PFG Connect - Winter 2024

With Winter now officially underway, some might be heading north to warm up and others may lean into the cold on the snowfields. Whichever you choose, don't forget the approaching end of financial year.

A slight increase in the Consumer Price Index last month, to 3.6% from 3.5% in March, has led some economists to predict we'll be waiting longer for the first official interest rate cuts, perhaps until the end of next year, with little to no chance of a rate rise in the meantime. While inflation has been relatively stable over the past five months, this is the second monthly increase in a row. The biggest price increases were in the housing, food and beverages, alcohol and tobacco, and transport sectors. Retail spending continues to be weak. The 0.1% increase in turnover in April wasn't enough to make up for a 0.4% drop in March.

The higher-than-expected inflation figures saw Australian share prices take a tumble after reaching a welcome high mid-month. The ASX200 finished the month on a positive note, slightly higher for the month of May. In the US, troubles in the tech sector and a global bond sell-off saw small losses on the Dow, the Nasdaq and the S&P 500 while European markets in London, France and Germany also finished the month on a low.

A strong US dollar along with the uptick in Australia's inflation data saw the Aussie dollar fall from a mid-month peak of just over US67 cents.

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Investment Performance: Past performance is not a reliable guide to future returns as future returns may differ from and be more or less volatile than past returns.

How to end the **financial year** on a HIGH NOTE

As the financial year draws to a close, it's the perfect time to review your financial affairs and set the stage for a successful year to come. By taking care of essential tasks and implementing strategic planning, you can position yourself for a smooth transition and a strong start for the new financial year.

Topping up super

One important item for the To Do list is to top up your super with either concessional (pre-tax) or non-concessional (post-tax) contributions. For example, you could make a voluntary concessional contribution up to the limit allowed and then claim a tax deduction on your personal assessable income for it.

Consider making additional contributions to your own super account or your spouse's account, to take advantage of tax concessions.

If you have unused concessional cap amounts from the previous five years and a super balance less than $500,000 on June 30 the previous year, you may be eligible to make a catch-up (or carry-forward) contribution greater than the annual limit.

Maximising contributions not only helps you build your retirement savings but can also provide valuable tax benefits. But it's critical to be mindful of your caps and to ensure that you make any super contributions before the end of the financial year to meet the deadline.

Reviewing investments

Reviewing your investment portfolio is a valuable task at any time but particularly now.

For example, you could take a look for any capital gains or losses that could be used strategically to manage your tax liability.

Also, it is worth considering how your portfolio performed over the past 12 months against your goal of capital growth, income, or balance.

You may decide to readjust your goals or your investments to help steer performance in the right direction for the next 12 months.

Of course, if you're planning any changes, it's important to check in with us to ensure you're making informed decisions about your investments.

Paying expenses early

Another useful strategy at tax time can be to bring forward any deductible expenses or interest payments before 30 June to reduce your taxable income.

That could include incurring expenses on an investment property, prepaying interest on investment loans, making charitable donations, or claiming eligible work-related expenses.

Make sure you keep detailed records and receipts to support your deductions.

The ATO's myDeductions app is a great place to start for free record keeping and to asst you to be ready for tax time.

Setting up salary sacrifice

As you look ahead to the new financial year, consider whether a salary sacrifice arrangement might be right for you.

Salary sacrifice allows you to divert a portion of your pre-tax salary directly into your superannuation, which effectively reduces your taxable income and boosts your retirement savings.

You will need to think carefully about your living expenses to work out the amount you can afford to contribute to your super, ensuring you do not exceed your concessional (before-tax) contributions cap of $27,500, (which will increase to $30,000 from July 1 2024) to avoid paying any extra tax.

Your employer or payroll department can help you set up a salary sacrifice arrangement.

Checking your budget

This is a good time to revisit your financial goals and how you're tracking, and then put together a strong budget for the new financial year that will help get you further along the track.

Take the time to review your income and expenses and identify any areas where you can cut back spending or improve your income.

This exercise not only helps you understand your financial habits but also allows you to reallocate funds towards your goals, such as paying down debt, building an emergency fund, or increasing your investment contributions.

Consult with professionals

Don't forget to check in with your trusted advisers – financial advisers, accountants, or tax professionals – to make sure you are making the most of any opportunities for financial growth and maximising tax savings.

Taking advantage of our expert advice to review your current financial situation and goals, and checking that you are making the best decisions for you can make a difference. It provides peace of mind, ensures that you are complying with any obligations and, importantly, puts you in the best position to achieve your financial goals.

Enjoy the now & secure your future

Managing your financial situation always involves tension between how you live your life now and preparing for your future – whatever that looks like.

The worry about not getting the balance right and making unnecessary sacrifices now – or not having enough money for the things you want to do in the future is a common and valid concern we hear when we talk to clients. You want to be living your best life now which means not living too frugally or worrying about your future. At the same time, you don't want the choices you are making now in how you live your life to impact or make impossible the wonderful life you envision for yourself down the track.

Balance whatever your stage of life

We all have financial goals – whether you are saving for your children's education, working towards that once in a lifetime round the world trip, freeing up finances for a gap year, or setting yourself up for a wonderful retirement. It's important to balance your 'now' with your 'future' when it comes to spending, saving, and investing to make sure you can achieve those goals. You don't want to regret your spending – or on the other hand live a frugal life and look back on opportunities you missed while you were squirrelling it away.

The tension between the 'now' and your 'future' with respect to your finances can be even more heightened when you have retired. It can be a strange adjustment suddenly not having a wage coming in and living off your savings, super and investments. It's common, and quite understandable, to worry about not having enough to last the distance, particularly given that a 65-year-old today may live well into their 90's and could now spend up to three decades in retirement.[i] No one wants to outlive their savings.

However, many retirees live unnecessarily frugal lives as evidenced by a 2020 Retirement Income Review which found most people die with the bulk of their retirement wealth intact.[ii] Those that live frugally do so often not from necessity but because they don't have an understanding of their financial needs, including how these will change over time, and how much they can afford to spend.

How the balance changes over time

That balance is hard to hit. It is different for different people, and your approach to saving and spending will change at various stages of your life.

If you are paying off a difficult to maintain level of debt or in the final stages of scraping together a deposit for a home, making sacrifices now in the way you live life your life might feel OK. Equally if you have spent much of your life building wealth, letting loose the reins a little and going on that cruise might be something you are extremely comfortable with.

Certainty now and confidence in the future

Whatever your stage of life, achieving the right balance comes from having an in-depth understanding of your financial situation now, and establishing and maintaining a personalised plan that takes into account all aspects of your financials – your earning capacity, level of debt, assets and very importantly, the life you want to live today and your goals for the future.

The importance of receiving support with financial planning is reinforced in a recent report which indicated advised Australians are significantly more likely to say they feel confident in achieving their financial goals (71 per cent) compared with those who are not receiving support (55 per cent).[iii]

The same proportion said that they were living well now, stating their finances allow them to "do the things I want and enjoy in life." And those receiving advice are also balancing the "now" with their future needs. Those accessing financial advice also indicated they were more likely to be financially prepared for retirement and have a higher savings balance.

This confidence that comes from receiving personalised advice also means being more prepared when people leave the workforce (and a wage) behind. Advised Australians are significantly more likely to feel very or reasonably prepared for retirement, (76 per cent), than those without advice, (45 per cent).[iv]

The key to achieving a balance between living your best life now and being financially secure in the future is knowledge. If we know that tomorrow is shaping up well for us, we may worry a little less today, feel a little less guilty when we spend today and be less likely to have regrets about spending – or about missing out – further down the track.

i https://www.aihw.gov.au/reports/life-expectancy-deaths/deaths-in-australia/contents/life-expectancy

ii https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-ud00b_key_obs.pdf

iii https://www.netwealth.com.au/web/insights/the-advisable-australian/understanding-australian-advice-clients-better/#download

iv https://www.netwealth.com.au/web/insights/the-advisable-australian/understanding-australian-advice-clients-better

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.[i] 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%.[ii]

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.

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

ii 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).[i]

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*.[ii]

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

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

Living your best life in *retirement*

If you're nearing retirement age, it's likely you're wondering if you will have enough saved to give up work and take it easy, particularly as cost-of-living increases hit some of the basic expenses such as energy, insurance, food and health costs.

Fortunately, someone has already worked out what you might need.

The Association of Superannuation Funds in Australia (ASFA) updates its Retirement Standard every year, which provides a breakdown of expenses for two types of lifestyles: modest and comfortable.[i]

Based on our average life expectancy – for women it is just over 85 years and men 81 – if you are about to retire at say age 67, you will have between 14 and 18 years in retirement, on average and depending on your gender.[ii]

ASFA finds that a couple needs $46,944 a year to live a modest lifestyle and $72,148 to live a comfortable lifestyle. That's equal to $902 a week and $1387 respectively.

The figure is of course lower for a single person – $32,666 for a modest lifestyle ($628 a week) or $51,278 ($986) for a comfortable lifestyle.[iii]

What does that add up to? ASFA estimates that, for a modest lifestyle, a single person or a couple would need savings of $100,000 at retirement age, while for a modest lifestyle, a couple would need at least $690,000.[iv]

A modest lifestyle means being able to afford everyday expenses such as basic health insurance, communication, clothing and household goods but not going overboard.

The difference between a modest and a comfortable lifestyle can be significant. For example, there is no room in a modest budget to update a kitchen or a bathroom; similarly overseas holidays are not an option.

The rule of thumb for a comfortable retirement is an estimated 70 per cent of your current annual income.[v] (The reason you need less is that you no longer need to commute to work and you don't need to buy work clothes.)

Building your nest egg

So how can you build up a sufficient nest egg to provide for a good life in retirement? There are three main sources: superannuation, pension and investments/savings.

Superannuation has the key advantage that the money in your pension is tax free in retirement.

Your superannuation pension can be augmented with the government's Aged Pension either from the moment you retire or later when your original nest egg diminishes.

Your income and assets will be taken into account if you apply for the Age Pension but even if you receive a pension from your super fund, you may still be eligible for a part Age Pension. You may also be eligible for rent assistance and a Health Care Card, which provides concessions on medicines.[vi]

Money keeps growing

It's also important to remember that the amount you accumulate up to retirement will still be generating an income, whether its rentals from investment properties or merely the growth in the value of your share investments and the accumulation of money from any dividends paid.

You can also continue to add to your superannuation by, for instance, selling your family home and downsizing, as long as you have lived in the home for more than 10 years.

If you are single, $300,000 can go into your super when you downsize and $600,000 if you are a couple. This figure is independent of any other superannuation caps.[vii]

Planning for a good life in retirement often requires just that – planning. If you would like to discuss how retirement will work for you, then give us a call.

i Retirement Standard - Association of Superannuation Funds of Australia

ii Life expectancy, 2020 - 2022 | Australian Bureau of Statistics (abs.gov.au)

iii https://www.superannuation.asn.au/media-release/retiree-budgets-continue-to-face-significant-cost-pressures/#:~:text=The%20ASFA%20Retirement%20Standard%20December,to%20around%203.5%20per%20cent.

iv https://www.superannuation.asn.au/resources/retirement-standard/

v https://www.gesb.wa.gov.au/members/retirement/how-retirement-works/cost-of-living-in-retirement

vi Assets test for Age Pension - Age Pension - Services Australia

vii Downsizer super contributions | Australian Taxation Office (ato.gov.au)