Newsletter: July 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:

- How to rebuild your super after a COVID-19 withdrawal
- The economic hangover of COVID-19: how long will it last?
- Three ways to help future-proof your career in 2020.

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

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How to rebuild your super after a COVID-19 withdrawal

For many people, the government's COVID-19 (coronavirus) early release of super scheme has been a lifesaver, with the money accessed from retirement savings helping provide additional support at a time of economic uncertainty.

In total, 1.81 million Australians have withdrawn $13.5 billion from super funds, at an average amount per person of $7,4731[i].

If you're one of these 1.81 million, you might be wondering about the long-term impact your super withdrawal could have on the quality of your retirement. If you're one of these 1.81 million, you might be wondering about the long-term impact your super withdrawal could have on the quality of your retirement.

The good news is there's plenty you can do to help make sure you can still enjoy the kind of retirement you've always dreamed of.

How much super do you need?

According to the ASFA Retirement Standard, to be able to live a comfortable life in retirement, doing things such as eating out at restaurants, enjoying leisure activities and traveling occasionally in Australia and overseas (once current restrictions ease), it's estimated you'll need a super lump sum of $545,000 if you're single, or $640,000 between you if you're in a couple[ii].

What is the impact of a super withdrawal?

By withdrawing part of your super early, you don't just lose the amount you've withdrawn from your retirement savings, you also lose the opportunity to earn an investment return (or make additional money) on that money. As super is a long-term investment, so the amount you stand to forfeit could be larger, the younger you are.

If you're interested in getting an idea around what possible impacts a withdrawal now may have down the line, you can check out the MoneySmart's Superannuation calculator.

Unfortunately, if left alone this shortfall won't take care of itself, but there are some things you can do to help rebuild your retirement savings.

Ways to help your super recover

As a result of the economic shutdown you may have been forced to cut back on your spending and live a little more frugally. Rather than returning immediately to your former lifestyle as your income recovers, try to maintain some of the measures you adopted to save, and that might include putting extra money into your super.

There are a number of ways you can make super contributions in addition to those your employer makes on your behalf.

- **Concessional (before-tax) contributions**

These can take the form of either salary sacrifice contributions, which are voluntary contributions you ask your employer to pay out of your before-tax income, or tax-deductible personal contributions, which are contributions you make using after-tax dollars (such as when you transfer funds from your bank account into your super), then claim a tax deduction.

- **Non-concessional (after-tax) contributions**

This refers to money you put into your super fund using after-tax dollars and don't claim a tax deduction on. Some people choose to make non-concessional contributions when they've reached their yearly concessional contribution cap.

- **Spouse contributions**

If your spouse is in a better financial position than you, they may be able to help rebuild your super through spouse contributions, providing you earn less than $40,000 per year. Subject to eligibility rules, they'll also benefit from a tax-offset on the after-tax contributions they make into your super account.

- **Government assistance**

If you're a low-to-middle-income earner and make an after-tax contribution to your super, which you don't claim a tax deduction on, you might be eligible for a government co-contribution of up to $500 into your super.

The government also offers another type of super assistance known as the low income super tax offset (LISTO). If you earn $37,000 or less a year, and receive concessional super contributions, the government may refund the tax you paid on those contributions back into your super account, up to a maximum of $500 per year. This will happen automatically at tax time if you qualify.

- **Find and consolidate your super**

As at 30 June 2019, there was $20.8 billion in lost and unclaimed super across Australia according to the ATO[iii]. If you think you might have some super floating around in the system from a previous employer, it's worth doing a super search to locate it.

And if you find any lost or unclaimed super, you might consider consolidating all your super into one account to make it easier to manage and keep track of, and avoid paying multiple fees and charges. Before deciding which super fund to consolidate into, consider all the features and benefits of your super funds, whether any exit or withdrawal fees apply and any insurance cover you may have, when making your decision.

Thinking about making a second super withdrawal?

If you're still struggling financially you might be considering making an additional withdrawal from your super savings. Under the government's scheme, if you're eligible, you can withdraw up to $10,000 more from your super between 1 July and 24 September this year.

But before taking this step there are a number of things to consider.

Key among these is whether you're eligible for any other kind of COVID-19 government assistance.

Speak to us before making a decision as we can help.

i https://www.apra.gov.au/covid-19-early-release-scheme-issue-6

ii https://www.superannuation.asn.au/ArticleDocuments/269/ASFA-RetirementStandard-Summary-2018.pdf.aspx?Embed=Y

These figures assume you'll also receive a part Age Pension from the government and that you own your own home.

iii https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Super-statistics/Super-accounts-data/Lost-and-unclaimed-super-by-postcode/

The economic hangover of COVID-19: how long will it last?

As the Australian economy begins to emerge from hibernation, the question of what the recovery will look like – and how long it will take – is being hotly debated.

AMP Capital chief economist Dr Shane Oliver says that although economic activity is unlikely to return to pre-COVID-19 (coronavirus) levels until late in 2021, just a few months ago we were questioning whether the shutdowns would stop the spread of the virus and, if not, whether there would be a recovery at all.

Below he shares his predictions for some of Australia's key economic measures and the risks to watch out for on the road back.

Economic growth

As measured by gross domestic product (GDP), economic growth in Australia has contracted and I expect and predict a very large hit to GDP – down about 10% – in the three months to June, with April's retail sales figures recording the worst fall ever due to the COVID-19 restrictions and closures during this time.

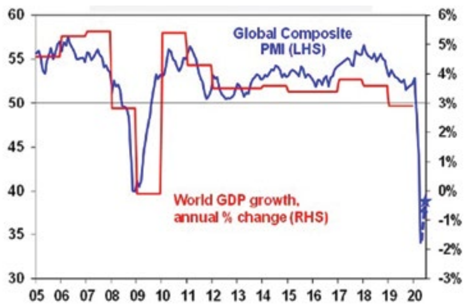
The good news is that the shutdowns have been much shorter than the six months initially forecast by the Prime Minister, and now that they're beginning to ease restrictions, GDP should recover from June onwards.

But the recovery won't be fast – rather than a sharp rebound (or 'V' shaped recovery) I expect and project more of a 'U' shaped recovery – because while some parts of the economy will recover quickly, others will take longer. This is the sort of recovery that was experienced around the world following the global financial crisis.

And globally, the fall in GDP is likely to be the biggest since the Great Depression of the 1930s. The blue line below, which tracks business confidence, shows how big the fall in global GDP could be, although it also shows that business confidence is beginning to pick up.

Global business conditions have been hard hit by coronavirus, likely to be worst GDP slump since 1930s

Global Composite PMI vs World GDP



Source: Bloomberg, AMP Capital

Inflation and interest rates

Inflation – which is currently around 1.9% in Australia – is expected to remain low, which should make it easy for the Reserve Bank of Australia to keep interest rates low. I think interest rates will remain at their current levels of around 0.25% for at least the next three years, which is good news for people with mortgages, and also for the economy, as people with home loans are one of the groups that spend the most.

Unemployment

If the Australian Government hadn't introduced the JobKeeper assistance scheme, the unemployment rate in Australia today would probably be close to 15%. But thanks to this assistance it's only 6% currently and I think it's possible it may not even reach 8%, providing the economic recovery continues.

The share market

At the peak of the crisis, the Australian share market fell by almost 37%, but since then it's recovered up by around 29%. And although dividend yields have been cut, they're still more attractive than bank deposits due to low interest rates. It's difficult to predict where the share market will go in the short term – more falls could occur as the market responds to bad news such as a drop in company profits. But over 12 to 24 months, share markets should rise.

House prices

There's been a significant fall in the number of houses for sale and thanks to that we haven't seen much of a fall in prices yet, but house prices are likely to fall if people are forced to sell as unemployment rises and as immigration falls. Sydney and Melbourne could also suffer from a lack of immigration-driven demand. I think prices on average could drop by about 10% which would take them to their mid-2019 levels. However, low interest rates continue to benefit the housing market.

The Australian dollar

I think we saw the low point for the Australian dollar against the US dollar at around 55c in March and it will probably move slowly higher as our economy recovers as it is expected to recover faster than the US economy.

The budget deficit

To support our economy, I think the Australian Government had to provide stimulus, and has done so in a way that's affordable. Despite the assistance packages released by our government, the level of public debt in Australia is quite small compared to other economies.

Risks to look out for

Despite a fairly positive outlook, there are some risks on the horizon including:

- **A second wave of infections**

  A second wave of infections could lead to a second wave of shutdowns, which would slow the economic recovery.

- **The end of government stimulus**

  In late September when the JobKeeper assistance payments end and the JobSeeker payment for those looking for work is halved back to its pre-COVID-19 level, unemployment, bankruptcies and business closures could all rise, which would have impacts on consumer spending, house prices, economic growth and the share market.

- **US/China tensions**

  COVID-19 has re-ignited tensions between the US and China and I expect this will continue in the run up to the US election in November. History tells us that US presidents don't get re-elected when unemployment is rising or when the economy is in recession, so President Trump is trying to shift blame to China for political gain, which could drive volatility in investment markets. Australia's current trade tensions with China are also a risk, but as long as they don't escalate, we are still well placed to benefit from the Chinese economic recovery.

To sum it all up, while it will take a little while – and a little luck – I think the Australian economy is in a stronger position for a faster recovery than many other countries, mainly thanks to our good health outcomes and the strength of our government assistance.

Three ways to help future-proof your career in 2020

Stay on track with your professional development and help future-proof your career goals by upskilling.

The latest figures released by the Australian Bureau of Statistics tell us that 2.7 million Australians either lost their job or are grappling with reduced hours[i] as a result of COVID-19 (coronavirus). Although retail and hospitality segments were hit hardest, few industries can now be considered safe, making it all the more important to develop an upskilling strategy that can help to future-proof your career path.

Here are a few ways you could improve your job prospects and keep sight of your career goals in 2020.

1. Research trends within the fastest-growing industries

Knowing which job segments and industries are set to grow in the next five years might help shape your next steps for professional development. According to the Federal Government, the service industries that were perfectly poised for growth pre-coronavirus included health care, construction, education and training, as well as technical services ranging from legal and accounting to product design.[ii] While it's expected COVID-19 will put a dent in the trajectory of some of these, like construction, others such as health care and education are likely to experience less of an impact.

COVID-19 is set to alter our workforce, and experts suggest there are now big changes afoot when it comes to the way our jobs are performed[iii] rather than the jobs themselves. Understanding this new environment – plus the skills shortages within the job market – can help you futureproof your career.

Experts predict there will be a need for flexible staff, who are able to apply high-demand skill sets across departments rather than in rigid and strictly defined roles. There will also be a new dependence on automation to help smooth out any kinks in service disruptions, if last-minute obstacles arise.[iv]

Both flexibility and automation have helped minimise many workplace disruptions in the wake of COVID-19. This suggests that the post-coronavirus workplace will need an adaptable and flexible employee, ready to learn new skills and adjust to new challenges at a moment's notice.

2. Develop a wide range of core skills

While a desirable set of hard skills (the tangible, measurable technical knowledge you have as a result of study or experience) is imperative to landing certain jobs, personality-focused soft skills are often just as important. For example, a potential employer might be looking for a whiz at software design but also someone who is creative and communicates well, to fit into the dynamic of a team. As such, you should look to increase both the skills that can be easily taught and defined, as well as developing your interpersonal aptitude.

By upskilling in some of the most in-demand skills for 2020[v] relevant to your career path, you could fast track the move to the next level in your career. These include competency in cloud computing, analytical reasoning, artificial intelligence (AI), user-experience (UX) design and blockchain. There are also the soft skills of creativity, persuasion, collaboration, adaptability and emotional intelligence. These soft skills don't just apply to office-based jobs – they're also particularly relevant in fields like nursing, aged and disabled care.

3. Build an upskilling strategy

Luckily, now is an ideal time to dive into professional upskilling. Global isolation measures due to COVID-19 have helped uncover a number of affordable and accessible platforms for learning and upskilling courses.

Closer to home, some training options have been supported by the government with free or discounted courses in subjects as diverse as leadership, digital security and nursing. And online courses span a staggering range of disciplines and certifications, from short courses to gradual-level subjects and professional certifications led by institutions as prestigious as Harvard, MIT, Yale and Oxford universities.

Always do your own research when looking for a training provider to escalate your professional goals.

i https://www.abs.gov.au/ausstats/abs@.nsf/mf/6202.0
ii https://joboutlook.gov.au/future-outlook.aspx
iii https://hbr.org/2020/04/how-the-coronavirus-crisis-is-redefining-jobs
iv https://hbr.org/2020/04/how-the-coronavirus-crisis-is-redefining-jobs
v https://learning.linkedin.com/blog/top-skills/the-skills-companies-need-most-in-2020and-how-to-learn-them