, it's important to understand the risks involved. Shares, for example, are much riskier than keeping money in the bank. But they may offer the potential for much higher returns than a cash deposit.

Other options which may help your money to work harder for you include managed funds or property. Again, these investments carry more risk and can tie-up your cash for a longer period of time. Also be sure to understand any fees involved.

Growing your super

This is a timely reminder to check what portion of your super is invested in cash. Consider whether the amount of super you have in cash is still appropriate given the level of risk you're comfortable with and the time you have left until you retire.

Ultimately it comes down to what's important to you, what stage you're at in life and how much risk you're willing to take on for potentially higher returns. If retirement is still a while away, you may consider taking on riskier, higher growth investment options like shares or property that have the potential to help grow your super balance over time. However, if you're retiring soon, you may not be as willing to take on too much risk, as preserving your super balance may be a higher priority. We can help you make the most of this low interest-rate environment and stay on track to reach your goals.

i RBA website - Supporting the Economy and Financial System in Response to COVID-19

How to rebuild your super after a COVID-19 withdrawal

The Federal Government allowed Australians affected by COVID-19 to access some of their superannuation during much of 2020.

For many people, the early release of super scheme was a lifesaver, with the money accessed from retirement savings helping provide additional support at a time of economic uncertainty.

The scheme is now closed to new applications but over the lifetime of the scheme, Australians made 4.8 million applications to withdraw a total of $35.9 billion from super funds, at an average payment per person of $7,6431[i].

If you're one of these Australians, you might be wondering about the long-term impact your super withdrawal could have on the quality of your retirement.

The good news is there's plenty you can do to help make sure you can still enjoy the kind of retirement you've always dreamed of.

How much super do you need?

According to the ASFA Retirement Standard, to be able to live a comfortable life in retirement, doing things such as eating out at restaurants, enjoying leisure activities and travelling occasionally in Australia and overseas (once restrictions ease), it's estimated you'll need a super lump sum of $545,000 if you're single, or $640,000 between you if you're in a couple[ii].

These figures assume you'll also receive a part age pension from the government and that you own your own home.

What is the impact of a super withdrawal?

By withdrawing part of your super early, you don't just lose the amount you've withdrawn from your retirement savings, you also lose the opportunity to earn an investment return (or make additional money) on that money.

As super is a long-term investment, the amount you stand to forfeit could be larger, the younger you are.

If you're interested in getting an idea around what possible impacts a withdrawal now may have down the line, you can check out the MoneySmart's Superannuation calculator.

Unfortunately, if left alone this shortfall won't take care of itself, but there are some things you can do to help rebuild your retirement savings.

Ways to help rebuild your super

As a result of the economic shutdown you may have been forced to cut back on your spending and live a little more frugally. Rather than returning immediately to your former lifestyle as your income recovers, try to maintain some of the measures you adopted to save, and that might include putting extra money into your super.

There are a number of ways you can make super contributions in addition to those your employer makes on your behalf.

- **Concessional (before-tax) contributions**

These can take the form of either salary sacrifice contributions, which are voluntary contributions you ask your employer to pay out of your before-tax income, or tax-deductible personal contributions, which are contributions you make using after-tax dollars (such as when you transfer funds from your bank account into your super), then claim a tax deduction.

- **Non-concessional (after-tax) contributions**

This refers to money you put into your super fund using after-tax dollars and don't claim a tax deduction on. Some people choose to make non-concessional contributions when they've reached their yearly concessional contribution cap.

- **Spouse contributions**

If your spouse is in a better financial position than you, they may be able to help rebuild your super through spouse contributions, provided you earn less than $40,000 per year. Subject to eligibility rules, they may also benefit from a tax-offset on the after-tax contributions they make into your super account.

- **Government assistance**

If you're a low-to-middle-income earner and make an after-tax contribution to your super, which you don't claim a tax deduction on, you might be eligible for a government co-contribution of up to $500 into your super.

The government also offers another type of super assistance known as the low income super tax offset (LISTO). If you earn $37,000 or less a year, and receive concessional super contributions, the government may refund the tax you paid on those contributions back into your super account, up to a maximum of $500 per year. This will happen automatically at tax time if you qualify.

- **Find and consolidate your super**

As at 30 June 2019, there was $20.8 billion in lost and unclaimed super across Australia according to the ATO[iii]. If you think you might have some super floating around in the system from a previous employer, it's worth doing a super search to locate it.

And if you find any lost or unclaimed super, you might consider consolidating all your super into one account to make it easier to manage and keep track of, and avoid paying multiple fees and charges. Before deciding which super fund to consolidate into, consider all the features and benefits of your super funds, whether any exit or withdrawal fees apply and any insurance cover you may have, when making your decision.

Please get in touch if we can be of assistance. We are here to support you through these challenging times.

i APRA, COVID-19 Early Release Scheme – Issue 35
ii ASFA, Retirement Standard, September 2020
iii ATO, Lost and unclaimed super by postcode

Reviewing your personal insurance policy: when, why and how

Insurance might not always be top of mind, but it's important to review your policies regularly to make sure you've got the right cover

Whatever your mix of cover — life, total and permanent disability, income protection and trauma — insurance can be an important part of protecting yourself and your family, now and into the future.

Thanks to the ability to pay for insurance through super, an estimated 94 per cent of working Australians have some level of life cover[i]. So it's a good idea to review your insurance regularly to make sure you have the right type of cover—and enough of it.

You probably don't think about your insurance regularly, but there are certain times when you should consider updating your policies to make sure they still reflect your lifestyle and insurance needs.

When and why you should review your insurance

Insurance works best when you have the right level of protection for your situation and as your life changes, so might your insurance needs. You should consider reviewing your cover whenever your situation changes, like:

- taking on a mortgage to buy a property
- having children
- getting married
- upsizing or downsizing your home
- getting a pay rise or take a pay cut
- starting a business
- experiencing a change in your health or lifestyle
- paying off your mortgage
- stopping supporting financially dependent children
- joining a new super fund that may provide automatic insurance cover
- retiring

These milestones mark important times to review your insurance, including the amount of cover you have and whether your beneficiaries (those who will receive your insurance in the event of your death) are up to date.

How to review your insurance

Insurance is flexible and can be changed to align to your needs. Below is a step-by-step guide to reviewing what you have.

Step 1: Read your insurance contract

Refer to your product disclosure statement (PDS) and read it to fully understand what you're covered for (death, disability or injury for instance) and compare this against what you'd ideally like to be covered for.

Step 2: Check the insurance policy expiry date

Check if your insurance policy has an expiry date, and if so, make note of when it is so you're not caught off guard. It can be a good idea to set yourself a reminder a month or two before it's due so you can contact your insurance provider ahead of time.

Step 3: Know your beneficiaries

An insurance beneficiary is the person, or people, who will receive your insurance payout in the event of your death. It's important to make sure your beneficiaries are up to date so your money ends up in the right hands.

Step 4: Check if you have enough insurance

To help you work out the right level of insurance cover consider the following questions.

1. How much money would your family have if you were to pass away or become disabled? Consider the amount of money you have in super, savings, shares and other assets, and existing insurance policies as a starting point.

2 How much money would your family need if you were to pass away or become disabled? Consider the size of your mortgage and any other debts you have, as well as other costs such as childcare, education and day-to-day expenses you may be covering.

The difference between these figures should provide some guidance on the amount of insurance cover you may want to have. However, you might need to compromise between what you'd like and can afford. We can help you crunch the numbers to ensure that your coverage meets your needs.

Step 5: See if you have any other insurance policies

Like many Australians, you may have insurance through super. So, it's a good idea to check this against other policies you might have outside super.

Then compare your cover, check whether you have any insurance double ups – if you have more than one super account with the same type of insurance, you may be paying for more insurance than you need.

Something to note on your TSC insurance, you'll most likely only be able to claim up to 75% of your pre-disability income, regardless of whether you have TSC cover within multiple super accounts.

Changing your insurance policy can be complicated, so it helps to have an expert to talk things through with. We are here to help.

i Rice Warner,Life insurance adequacy, paragraph 8.