



## PFG Connect - Spring 2024

Welcome to Spring, a season that might be motivational for personal, business and financial renewal. We hope you enjoy the sunshine and warmer weather.

Global stock markets – including the ASX – largely stabilised by the end of August after a turbulent month.

It was a rocky start when markets everywhere fell after news of high unemployment figures in the US and an interest rate move by Japan's central bank. Despite the dramas, the S&P/ASX 200 closed 1.28% higher for the month marking a gain of just over 10% for the 12 months to date.

A slight drop in inflation figures – down to 3.5% in July from 3.8% the previous month – had investors checking the Reserve Bank's reaction but most economists agree there's no chance of an interest rate cut this year. The RBA's not forecasting inflation to get to its preferred levels until late 2026 or early 2027.

While the cost of living has dropped ever so slightly (and partly due to \$300 federal government rebates on electricity bills), wages have risen. The Australian Bureau of Statistics reports that wages rose by 4.1% in the year to June. It means that wages are now keeping up with the cost of living.

The good news from the markets and inflation data contributed to a small upswing in consumer confidence although there's still much ground to recover after the losses caused by Covid-19.

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# HOW DO retirement income options COMPARE?

Retirement is filled with opportunities and choices. There's the time to travel more, work on long-delayed personal projects or volunteer your help to worthwhile causes.

You also have a host of choices to make when it comes to funding your new life away from paid work. Here are four different options to consider.<sup>i</sup>

## Account-Based Pension

An account-based pension (ABP) using your superannuation is one of the most common retirement income options. The amount you receive depends on the balance of your account and the drawdown rate you choose, subject to the minimum pension requirements set by the government.

### Some considerations:

- **Tax benefits** – Investment earnings, capital gains and withdrawals are tax-free, unless you have an untaxed component within your super.
- **Payment flexibility** – Subject to pension minimums, most super funds allow you to adjust the payment amount and frequency, and even make partial or full lump-sum withdrawals if needed. You can also return to work and continue to receive a pension.
- **Longevity and market risks** – You might outlive your account balance, especially if your withdrawals are high or your investment returns are poor.

## Transition to Retirement

A transition to retirement (TTR) strategy allows access to some of your superannuation while still working, if you have reached age 60 (based on current rules).<sup>ii</sup>

### Some considerations:

- **Flexible work options** – You can reduce your working hours and supplement your income from your super.
- **Limits on pension rates** – Similar to an ABP, there is a minimum annual pension rate. However, there is also a maximum annual withdrawal of 10 per cent of your TTR account balance.
- **Reduced retirement savings** – Drawing on your superannuation while still working means your retirement savings might grow more slowly.

## Annuities

An annuity is a financial product that provides a guaranteed income for a specified period or for the rest of your life. There are various types of annuities, including fixed, variable, and indexed annuities. You can purchase annuities or lifetime income streams using your superannuation.

### Some considerations:

- **Predictable income** – Provides a stable income stream, which can be reassuring for financial stability and provide an income for as long as you live.
- **Lack of flexibility** – Once you purchase an annuity, the terms are generally fixed and you cannot alter the income amount. There's a restriction on capital withdrawals or in some instances no access to capital at all.
- **Inflation risk** – Fixed non-inflation-linked annuities may not keep pace with inflation unless specifically indexed to inflation.

## Innovative Retirement Income Stream

An Innovative Retirement Income Stream (IRIS) is provided by a newer range of products. These were introduced after changes to regulations designed to deliver more certainty to retirement income by paying a pension for life without running out of funds.

### Some considerations:

- **Age Pension benefits** – Centrelink only counts 60 per cent of the pension payments received as assessable income and only 60 per cent of the purchase price of the product counts as an assessable asset until age 84 when it is reduced.
- **Certainty** – Some IRIS products offer a stable guaranteed income stream, providing financial security.
- **No minimum requirements** – IRIS products do not require an annual minimum amount, instead just requiring at least one annual payment.
- **Complexity** – Features vary widely between different IRIS products and may involve complex terms or conditions.

## Next steps

How do these different options suit your personal needs and how would they affect your retirement income? Consulting with a financial advisor can help you navigate these choices and tailor a plan that best suits your needs. Speak to us, so we can help you structure a plan to fund the retirement lifestyle you've worked so hard for.

<sup>i</sup> <https://www.ato.gov.au/individuals-and-families/jobs-and-employment-types/working-as-an-employee/leaving-the-workforce/planning-to-retire#ato-Afteryouretire>

<sup>ii</sup> <https://www.ato.gov.au/individuals-and-families/jobs-and-employment-types/working-as-an-employee/leaving-the-workforce/transition-to-retirement>



# INSURING AGAINST LOSS OF INCOME

Protecting income from unexpected illness and injury is particularly important to anyone with a mortgage to service, small business owners and self-employed people with no sick leave available.

With income protection insurance, you can be paid some 70 per cent of your income for a specified period to help when you cannot work.<sup>i</sup>

The most common claims are for illnesses such as cancer, heart attack, anxiety and depression.<sup>ii</sup> Payments generally last from two to five years although you can take a policy up to a certain age, such as 65, and the amount is generally based on 70 per cent of your income in the 12 months prior to the injury or illness.<sup>iii</sup>

For some, income protection insurance may be part and parcel of your superannuation although more commonly this is limited to life insurance, and total and permanent disability cover. But, if you do have income protection insurance in your super, check the extent of the automatic cover as it can be modest.

Alternatively, you could take out a policy outside super where you will enjoy tax deductibility on the premiums. Income protection insurance is the only insurance that is tax deductible. Other life insurance products outside super such as trauma insurance are not tax deductible.<sup>iv</sup>

## Work out a budget

There are many considerations when looking at income protection insurance and the best place to start is to work out

your budget, thinking about how much you would need to maintain your family's lifestyle if you are unable to work. Then you are able to decide on the appropriate level of income protection insurance as well as other factors that affect premiums such as how quickly you might need the payments to start and how long these payments will last.

Many people think income protection insurance is expensive, but you can fine tune policies to suit your budget by changing the percentage payment amount, the length of time for which you would receive the payment and how soon you start getting a payment once you cannot work. Reducing these parameters can reduce your premiums.

## Check the policy details

It is important to be mindful of a number of factors that might affect the success of any claim you might make. So, make sure you read the product disclosure statement.

Every insurer has a different definition as to what will trigger a payment, so you need to understand the difference between “own occupation” and “any occupation” for cover. For example, if you are a surgeon and lose capacity in one of your hands, you will receive a payout from your insurer if you have specified “own” occupation because you can no longer work as a surgeon.

But if you opt for “any” occupation, then the insurer could argue that you could still work as a doctor just not as a surgeon and the claim may not be paid.

It is also wise to understand that if your policy does not seek your medical history, it is likely there could be limitations to what illnesses are covered.

Another consideration is whether you have stepped or level premiums. Stepped premiums start low and usually increase as you age. Level premiums begin at a higher rate but typically don't increase until you reach 65. In the long run, level may work out cheaper for some.<sup>v</sup> You must work at least 20 hours a week to take out income protection insurance and you can usually only buy a policy up to the age of 60. Also, if you receive a payout, you need to declare that income on your tax return.

If you want to check that you have sufficient cover to protect you and your family should you lose your income, then give us a call to discuss.

i <https://moneysmart.gov.au/how-life-insurance-works/income-protection-insurance>

ii <https://aussieinjurylawyers.com.au/legal-news/the-most-common-tpd-claims-in-australia/>

iii <https://moneysmart.gov.au/how-life-insurance-works/income-protection-insurance>

iv <https://community.ato.gov.au/s/question/a0J9s00000019yD/p00014632>

v <https://moneysmart.gov.au/how-life-insurance-works/income-protection-insurance>

# ***To sell or not to sell*** is the question for moving into aged care



Moving into residential aged care can trigger a range of emotions, particularly if it involves the sale of the family home.

What is often a major financial asset, is also one that many people believe should be either kept in the family or its value preserved for future generations.

Whether or not the home has to be sold to pay for aged care depends on a number of factors, including who is living in it and what other financial resources or options are available to cover the potential cost of care.

It also makes a difference if the person moving into care receives Centrelink or Department of Veterans Affairs payments.

## **Cost of care**

Centrelink determines the cost of aged care based on a person's income and assets.<sup>i</sup>

For aged care cost purposes, the home is exempt from the cost of care calculation if a "protected person" is living in it when you move into care.

A protected person could be a spouse (including de facto); a dependent child or student; a close relative who has lived with the aged care resident for at least five years and who is entitled to Centrelink income support; or a residential carer who has lived with the aged care resident for at least two years and is eligible for Centrelink income support.<sup>ii</sup>

## **Capped home value**

If the home is not exempt, the value of the home is capped at the current indexed rate of \$201,231.<sup>iii</sup>

If you have assets above \$201,231 – outside of the family home – then Centrelink would determine you pay the advertised Refundable Accommodation Deposit (RAD) or equivalent daily interest rate known as the Daily Accommodation Payment (DAP), or a combination of both.

The average RAD is about \$450,000. Based on the current interest rate of 8.36% [note – this is the rate from July 1] the equivalent DAP would be \$103.07 a day.

Depending on your total income and assets, you may also be required to pay a daily means tested care fee. This fee has an indexed annual cap of \$33,309 and lifetime cap of \$79,942.

This is in addition to the basic daily fee of \$61.96 and potentially an additional or extra service fee.

There is no requirement to sell the home to pay these potentially substantial costs, but if it is a major asset that is going to be left empty, it may make sense.

Other options to cover the costs may include using income or assets such as superannuation, renting the home (although this pushes up the means tested care fee and can reduce the age pension) or asking family to cover the costs.

## **Centrelink rules**

For someone receiving Centrelink or DVA benefits, there is an important two-year rule.

The home is exempt for pension purposes if occupied by a spouse, otherwise it is exempt for up to two years or until sold.

If you are the last person living in the house and you move into aged care and still have your home after two years, its full value will be counted towards the age pension calculation. It can mean the loss of the pension.

Importantly, money paid towards the RAD, including the proceeds from a house, is exempt for age pension purposes.

## **Refundable Deposit**

As the name suggests, the RAD is fully refundable when a person leaves aged care. If a house is sold to pay a RAD, then the full amount will ultimately be paid to the estate and distributed according to the person's Will.

The decisions around whether to sell a home to pay for aged care are financial and emotional.

It's important to understand all the implications before you make a decision.

Please call us to explore your options.

<sup>i</sup> <https://www.myagedcare.gov.au/understanding-aged-care-home-accommodation-costs>

<sup>ii,iii</sup> <https://www.myagedcare.gov.au/income-and-means-assessments>

# The art of refinancing



Refinancing your home loan has the potential to save you thousands, reduce your monthly repayments and free up your finances to achieve your goals.

However, mastering the art of refinancing requires strategic planning, an understanding of the process and taking numerous considerations into account. Whether you plan on external or internal refinancing, here's what to keep in mind.

## Understand the different types of refinancing

While many people think of refinancing as switching lenders, you can also choose a better deal but stay with your original lender. Refinancing through your original lender but opting for a different deal is referred to as an internal refinance; external refinance is where you find a different lender.

In 2023, it was reported that Australia had the largest boom in mortgage refinances in history over the past three years.<sup>i</sup> And according to Finder's Housing Market Report 2023, while in 2019 just over half of refinancers were external refinancers, by mid-2023, this had jumped to 72%.<sup>ii</sup>

## Know the market and interest rate movements

As the stats show, in recent times more mortgage holders than ever, are swapping lenders in order to chase a better deal. Often this is the main goal – to refinance to get a lower interest rate.

Given the fluctuations in the market and the rise and fall of interest rates, it's smart to keep informed as to what's happening. It's also a good idea to

touch base with a financial expert to get their take on whether now is a good time to refinance.

## Assess your financial health

It's then time to look at your financial situation, so you have a clear understanding of your credit score, current financial position and equity, income, and debt-to-income ratio.

It may have been some time ago that you last did this and it's likely that some things have shifted, especially given the higher cost of living at the moment.

## Understand your loan

Whatever your reasons for wanting to refinance are, you need to understand what your current commitment is and what changes you want to make.

Read through your current loan's terms and conditions, as it may have been a while since you've checked them. You can chat to your current lender to see if there are any benefits you haven't been utilising or costs you are unaware of.

## Understand refinancing costs

A follow-up from knowing your loan is ensuring you have a clear understanding of refinancing costs. While the lure of a better deal can be hard to resist, you may find that it may cost you more than you had thought.

Calculate your break-even point to determining if refinancing is beneficial – this includes taking any valuation fees and payout costs (such as exit fees) into consideration. If you are on a fixed rate home loan, you may need to pay a break free if you refinance.

## Consider the impact on your credit score and LVR

Another thing to be aware of is how refinancing can impact your credit score. Aspects that come along with refinancing, such as ending a loan and needing another credit check, can cause your credit score to dip. And if there is the possibility that you skip out on a mortgage payment (should the refinancing process take longer than expected, for example), this will further damage your credit score.

Loan to Value Ratio (LVR) is the difference between the amount you're borrowing to the value of the property. If your LVR is over 80%, you need to pay Lender's Mortgage Insurance (LMI). When refinancing, it's likely that your LVR has shifted due to your mortgage repayments, so your LVR tends to be lower as a result. However, if your property has fallen in value and your LVR has risen, then you may need to pay LMI when refinancing.

*We can assist with refinancing to ensure it's not only beneficial for you, but that it also frees up your finances. Get in touch today so we can discuss your options.*

<sup>i</sup> <https://www.macrobusiness.com.au/2024/03/mortgage-refinancing-boom-turns-bust/>

<sup>ii</sup> <https://www.finder.com.au/home-loans/housing-market-report>



# Being informed is the **KEY** to **AVOIDING SCAMS**

While it seems we all like to think we are clever enough to outwit a scam, Australians collectively lost more than 480 million to scams last year.

Every year scammers get more sophisticated in the methods they use to part us with our money – or our valuable personal information. It's important to recognise that even the savviest of us can fall victim to scams that are ever evolving to take us for a ride.

Let's look at the scams that are having the most impact – and how to avoid them.

## Phishing scams continue to reach new heights

The most common type of scam, and one that continues to increase in prevalence is known as phishing. The reason these scams are so common, is that unlike romance scams targeting those looking for love, or financial scams targeting investors, phishing scams target everyone – and everyone who has an email account, or a mobile phone is vulnerable.

There were nearly 109,000 phishing-related scam reports last year, with losses amounting to \$26.1 million (up 6 per cent year-on-year).<sup>i</sup>

These may come in the form of text messages or emails from a scammer pretending to be a legitimate business or government entity you know and trust.

They are designed to convince you to provide personal information to steal your identity or to be able to access bank accounts and/or superannuation accounts. Or they can simply be asking you to part with your money to pay an overdue invoice, a “fine,” or tax debt.

There are also the scammers who pretend to be a person you know, in order to extract money from you. A classic that's been doing the rounds is the “Hi mum/ dad” text where the scammers pretend to be one of your kids who has lost their phone and urgently needs you to transfer them money.

## How to avoid getting caught

So, given how convincing these messages can be, how do you keep yourself safe? The best defence is awareness and knowing what to look for, so let's look at some common characteristics of scam emails and texts and some of the methods commonly employed by scammers so you can be alert – and stay safe.

- **Urgent call to take action or threats** – Scammers will often create a sense of urgency, telling you to take immediate action to claim a reward or avoid a fine or penalty. They are hoping you'll react without thinking too much about it or checking the legitimacy of the message or email.  
**TIP:** Be sceptical if a message is prompting urgent action and approach with caution.
- **Emails that look like they are coming from a trusted source** – Scammers are often quite good at mimicking a business's branding and at first glance can look pretty convincing.

**TIP:** Some of the red flags to look for are spelling mistakes or a generic greeting (if the message is from a provider, they should have your name on file).

Check the email source carefully. Scammers use subtle misspellings of the legitimate domain name. Like replacing “o” with a zero or replacing “m” with an “r” and a “n”.

- **Suspicious links** – Scammers include links to online forms to capture your information that can look uncannily like the real thing and often send computer viruses and malware through malicious attachments. If you suspect that a message, or an email is a scam, don't open any links or attachments.

**TIP:** Hover your mouse over, but don't click the link. Look at the address that pops up when you hover over the link and see if it matches the link that was typed in the message.

To visit a provider's website rather than click on a link to a website manually type the official web address into your browser. You could also use a search engine to find the official website and log in that way.

With phishing attempts becoming ever harder to spot and avoid, it's more important than ever to stay vigilant and equip yourself with tools to make sure you don't take the bait. If you think you may have fallen prey to a scam, contact your bank and report the matter to *Scamwatch*.<sup>ii</sup>

<sup>i</sup> <https://www.sbs.com.au/news/article/481m-in-losses-and-302k-complaints-the-scams-hitting-australians-hard/hg52ignc8>

<sup>ii</sup> <https://www.scamwatch.gov.au/report-a-scam>



# Holidaying OFF THE TOURIST TRAIL

When we dream of an overseas holiday, our minds often drift to iconic landmarks, bustling cities, and well-trodden tourist paths. While these destinations have their allure, travel to popular destinations is booming and comes with challenges so there are advantages to venturing off the beaten track and seeking out the hidden gems.

## Travel is booming – and creating some headaches

It's no secret that we Aussies love to travel outside our own country. Last year nearly 10 million of us headed overseas, marking a 12 per cent increase from the previous year, and this year is shaping up to continue the trend.<sup>i</sup> And it's not just us enjoying getting out there and travelling the world, global figures anticipate international travel will soon exceed pre-pandemic levels and surpass 2 billion for the second time ever.<sup>ii</sup>

That adds up to a lot of people out there travelling and some popular destinations are showing the strain with skyrocketing prices, excessive queues, damage at historical sites and environmental impacts all being felt.

Tensions are high in some areas with tourists in Barcelona, Spain recently doused in water by frustrated locals and authorities in the historic city centre of Florence banning new short-term holiday rentals to try to relieve some of the pressure of over-tourism.

Taking the road less travelled can help areas suffering from over-tourism and support those communities who would welcome more visitors.

## Supporting communities that need it

Tourism plays a significant role in the economic growth of many communities around the world and there are many places that would really benefit from the tourist dollar. The money you spend as

you travel can contribute meaningfully to local economies and help support small businesses, artisans, and entrepreneurs, ensuring that future generations can continue to enjoy unique destinations.

But there are plenty of less altruistic reasons to seek out the hidden gems when you travel though.

## Authentic Encounters

One of the lovely aspects of traveling to less touristy places is the opportunity to immerse yourself in local cultures. Away from tourist hotspots, communities maintain their unique traditions, cuisines, and ways of life. Imagine strolling through a market where locals gather to sell fresh produce, handicrafts, and homemade delicacies, or stumbling upon a hidden café where the owner shares stories of their town's history. These encounters create lasting memories and offer a genuine glimpse into the daily lives of people from different corners of the world.

## Unspoiled natural beauty

Nature enthusiasts will find bliss in exploring destinations that are off the typical tourist radar. Picture deserted beaches with powdery sand and crystal-clear waters, hiking trails winding through lush forests, or breathtaking untouched landscapes. Whether you're seeking solitude in nature or hoping to capture stunning photographs without a sea of selfie sticks in the background, less touristy places often boast natural beauty that remains unspoiled and awe-inspiring.

## Affordable adventures

Traveling to less touristy places can also be kinder to your wallet. Accommodation, dining, and activities in popular tourist hubs tend to come with inflated price tags due to high demand. In contrast, destinations that are yet to be discovered by the masses often offer more affordable options. You might find charming family-run guesthouses, budget-friendly eateries serving local dishes, and reasonably priced excursions that allow you to stretch your travel budget further.

## Destination dupes

Doing a little homework can point you in the direction of alternatives to popular destinations.

For example, instead of Venice – which is literally sinking under the weight of tourism – consider visiting the town of Trieste, an old port town by the Adriatic Sea. If you are after stunning beaches and clear aqua water, Palawan in the Philippines is a good alternative for the Maldives. Or for an alternative to over-touristed St Tropez in France, Turkey's Bodrum coast offers comparable glamour and affordable luxury. Doing a little research can uncover similar destinations that offer the experience you are seeking, with all the benefits and none of the problems of the overhyped place.

While the allure of ticking off the list of famous places is understandable, exploring less touristy places offers a wealth of unique experiences to the visitor, and benefits the local communities. So, the next time you plan an overseas holiday, think outside the square of the obvious destinations, and discover the hidden gems.

<sup>i</sup> <https://www.travelweekly.com.au/article/cato-reveals-new-trends-with-australias-10m-international-travellers/>

<sup>ii</sup> <https://www.vanillaplus.com/2023/12/14/85311-2024-international-travel-boom-predicted-surpassing-2-billion-trips/>