# PFG Connect - Autumn 2022

It's March already which marks the beginning of Autumn. While this is traditionally the season when things cool down, the economic and political scene is gearing up with the Federal Budget later this month and a federal election expected by May.

Russia's invasion of Ukraine in late February increased volatility on global financial markets and uncertainty about the pace of global economic recovery. Notably, crude oil prices surged above $US100 a barrel, breaking the $100 mark for the first time since 2014. Rising oil prices add to inflationary pressures and could set back global economic recovery in the wake of COVID. In Australia, the price of unleaded petrol hit a record 179.1c a litre in February and is expected to go above $2.

In the US, inflation hit a 40-year high of 7.5% in January. Australian inflation is a tamer 3.5% and this, along with unemployment at a 13-year low of 4.2%, is raising expectations of interest rate hikes. The Reserve Bank stated earlier in February that a rate hike in 2022 was ''plausible" but that it is ''prepared to be patient". The Reserve is also looking for annual wage growth of 3% before it lifts rates, but with annual wages up just 2.3% in the December quarter Australian workers are going backwards after inflation. The average wage is currently around $90,917 a year.

Before the latest events in Ukraine, consumer and business confidence were improving. The ANZ-Roy Morgan consumer rating rose slightly in February to 101.8 points, while the NAB business confidence index was up 15.5 points in January to +3.5 points.

War in Ukraine has triggered a flight to safety, with bonds, gold and the US dollar rising while global shares plunged initially before rebounding but remain volatile. The Aussie dollar closed at US72.59c.

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# ENHANCING SUPERANNUATION OUTCOMES

**The Changes**

The Enhancing Superannuation Outcomes Bill contains the following measures:

- Removing the monthly minimum threshold for salary or wages to count towards the superannuation guarantee
- First home super saver scheme maximum releasable amount
- Reduced eligibility age for downsizer contributions
- Repealing the work test for superannuation contributions
- Segregated current pension assets
- Extension of temporary full expensing of depreciating assets

## Removing the monthly minimum threshold of $450

The Bill amends the Super Guarantee Act to remove the $450-a-month threshold before an employee's salary or wages count towards the super guarantee. The relevant subsection 27(2) of the SGAA will be repealed.

This will expand the coverage of SG payments for eligible employees earning salary or wages that are less than $450 in a calendar month from an employer.

## First home super saver scheme

The maximum amount of voluntary contributions made over multiple financial years that are eligible to be released under the First Home Super Saver Scheme will be increased from $30,000 to $50,000.

The amendment does not alter the limit on the amount of voluntary contributions from any one financial year that are eligible to be released (being $15,000).

That is, the maximum amount of voluntary contributions that are eligible to be released are $15,000 per financial year and $50,000 in total.

## Reduced eligibility age for downsizer contributions

The amendments allow individuals aged 60 and above to make downsizer contributions to their super from the proceeds of selling their home. This provides greater flexibility for older Australians to contribute to their super.

However, unless the individual meets a nil cashing condition of release, funds must be preserved within the super account until such time he or she can meet a condition of release.

Section 292-102(1)(a) will be amended via regulations to allow for the reduction in age for this type of contribution to super.

## Repealing the work test for super contributions

The Bill amends the ITAA 97 to allow individuals aged between 67 and 75 years to make salary sacrifice contributions to super without having to meet the 40-hour work test. The Bill also amends the ITAA 97 to allow individuals to make or receive non-concessional contributions (including under the bring forward rule).

Individuals aged between 67 and 75 who wish to make **personal deductible contributions** to super **will still be required to meet the 40-hour work test.**

If an individual makes a deductible contribution and is unable to meet the work test or access the '12-month exception' rule, the contribution will remain a non-concessional contribution on the basis that no deduction can be claimed for it.

The 28-day rule will still apply for individuals turning age 75. That is, the contribution must be received into the super account on or before the day that is 28 days after the end of the month in which the member turns 75.

i. https://www.morgans.com.au/Blog/2022/February/Summary-Of-Super-Measures-February-2022

# HOW TO CALM THOSE MARKET JITTERS

It's been a rocky start to the year on world markets but that doesn't mean you should hit the panic button. Staying the course is generally the best course, but that's easier said than done when there's a big market fall.

In January markets plunged some 10 per cent but then staged a recovery. That volatile start may well be an indication of how the year pans out.[i]

The key reasons for this volatility are fear of inflation, the prospect of rising interest rates and pressure on corporate profits. Add to that ongoing concern surrounding COVID-19 and the conflict between Russia and Ukraine, and it is hardly surprising markets are jittery.

But fear and the inevitable corrections in share prices that come with it are all a normal part of market action.

## Downward pressures

Rising interest rates and inflation traditionally lead to downward pressure on shares as the improved returns from fixed interest investments start to make them look more attractive. However, it's worth noting that inflation in Australia is nowhere near the levels in the US where inflation is at a 40-year high of 7.5 per cent. In fact, the Reserve Bank forecasts underlying inflation to grow to just 3.25 per cent in 2022 before dropping to 2.75 per cent next year.[ii]

Reserve Bank Governor Philip Lowe concedes interest rates may start to rise this year, with many market analysts looking at August. Even so, he doesn't believe rates will climb higher than 1.5 to 2 per cent. After all, with the size of mortgages growing in line with rising property prices and high household debt to income levels, rates would not have to rise much to have an impact on household finances and spending.[iii]

Even with rate hikes on the cards, yields on deposits are likely to remain under 1 per cent for the foreseeable future compared with a grossed-up return (after including franking credits) from share dividends of about 5 per cent.[iv]

The old adage goes that it's "time in" the market that counts, not "timing" the market.  So if you rush to sell stocks because you fear they may fall further, you risk not only turning a paper loss into a real one, but you also risk missing the rebound in prices later on.

Over time, short-term losses tend to iron out. Growth assets such as shares offer higher returns in the long run with higher risk of volatility along the way. The important thing is to have an investment strategy that allows you to sleep at night and stay the course.

## Chance to review

A downturn in the market can also present an opportunity to review your portfolio and make sure that it truly reflects your risk profile. Years of bullish performances on sharemarkets may have encouraged some people to take more risks than their profile would normally dictate.

After many years of strong market returns, it's possible that your portfolio mix is no longer aligned with your investment strategy. You may also want to make sure you are sufficiently diversified across the asset classes to put yourself in the best position for current and future market conditions.

A recent study found that retirees generally have a low tolerance for losses in their retirement savings. Retirees often favour conservative investments to avoid experiencing downturns, but this means they may lose out on strong returns and capital growth when the market rebounds.

## Think long term

Over the long term, shares tend to outperform all other asset classes. And even when share prices fall, you are still earning dividends from those shares. Indeed, the lower the price, the higher the yield on your share investments. And it is also worth noting that with Australia's dividend imputation system, there are also tax advantages with share investments.

For long-term investors, rather than sell your shares in a kneejerk reaction, it might be worthwhile considering buying stocks at lower prices. This allows you to take advantage of dollar cost averaging, by lowering the average price you pay for a particular company's shares.

Investments are generally for the long term, especially when it comes to your super. Chopping and changing investments in response to short-term market movements is unlikely to deliver the end results you initially planned.

If the current turbulence in world markets has unsettled you, call us to discuss your investment strategy and whether it still reflects your risk profile and long-term objectives.

i https://tradingeconomics.com/stocks

ii https://www.abc.net.au/news/2022-02-02/rba-governor-philip-lowe-press-club-address/100798394

iii https://www.ampcapital.com/au/en/insights-hub/articles/2022/february/the-rba-ends-bond-buying-but-remains-patient-on-rates-we-expect-the-first-rate-hike-in-august?csid=1135474712While

iv https://www.ampcapital.com/au/en/insights-hub/articles/2022/february/the-rba-ends-bond-buying-but-remains-patient-on-rates-we-expect-the-first-rate-hike-in-august?csid=1135474712While


The pandemic has changed the way so many of us live, with jobs, travel and lifestyle all transformed during COVID. Now, as we start emerging on the other side, it may be a good idea to check whether these changes have impacted on your life insurance needs.

In some cases, you may require more cover and in others perhaps less. This is not just down to COVID. Changes to your insurance needs at any given time are a constant throughout your life.

## Insurance through the ages

What you need as a single 20-something building your career is generally quite different from your requirements in your 40s when you may be juggling a young family and a mortgage. Then as you approach retirement and beyond, perhaps with your mortgage paid off, your needs change yet again.

On top of these life cycle changes, what may have seemed appropriate before COVID may no longer work. Perhaps you are working fewer hours and as a result have a lower income. Or perhaps you have opted to take early retirement.

Certainly, insurance companies have been mindful of people struggling to pay premiums during the pandemic and have generally honoured payouts on income protection cover if they occurred within that timeframe.

Whatever your circumstances, now is a good time to consider whether your current policies work for you.

## What's covered?

Life insurance is the umbrella term for four main types of cover - death, total and permanent disability (TPD), income protection and trauma.

Death cover is self-explanatory. It pays a lump sum to your nominated beneficiaries when you die. It is often packaged with TPD which covers things like living expenses, repayment of debt and medical costs if you are no longer able to work. If your TPD is held through your super fund, generally this will only be paid if you cannot work in "any" occupation; if it is held outside super, you may be covered if you can no longer work in your "own" occupation.

Income protection cover will pay part of your lost income for a pre-determined time if you get sick or are injured and need time off work. It is particularly useful if you are self-employed or a small business owner as you don't have access to sick leave.

Trauma cover meanwhile provides a lump sum amount if you are diagnosed with a major illness or serious injury such as cancer, a heart condition, stroke or head injury. Such payments can be a big help with paying medical bills.

## Check your super

Death and TPD insurance can often be purchased through your super fund. If, however, you took advantage of the early release of super allowed during COVID in 2020, it could be that you no longer have sufficient savings in your fund to cover the premium payments. Or, if you've been out of work due to COVID and not made any contributions to your super for 16 months, your account may have been deemed inactive under super law and closed.

It's important to note that if you lost your job due to COVID, then any automatic cover in your super with your previous employer may have stopped. If you have a new employer, the cost may have increased. Also keep in mind that income protection insurance doesn't cover you if you have lost your job due to a business closure or other COVID-related event.

## Protect your mental health

One area that has received more attention during COVID is mental health. Not all insurance policies provide cover for mental health without exclusions or additional premiums. Nevertheless, according to the Financial Services Council, insurers paid out $1.47 billion in mental health claims in 2020.[i]

If your circumstances have changed, then it may be worth examining whether your life insurance cover still suits your needs and whether there are ways you can save money through lower premiums. For instance, you might reduce the amount you are insured for or remove some of the benefits.

*If you would like to discuss your life insurance needs and whether your existing cover is still appropriate give us a call.*

i https://www.abc.net.au/news/2021-02-08/insurance-coverage-mental-health-after-covid-19/13122144

# Tree change or Sea change on the horizon?

Australians are leaving capital cities in droves in a phenomenon being referred to as 'The Great Relocation'. However, there's a lot to consider beyond the obvious appeal of waking up to the laughter of kookaburras or enjoying a long walk on the beach.

The terms 'sea change' or 'tree change' have been around for a while to describe those who decide to make a move from the city or suburbs to a more rural lifestyle.

The pandemic has been responsible for heightening this trend due to frustration with lockdowns and people spending more time at home and in their local area than usual, leading them to reassess their lifestyles and where they would prefer to live. Of course, greater work flexibility as measures were put in place to manage the pandemic, have also been a driving force in the exodus to the regions.

## Moving to the regions

There is a long-held belief that the sea change/tree change phenomenon is largely confined to baby boomers or those at or nearing retirement, which is incorrect - as early as the mid-2000s, nearly 80% of people changing from city to regional areas have been under the age of 50.[i]

Geographically Sydney and Melbourne recorded large net losses of people through 2020 and early 2021, regions within an hour of those major centres recorded the strongest growth.[ii] However, statistics show that the population grew in all major regional cities, reversing a 20-year decline in regional Australia's share of national population growth.[iii]

## The attraction of lifestyle

The reasons for many Australians turning their backs on the big smoke are predominately lifestyle. Those making the break are attracted by the lure of a slower, less hectic life, proximity to the great outdoors, a sense of community made possible by life in a smaller town and last but by no means least, cheaper property prices than those in the big cities.

## Things to consider

If the idea of a move to the sea or a rural town is increasingly attractive, it's important to also consider the potential challenges you may face. For those leaving friends and family behind, there is often a sense of isolation in being far from those you care about, and it can take some time to make new friends and adjust to life in a new community.

It's also important to consider how the infrastructure in rural areas differs from where you are moving from. If you have children, will you have access to good schools close by? If you are looking to retire, will you have access to the necessary medical facilities as you age? It may also be a good idea to consider local economic forces and job opportunities.

### Don't be hasty!

A knee-jerk decision brought on by a holiday stay in the area under idyllic summer conditions, can be fraught with danger. It's a good idea to rent in the area or visit regularly over a longer period of time to gauge whether it will be the right fit. If you get it wrong, it can be a stressful and expensive exercise.

According to analyst Mark McCrindle, a sea change or tree change doesn't work out for one in five people who attempt it, which reinforces the need to do your homework.[iv] "People make a decision because they think it's going to work for them financially or it's going to be less pressure, less commute time and a nicer lifestyle," McCrindle says. "But sometimes they find some of these regional areas are too small or too quiet."

The main thing is to not be swept away by emotion, think about what you value and what you are looking for, and weigh up the pros and cons so that if you make the move it will result in the positive change you are seeking.

i, ii, iv https://www.corelogic.com.au/resources/tree-change-sea-change-what-you-need-know-generate-leads

iii https://www.abc.net.au/news/2021-11-18/migration-to-regional-australia-at-record-levels/100628278