Newsletter: August 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:

- COVID-19: How long may your super savings take to recover?
- Boost your super in the lead up to retirement
- 4 ways to help prepare your finances for a recession.

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

COVID-19: How long may your super savings take to recover?

As investment market volatility continues, what does this mean for Australians' retirement savings?

The COVID-19 (coronavirus) crisis has caused uncertainty in many areas of life, not least on investment markets. Share prices have been fluctuating wildly as investors react to unfolding global events.

From its high point in March the Australian All Ordinaries Index shed more than a third of its value before recovering some ground towards the end of June[i].

And just as concerning have been the day-to-day swings. The coronavirus pandemic has created the largest daily fluctuations since the Great Depression, with the US S&P 500 Index experiencing an average daily change of 4.8% in the five weeks to 8 April 2020[ii] —higher than both the GFC and the 1987 share market crash.

Why this could affect your super

You may not think of yourself as an investor in stocks and shares. But most Australian super accounts are invested in shares to some degree because of their potential to deliver strong long-term gains. So share price ups and downs are still likely to affect your finances, and many people's super balances have taken a hit as a result of the volatility.

Many working Australians have their super in a balanced option, where your super is spread across a mix of investments—from 'growth' assets like shares and property, which can deliver higher potential long-term returns but with higher risk, to 'defensive' assets such as bonds and infrastructure, which can potentially provide some level of protection against share market downturns.

So, the good news is your super may not have been quite as affected by the COVID-19 volatility as the headline share price numbers you see in the media.

But it's important to check with your super provider exactly how your retirement savings are being invested. Different super funds define 'balanced' in different ways and it's possible up to 80% of your retirement savings could be invested in growth assets such as shares, even in a balanced fund.

When will your super bounce back?

We can't be sure. Market movements are difficult to predict, even for experienced investors and economists.

AMP Capital Chief Economist Shane Oliver says, "Short-term sometimes violent swings in share markets are a fact of life but the longer the time horizon, the greater the chance your investments will meet their goals.

So, in investing, time is on your side and it's best to invest for the long term when you can."[iii]

Should you think about switching your investment mix?

It's tempting to react to short-term market movements by changing your investment strategy. But it could be worth bearing in mind that if you sell out of shares when prices are low you may end up crystallising your losses and missing out on any future upturns.

As Shane Oliver says, "We've seen recently growth assets like shares have periods of bad short-term performance versus bonds and cash. But they provide superior long-term returns, which is essential to grow retirement savings. It makes sense for superannuation to have a high exposure to them.

The best approach is to simply recognise that super and investing in shares is a long-term investment."[iv]

What's lifecycle investing?

One option to consider could be a lifecycle investment strategy. This is where your super investment mix is automatically adjusted as you get older to reflect your changing tolerance for risk—from when you're just starting out with plenty of years ahead of you in the workforce to when you're approaching retirement and you have less time to play catch-up after a downturn.

If you're concerned about the impact of COVID-19 on your super investments, speak to us for quality financial advice based on your current situation and future needs.

i https://www.amp.com.au/insights/grow-my-wealth/shares-climb-a-wall-of-worry-but-is-it-sustainable

ii https://www.marketwatch.com/story/stock-market-investors-have-to-go-back-to-1929-to-find-daily-swings-this-wild-2020-04-07

iii https://www.amp.com.au/insights/grow-my-wealth/olivers-insights/five-charts-on-investing-to-keep-in-mind-in-rough-times-like-these

iv https://www.amp.com.au/insights/grow-my-wealth/why-super-and-growth-assets-like-shares-have-to-be-seen-as-long-term-investments

Boost your super in the lead up to retirement

As you approach retirement, it could be a good idea to consider giving your super a boost.

If you're looking at retiring in the near future, your savings will soon turn into an income stream. So the more you've saved, the better. Here are some ways you could top up your retirement savings.

1. Make the most of after-tax contributions

Making personal contributions to your super from your after-tax money can be one way to boost your super. These are known as non-concessional contributions and, while there is no tax deduction available, an annual cap of $100,000 applies[i]. If you're under 65, though, depending on your overall super balance, you may be able to bring forward up to two years of this cap, allowing you to contribute a total of $300,000 at a time. For more information check out the ATO website.

If you have super assets of $1.6 million or more as at 30 June of the previous financial year, you can't make after-tax contributions to your super or you may be penalised.

2. Consider tax-effective contributions like salary sacrifice

If you're an employee, making voluntary contributions from your before-tax salary to your super (also known as salary sacrifice) could not only help you boost your super but also potentially reduce the amount of tax you pay. That's because salary sacrificed contributions are taxed at 15%[ii] when received by the fund, which is potentially lower than your personal marginal tax rate[iii]. These types of 'concessional' contributions are capped at $25,000 per financial year, including 'superannuation guarantee' contributions from your employer..

And if you're self-employed you don't need to miss out. You can make personal contributions to your super (using your own cash) and claim a personal tax deduction of up to $25,000 as a concessional contribution[iv]. This option is also available to employees so they can choose between a salary sacrifice arrangement and personal deductible contributions.

3. Review your investment options

While the contributions you make may have a significant impact on your super balance when you retire, the investment returns generated by your super fund also matter, as well as how long your money was invested. Check whether your super is invested in appropriate options based on your needs and financial circumstances such as age, goals and your level of risk tolerance. If you're unsure, contact your super fund or a financial adviser for guidance. It's worth reviewing your investment options regularly.

4. Consider spouse contributions

In some circumstances, you may be eligible for a tax offset if you make an after-tax contribution to your spouse's super (husband, wife or de facto) and satisfy eligibility criteria. If you make after-tax contributions to your spouse's super fund, you may be able to claim an 18% tax offset on a contribution of up to $3,000 when completing your tax return at the end of the year[v].

From 1 July 2020, to receive a spouse contribution your spouse must be under the age of 67, or if your spouse is aged 67 to 74 they must meet the requirements of the work test. The work test broadly requires that they are in paid employment (or self-employment) of at least 40 hours within a 30-day period.

To qualify for the full tax offset, which works out to be $540, your spouse's income must be $37,000 or less. Their income must be less than $40,000 for you to receive a partial tax offset.

5. Look into downsizer contributions

You may be able to top up your super with the proceeds from the sale of your home. If you're 65 or over, you can make an after-tax contribution into your super account of up to $300,000 from the sale proceeds of your home if you have owned the property for at least 10 years. Couples can contribute $300,000 each, regardless of their work status, super balance or history of contributions

Contact us if you'd like some assistance making the most of your super in the lead up to retirement..

i https://www.ato.gov.au/individuals/super/in-detail/growing-your-super/super-contributions---too-much-can-mean-extra-tax/?page=3

ii https://www.ato.gov.au/Individuals/Super/Growing-your-super/Adding-to-your-super/Tax-on-contributions

iii https://www.ato.gov.au/rates/individual-income-tax-rates/#Residents

iv https://www.ato.gov.au/individuals/super/in-detail/growing-your-super/super-contributions---too-much-can-mean-extra-tax/?page=4#Super_for_the_self_employed

v https://www.ato.gov.au/Individuals/Income-and-deductions/Offsets-and-rebates/Super-related-tax-offsets/#taxoffset

4 ways to help prepare your finances for a recession

If you think storms may lie ahead, it makes sense to prepare your craft for choppy waters. With Australia facing continued economic uncertainty, it may be time to take stock of your finances and get in the right shape.

First the good news. The Australian economy fared better in the first quarter of 2020 than many other countries[i]. To the end of March, the economy only contracted 0.3%, compared with 2.0% in the UK and a whopping 9.8% in China.

More challenging times may lie ahead. A century on from the last global pandemic, this looks like a downturn unlike any other in living memory. Back in 1990, Treasurer Paul Keating lamented the "recession we had to have." This time around, we're trying to thaw an economy that's been deliberately placed into hibernation. It isn't something we've seen before, so lessons from previous recessions may not apply.

However, if you're worried about the threat of redundancy, your investments or your retirement plans being disrupted, there are things you can do to secure your financial lifeboat.

1. Revise your budget

A realistic budget helps you get a clearer view of what you can and can't afford.

If you don't have one already, you can create a view of your total income and expenses, on a weekly, fortnightly, monthly or yearly basis.

2. Decide what matters most to you

Reassessing your budget helps you decide what's essential and what you can put on hold, or perhaps ditch altogether to lessen the strain on your household finances.

Essentials might include your mortgage or rent, utilities or car insurance if you need to keep running a vehicle. Remember that even if something is essential, you might still be able to make a saving on it.

Look for a better deal on comparison sites like Finder, which can help you find potentially preferable offers on everything from car insurance to shopping.

Low interest rates are likely to remain for some time, so this might be a good time to approach a mortgage broker to see if there's an alternative that's right for you.

3. Pay down and consolidate debt

Debt consolidation is one way to take control of your finances and potentially pay off your debts sooner.

This means combining or consolidating your debts into one loan with, ideally, a lower overall interest rate. Assuming you can cover your repayments, the lower interest rate means you'll pay less interest and pay off your debt sooner, as long as you continue to make the same repayments on the original debt. Otherwise the consolidated debt is spread out over the life of the bigger loan.

This approach might also help you simplify your finances by reducing multiple repayments for credit cards, store cards and a car loan for example, into one monthly payment.

Fees and conditions may apply. Check your existing loan terms to see if any early termination fees apply. If you're applying for a new loan, confirm the application fee costs and eligibility criteria.

Keep in mind that debt consolidation will only be effective if you're disciplined about making your repayments. And before making a decision, speak to us.

4. Keep your eyes on the horizon

As with most investment and super strategies, it helps to look long term rather than thinking only of the next few weeks or months. It's easy to get discouraged when many forms of media concentrate on negative or shocking news.

Finally, as AMP's Head of Investment Strategy and Economics and Chief Economist Shane Oliver points out, anyone who got too negative for the long term in the last major pandemic of 1918-19 might have missed out entirely on the 'roaring twenties', a decade of economic growth and widespread prosperity.

Here to help

Contact us if you have any concerns about your financial situation you'd like assistance with.

Remember, if you're feeling overwhelmed or need to talk to someone about how you're feeling right now, you can access free services anytime, including:

- Lifeline: 13 11 1
- Beyond Blue: 1300 22 4636
- Mental Health Line: 1800 011 511.

i ABC News, Australia in its first recession in 29 years as March quarter GDP shrinks