PFG Connect - Summer 2024

Welcome to summer and, for many, an active season with last-minute tasks and celebrations with family and friends. We take this opportunity to wish you and your family a joy-filled and safe festive season!

While headline inflation eased to 2.8% in the September quarter, the Reserve Bank remains unmoved on interest rates. RBA Governor Michelle Bullock says the drop in the cost of living may be welcome relief for most of us, but the Board's measure to watch is trimmed mean inflation and that's still not "sustainably" in the desired target range of 2-3%. It's not likely to get there until late in 2026, the RBA predicts.

The sharemarket reacted sharply to the Governor's comments in the last days of a month that had seen several all-time highs. US President-elect Donald Trump's promise for 25% tariffs on Canadian and Mexican goods also contributed to the billion dollar shares sell-off. Nonetheless, the S&P ASX200 finished November 3.4% higher.

The Australian dollar is also taking a beating from the possibility of both the US tariffs and the RBA's rates forecast. It hit a seven-month low below 65 US cents near the end of the month.

And, in good news the ANZ-Roy Morgan Consumer Confidence Index, while down slightly has stayed above a mark of 85 points for the sixth week in a row for the first time in two years. Commonwealth Bank projections expect a boost in sales for small businesses thanks to the Black Friday and Cyber Monday sales and the coming festive period.

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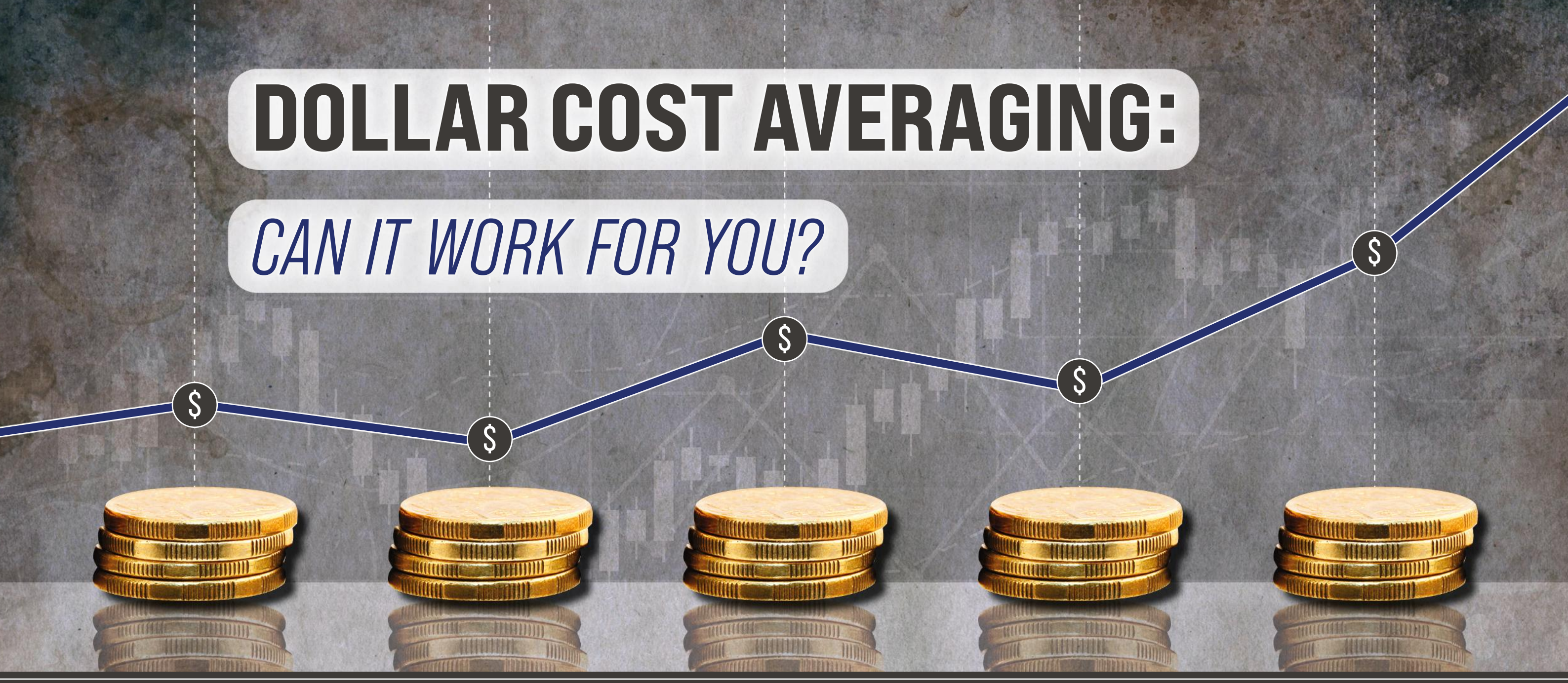

Australian share prices have seen record highs in 2024 after a sluggish couple of years.

The S&P ASX200 index added just under 7 per cent in the 10 months to October 31 closing at 8160.[i] It reached its previous all-time high of 8355 just two weeks before.

So, if you were invested in an index fund or a basket of shares mirroring the ASX200 for the entire period, it's likely you would have added some value to your portfolio.

Over the course of the year, the index has ebbed and flowed, recording several all-time highs and some jarring notes in response to global events.

Geopolitical tensions have also played a part in market skittishness as the wars in the Middle East and Ukraine continue and economists argue about the future impact on Australia of a Trump presidency.

US share prices surged the day after Donald Trump's election in what many saw as a positive reaction to the returning President's policies. Since then, prices have declined in a not-unexpected correction. Various analysts are predicting future volatility as markets respond to the proposed policies including tariffs and mass deportations promised by the President-elect.

These ups and downs in prices can have investors scurrying to hit the 'buy' or 'sell' buttons. They may be desperate to save further losses when share prices are falling rapidly or wanting to cash in on a rising market. Meanwhile, those with lump sums to invest may delay, trying to pick the time when prices are lowest.

Timing the market

It's a strategy – known as timing the market – that may work for some, particularly if you need access to your investment in the short term. But, for mid- to long-term investors, it's generally accepted to be problematic.

To begin with, predicting the next market movement is extremely difficult – even for experienced investors – because of the endless factors that can influence the markets.

Reacting to major market movements by selling or keeping a lump sum in cash until 'the time is right' means you run the risk of missing the market's best days and reducing your overall return.

Countless studies show that better long-term results are achieved by consistent investing over time.

In Australia, $10,000 invested in the ASX/S&P 200 during the 20 years to October 2024 would have increased to $60,777.[ii] But, if you had missed the 10 best days during that time, your total investment would be just $36,014.

Dollar cost averaging

One way of removing the emotion and guesswork is to consider investing at regular intervals over time, ignoring any market signals, in a strategy known as 'dollar cost averaging'.

The strategy works best if you are investing over the medium to long term because it helps to smooth out the price peaks and troughs.

In fact, compulsory superannuation paid by employers is a form of dollar cost averaging. Smaller, regular amounts are invested automatically, regardless of market movements and, over time, the investment grows.

However, the jury is out on whether dollar cost averaging is a useful strategy when you have a lump sum in cash to invest.

Some advocates of dollar cost averaging argue that there's a better return because you reduce the risk of making a large investment just before markets plunge.

Those opposed to the strategy for lump sum investing say that, with a lump sum sitting in a bank account as you chip away at regular stock purchases, there is a risk that you will miss the best of the market.

A 2023 study found that investing a lump sum in the markets at once over the long term delivers a better return than a dollar cost averaging strategy.[iii]

So, avoid the risks of timing the market and consider whether dollar cost averaging might be an appropriate strategy for you.

We'd be happy to discuss how best to ensure your regular investing strategy or investment of a lump sum, takes account of future market movements and volatility.

i https://tradingeconomics.com/australia/stock-market

ii https://www.fidelity.com.au/learning-hub/understanding-markets/timing-the-market/

iii https://investor.vanguard.com/investor-resources-education/news/lump-sum-investing-versus-cost-averaging-which-is-better?msockid=1d0ef73d34e2669b38aae39035f26789

Helping the kids WITHOUT derailing your retirement plans

As parents, the instinct to support our children never truly fades, even when they become adults but when you are looking at giving them a financial helping hand there is a bit to consider.

It's important to ensure any support you provide is not at the expense of your financial future. It can also be tricky knowing what form your support should take, in order to maximise the benefits for your kids.

Support in a challenging environment

In today's financial landscape, many young people are struggling to get ahead in the face of skyrocketing housing prices and rising living costs and it's increasingly common for parents to provide some form of financial assistance. In fact, more than half of parents with a child older than 18 provide financial support.[i]

So, if you are giving your adult kids a monetary helping hand, or considering it, you are in good company.

Achieving balance

The challenge for most people is the balance between helping your kids get a head start in life and making sure you have enough for a secure financial future.

It's important to have clear visibility of your own financial situation, of how much you'll need to fund the retirement you aspire to, and how much you can comfortably spare. If your financial future is secure, you'll be in a better position to help your children when they need it most, so ensure that any contribution you make to your kids' financial wellbeing is not at the expense of your superannuation and other retirement savings.

Ways of providing support

When we think of support we often think of the 'bank of mum and dad' helping with a home purchase and that is quite common, with 40 per cent of new home buyers getting a hand from their parents.[ii]

If you're considering this route, you have several options:

Gift funds: If you have the means, you can gift your child a portion of the deposit, however, be mindful of any tax implications.

Going guarantor: Another popular option is to act as a guarantor on your child's home loan. This means that you'll use the equity in your own home to guarantee the loan, which can help your child secure better borrowing terms. It's a significant commitment, so be sure to discuss the potential risks and implications thoroughly.

Co-ownership: In some cases, parents and children can purchase a property together, sharing the financial responsibilities. This arrangement can be beneficial, but it's crucial to have a clear agreement in place outlining each party's responsibilities and financial contributions.

Other ways of providing financial support

There are lot of other ways you can help your kids with a range of expenses. Nearly 40 per cent of parents pay for their adult children's groceries and around the same proportion allow their adult children to live at home rent-free, while around a third pay their adult children's bills. One in five fork out for their kid's car-related costs like registration fees and petrol and 20 per cent pay for their kids to take off on holidays.[iii]

Non-financial support

Financial assistance isn't the only way to support your children. Often, your time and knowledge can be just as valuable. Encourage them to develop good financial habits, such as budgeting, saving, and investing. You might even consider involving them in family discussions about money management, which can empower them to make informed financial decisions.

Communication is critical

Regular, honest conversations about finances can strengthen your relationship with your children. Discuss their financial goals and challenges openly and encourage them to share their aspirations. These dialogues will allow you to gauge how best to support them and sometimes, just being there to listen can make a world of difference.

Setting clear boundaries is also crucial when offering financial support. Discuss how much you can provide, whether it's a one-off gift, a monthly allowance, or a loan. By being transparent about your limits, you can prevent misunderstandings and help your children set realistic expectations and become financially independent.

Navigating the complexities of financial support can be challenging, especially when balancing your own needs with those of your children. We can provide assistance and advice tailored to your unique situation and help you create a sustainable plan that allows you to assist your children without compromising your retirement goals.

i https://www.finder.com.au/bank-accounts/finder-bank-of-mum-and-dad-report-2021

ii https://www.apimagazine.com.au/news/tag/deposit

iii https://www.domain.com.au/news/the-bank-of-mum-and-dad-slightly-less-generous-than-before-covid-19-survey-shows-996809/

The retirement living sector is growing rapidly in Australia as the population ages and demand increases for a spot in a retirement village.

For many people, the idea of having someone on site to help with property and garden maintenance is enough for them to make what can be a major change later in life. For others it is about the ready-made community and the easy access to social activities and a network of friends. And, as developers seek to entice younger and younger residents, they are dialling up the luxury and add-ons.

The type of accommodation varies widely between villages from apartments, villas and houses. Some retirement villages have a resort-style feel with a range of onsite amenities on offer including swimming pools, fitness centres, cinemas and cafes and there are often different dining and cleaning options available for residents.

Research released last year by the Property Council of Australia shows that retirement village residents are 41 per cent happier; 19 per cent less likely to require hospitalisation after only nine months; 15 per cent more physically active; five times more socially active; twice as likely to catch up with family or friends and have reduced levels of depression and loneliness.[i]

One important factor that sets retirement villages apart from residential aged care facilities is that retirement village living is considered independent living, generally without medical or personal care available through the village itself.

Different laws

Some residential retirement complexes include both independent living homes and aged care facilities. This set up can make the transition to aged care, if needed, less stressful especially if one member of a couple needs greater care.

However, the two operations are regulated quite separately under different laws and there are no guarantees that you can move smoothly from one to another when you want to.

Unlike assisted living or residential aged care, retirement villages are not regulated by the Federal Government but are governed under state and territory retirement villages acts. As such, the rules can vary between jurisdictions and villages.

Considering the costs

Buying into a retirement village can be a significant expense, making it important to understand the legal implications and ensure you carry out a thorough check to see if it is affordable.

In most cases you don't own the village residence. A common arrangement is for a lease or loan type arrangement, where residents buy the right to occupy a home within the village for a specific period.

The level of fees and how they are set is a private commercial arrangement and not governed by any laws. The costs could be roughly what would be incurred if you owned your home. As well as an upfront price, there could be ongoing maintenance fees and deferred management fees, which reduce the amount you receive when you leave the village.

Knowing your rights and obligations, as well as the initial costs and ongoing fees and expenses are key considerations to a successful transition.

Financial and legal advice is highly recommended to ensure clear understanding of the purchase arrangements and contracts. Their level of complexity is not to be underestimated.

Extra services and support

It is most people's aim to remain living independently in their own home for as long as possible.

For people living in retirement villages, this could mean accessing government subsidised home care services – for example, through the existing Home Care Packages Program. Depending on a person's health, these services could include cleaning and domestic assistance as well as personal care, such as assistance with showering or the delivery of pre-cooked meals.

Following the introduction of recent reforms, a new Aged Care Act aims to increase the subsidies for services and equipment to assist people staying at home.

A new Support at Home Program will replace the Home Care Packages Program from 1 July 2025. The Commonwealth Home Support Program will transition after 1 July 2027.

The reforms also include significant changes to the funding arrangements for residential aged care.

For both home care and residential aged care, the focus will be increasing the quality of services and the rights of individuals, while at the same time looking for greater contributions from people accessing the services.

Retirement villages are largely lifestyle considerations, but you also need to consider your current and future care needs to ensure that the village you choose will remain suitable for at least the medium term.

Contact us to discuss your plans for retirement.

i https://www.propertycouncil.com.au/media-releases/seniors-housing-focus-required-as-population-ages

The Age Pension
& your retirement plans

Most people intend to retire between ages 65 and 66, according to the latest data and, surprisingly, despite growing superannuation balances, the Age Pension is the main source of income for many retirees.[i]

The intended retirement age has increased significantly in the last two decades, from just over 62 years on average in 2004.

Australian Bureau of Statistics (ABS) figures show that, in 2022-23, a government pension or allowance was still the main source of personal retirement income. This was followed by super, an annuity or private pension.

More than 60 per cent of those aged over 65 years were receiving the Pension in 2021.[ii]

Am I eligible?

It is important to remember that, while you may not meet the eligibility requirements today, you may qualify later in life.

In 2021, only 44 per cent of people aged 65-69 received either full or part Age Pensions but this increased to 81 per cent for those aged 80 to 84 years.[iii]

Veterans who have served in the Australian Defence Force may be eligible for pensions or benefits from the Department of Veterans Affairs.[iv]

You are generally eligible for the Age Pension if you:

- are over 67 years (depending on when you were born)
- are an Australian resident and have lived in Australia for at least 10 years
- can meet an income and assets test

What are the income and assets tests?

The Age Pension means tests considers your income and the value of any assets you own. If the value of your income and assets exceed certain limits, your payment will be reduced.

Income includes money from a job (including salary packaging), other pensions or annuities, earnings from investments and any earnings outside of Australia.[v]

Assets are items of value you or your partner own or have an interest in such as investment properties and artworks; caravans, cars, and boats; shares; and business assets. While your family home isn't included in the assets test, your pension may be affected if you sell it.[vi]

Can I still work?

Singles can earn up to $212 per fortnight without their pension being affected. For every dollar over that amount, their pension will be reduced by 50 cents. Couples can earn up to $372 per fortnight and for every dollar over that amount, 25 cents in the dollar will be deducted from their pension payment.[vii]

If your income in a fortnight goes over a certain amount, you will not receive a pension payment. This cut-off amount is $2500.80 for a single person and a combined $3,833.40 for a couple. There are other higher cut-off allowances for those affected by ill-health.

The Work Bonus may help you earn more from working without reducing your pension. You don't need to apply for it, the Bonus will be automatically applied to your eligible income – you just need to declare your income.[viii]

What does the Age Pension pay?

There are different rates of pension for singles and couples.

The current maximum basic rate for a single person is $1047.10 per fortnight. A couple would receive 1,578.60 per fortnight. With extra supplements, those on a full Pension could receive a fortnightly total of $1,144.40 for singles and $1,725.20 for couples.[ix]

Get in touch if you'd some help to work out your eligibility for the Age Pension and other government entitlements.

i https://www.abs.gov.au/statistics/labour/employment-and-unemployment/retirement-and-retirement-intentions-australia/latest-release#income-at-retirement

ii,iii https://www.superguide.com.au/in-retirement/age-pension

iv https://www.dva.gov.au/get-support/financial-support/income-support/eligibility-benefits-and-payments

v https://www.servicesaustralia.gov.au/income

vi https://www.servicesaustralia.gov.au/asset-types

vii https://www.servicesaustralia.gov.au/income-test-for-age-pension

viii https://www.servicesaustralia.gov.au/who-can-get-work-bonus

ix https://www.servicesaustralia.gov.au/how-much-age-pension-you-can-get