Newsletter: April 2020

Welcome to the latest edition of our client newsletters.

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 topics include:

- What the coronavirus stimulus package means for you and the Australian economy
- How investment market volatility could affect your super
- Changes to pension drawdown and deeming rates.

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

Sefton Financial

Sefton Financial
Suite 4, 741 Main Road,
Eltham Vic 3095
P (03) 9431 3255
E info@seftonfinancial.com.au
W www.seftonfinancial.com.au

What the coronavirus stimulus package means for you and the Australian economy

With the COVID-19 coronavirus crippling the Australian economy and affecting livelihoods, the Australian Federal Government has announced a range of measures to support both businesses and individuals.

The total stimulus announced to date is worth $189 billion, or 10% of the size of the Australian economy, and the government has said more financial support will be announced over the coming months.

Here are some of the benefits you may be eligible for.

Support for retirees

To assist those in retirement the government is temporarily reducing minimum super drawdown requirements for account-based or allocated pensions, annuities and similar products by 50% for the current financial year and the 2020-21 financial year. This should reduce the need for retirees to sell investment assets in the current soft sharemarket conditions to fund their minimum drawdown requirements.

In addition, the upper and lower social security deeming rates will also be reduced by 0.25% from 1 May in recognition of the impact of persistent low interest rates on retirees' savings. This comes on top of a 0.5% reduction announced earlier in March.

The government says the change will benefit around 900,000 income support recipients, including around 565,000 people on the Age Pension who will, on average, receive around $105 more from the Age Pension in the first full year that the reduced rates apply.

Minimum payment rates for account-based and allocated income streams

Age	Current rates	Reduced rates 2019-20 & 2020-21
Under 65	4%	2%
65-74	5%	2.5%
75-79	6%	3%
80-84	7%	3.5%
85-89	9%	4.5%
90-94	11%	5.5%
95 or more	14%	7%

Household stimulus payments

The government is providing two separate, tax-free $750 payments to social security, veteran and other income-support recipients, including those on the Age Pension, and eligible concession card holders.

The first payment will be made from 31 March 2020 and the second payment from 13 July 2020. However, people eligible for the coronavirus supplement (detailed below) won't be entitled to the second payment.

It's expected that up to 6.6 million people will be eligible for the first payment and around five million for the second payment, with around half of these pensioners.

Coronavirus supplement

For the next six months, the government will establish a new coronavirus supplement worth $550 per fortnight. This will be paid to both existing and new recipients of JobSeeker Payment, Youth Allowance Jobseeker, Parenting Payment, Farm Household Allowance and Special Benefit, doubling the payment for those currently on these benefits to $1,100 per fortnight. Students receiving Youth Allowance, Austudy and Abstudy will also be eligible.

Asset tests and waiting periods that typically apply to these types of payments will be waived, and eligibility will be extended to permanent employees who are temporarily stood down.

Sole traders, the self employed, casual workers and contract workers whose volume of work has been affected may also be eligible, provided they're earning less than $1,075 a fortnight. These payments will begin from 27 April 2020.

Temporary access to super

The government will allow some people affected by the coronavirus to access up to $10,000 of their super between now and 1 July 2020, and a further $10,000 in the first three months of the 2020-21 financial year, tax free.

Those who are eligible include the unemployed, people receiving JobSeeker Payment, Youth Allowance Jobseeker, Parenting Payment, Farm Household Allowance and Special Benefit. And also people who've been made redundant, had their work hours reduced by 20% or more or sole traders whose turnover has reduced by 20% or more since 1 January this year.

Applications can be made online from mid-April by using myGov. Upon application you will need to self-certify that you satisfy the eligibility criteria.

Outlook for the Australian economy

AMP Capital Senior Economist Diana Mousina says that while the government stimulus is welcome, it's unlikely to be enough to keep Australia from falling into recession.

Ms Mousina says that the combined economic impact of the summer bushfires, lower Chinese tourism and education spending, global coronavirus shutdown and recessions in the US and Europe will all take a toll, however the government's spending measures should help to limit the severity of the downturn.

Due to the uncertainty around the country's economic position, the Federal Government has also announced that it will postpone the next Federal Budget. The budget is usually handed down in May, but has been postponed until 6 October 2020.

Source: Australian Government's Economic Response to the Coronavirus: treasury.gov.au/coronavirus

How investment market volatility could affect your super

You may hear about investment market volatility and think it has nothing to do with you, especially if you don't own any investments, such as shares.

So, it may surprise you to learn that most working Australians are investors in the share market through their super. In fact, Australia's super funds are one of the major investors in the Australian share market, owning 39% of the Australian Securities Exchange's (ASX) total shares, worth $700 billion in 2019.[i]

Super funds also invest in other types of investments such as global shares, cash, fixed income, bonds, both listed and unlisted infrastructure, both listed and unlisted property, and private equity. Each of these has its own risk profile; assets such as shares, infrastructure, property and private equity tend to be more volatile – or prone to share price fluctuations – but this higher level of risk usually comes with higher financial returns. By contrast, investments such as cash and bonds are lower risk, but the amount of money you can earn from these investments is also typically lower.

1. Choosing your investment option

While you may not necessarily select which assets your fund invests in on your behalf, you can have control over how your super is invested more broadly by contacting your super fund and choosing an investment option. While the investment options differ from fund to fund, most offer options such as conservative, balanced, growth and high growth. As the names indicate, the risk and return profile of each option is different.

A conservative option would typically be lower risk, with a larger percentage of your money in cash, fixed income and bonds and a focus on preserving your super balance. Generally, this type of option would usually be fairly low risk and provide lower stable financial returns. A high growth option would typically invest a larger percentage of your money in shares, infrastructure, property and private equity, with a focus on growing your super balance. The level of return has the potential to be high as is the level of risk, depending on market cycles.

If you don't choose an investment option, the default option for most funds is either a balanced or growth option – and around 80% of Australian super accounts are invested in their fund's default option.[ii] This means that for most Australians, while your super may have some exposure to higher-risk assets, this would be balanced by lower-risk assets.

2. What to do when investment markets are volatile

Whether the impact of investment market volatility is something you should focus on probably depends on how close you are to retiring.

Young people and mid-lifers

Depending on what your long-term objectives are, if you're a young person or mid-lifer who is accumulating super and whose retirement is some way away, investment market falls may be of less concern. Super is a long-term investment, and history indicates that markets do eventually recover, so it may be best to turn down the noise and remain focused on your long-term objectives. You can always speak to a professional adviser and consider all your options before deciding what the best long-term strategy is for you.

If you switch investment options from a higher-risk option to a lower-risk one during a market fall this means your super fund will sell the higher-risk assets it owns on your behalf to buy the new lower-risk assets. As a consequence, the high-risk assets may be sold at lower prices and this can in turn lock in the losses. It also means that you might miss out on the growth that comes when markets recover.

When markets fall it's worth looking at the positives and when it comes to your super there are a couple. Firstly, Australian super funds have performed strongly over the past few years, so your super has probably been growing at a rate above historical averages. Secondly, for people with a long-term investment horizon, investment market falls can be beneficial, as they allow your super fund to buy investments at a lower cost now, and these have the potential to rise in value over time.

Pre-retirees

For those closer to retirement, it can be more difficult to overlook and ignore investment market volatility. As you approach retirement, you may be invested in a conservative investment option to protect your super.

If you decide you want to make a change to your investment mix in response to market falls, for an option that offers greater diversity or more protection, doing so when markets are down may mean locking in losses. If you decide to make a change, it may be better to do this gradually after considering all your options and speaking to a professional adviser (if possible).

Retirees

People who have already retired and have taken their super can also be affected when investment markets fall. If the money from your super is now invested in an account-based pension (allocated pension or annuity) or similar product, you must meet the Australian Government's minimum super drawdown requirements. These requirements outline the percentage of the super that must be withdrawn each year, based on your age. To avoid having to sell assets at a loss to fund the drawdown requirements when investment markets fall, it may be worth trying to meet these requirements using other assets, such as cash or term deposits.

i Rainmaker Information, By 2033 super funds in Australia will control more than half the ASX, May 2019.

ii Super Guide, Choosing an investment option.

Federal Government stimulus package:

Changes to pension drawdown and deeming rates

The Australian Federal Government has proposed two key measures to help retirees and those receiving income support to manage the financial impact of COVID-19.

1. Lower minimum pension drawdown rates

The government has announced a 50% reduction in the minimum income drawdown from account-based pensions and similar products for 2019-20 and 2020-21.

This means Australian retirees can reduce income payments from their superannuation-based pensions or income streams to minimise the need to sell down assets in depressed markets.

If you've already taken 50% or more of the required minimum payment for 2019-20 you or your financial adviser will be able to cancel any further payments until 30 June 2020 with your super fund.

It's not compulsory so if you'd prefer to maintain your income you don't need to take any action.

Case study: Maria's account-based pension[i]

On 1 July 2019, Maria was 67 and the balance of her account-based pension was $200,000. So her minimum pension payment for the 2019-20 financial year was calculated as $10,000 ($200,000 x 5%).

Under the new temporary reduction in minimum pension payment, Maria will now only have to receive a minimum annual payment of $5,000 in 2019-20. However, if Maria has already received more than $5,000 from her account-based pension since 1 July 2019, she won't be able to return any excess amount above $5,000 into her pension.

On 1 July 2020, Maria will be 68. Let's assume the balance of her account-based pension is $180,000. Maria can now choose to receive a minimum annual payment of $4,500 from her pension ($180,000 x 2.5%).

2. Lower deeming rates

The government has also announced a further 0.25% reduction in deeming rates to reflect the low interest rate environment.

This means Australians receiving the Age Pension and income support will have less income assessed from their financial investments.

If you're income tested the reduced deeming rate may result in an increase in your social security entitlements.

New deeming rates

Status	Thresholds	Current deeming rates	Deeming rates effective 1 May 2020
Single pensioner and allowee	First $51,800	1.00%	0.25%
	Balance over $51,800	3.00%	2.25%
Partnered pensioner	First $86,200	1.00%	0.25%
	Balance over $86,200	3.00%	2.25%
Each member of an allowee couple	First $43,100	1.00%	0.25%
	Balance over $43,100	3.00%	2.25%

The new drawdown and deeming rates will come into force from 1 May 2020, following the passage of legislation.

i treasury.gov.au/sites/default/files/2020-03/Fact_sheet-Providing_support_for_retirees_to_manage_market_volatility.pdf