Newsletter: November 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:

- 3 golden rules that make saving for retirement easier
- Considerations when downsizing your home
- How to identify (and beat) your spending triggers.

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

3 golden rules that make saving for retirement easier

If you've thought about how much money you need to save so you can retire comfortably, it might feel a little daunting. Maybe so much so, you'd rather not think about it at all.

But, according to AMP Technical Strategy Manager John Perri, there are three simple rules anyone can follow that make saving for retirement a lot easier.

Follow the sleep test

All investments come with a level of financial risk. Understanding your risk appetite, says John, is essential when setting goals for your superannuation and retirement savings. "I look at it from the perspective of whether you can invest and sleep at night. If you're not sleeping, then the level of risk you have is not for you."

Generally, the higher the expected return, the greater the risk. And lower risk means lower expected returns. Risk appetite is often linked to age and how far away a person is from retirement because this influences their ability to recover from financial losses.

For example, someone close to retirement may be more risk-averse than a younger person, who can perhaps pursue a higher risk strategy, knowing that the market is most likely to deliver in the long term. For younger investors, they typically have the luxury of time to recover from any short-term blips.

Super funds usually offer a range of investment options with varying risk, so you can choose the one that's right for you. These include:

- **Growth options** – aim for higher returns over the long term but come with higher risk
- **Balanced options** – aim for moderate returns and come with moderate risk
- **Conservative options** – aim to reduce the risk of market volatility, so may generate lower returns but are lower risk
- **Cash options** – aim to generate stable returns to safeguard the money you've accumulated and are usually the lowest-risk option offered by super funds.

If you're thinking about switching investment options, it's important to do your research so you can be confident it's the right decision. It's worthwhile seeking our opinion so you might avoid locking in losses that are difficult to recover from.

Make the most of tax benefits in super

The second rule that makes saving for retirement easier is understanding that Australia's superannuation system has been designed to create incentives, and that means there are tax advantages in saving through super rather than investing outside of it.

"Super is a structure that is purpose-built to acquire investments for retirement, and it's not necessarily an investment in itself," says John.

Earnings you make on the money invested inside super are taxed at 15% on income and 10% on capital gains. This is lower than the marginal tax rate paid by many Australians, which can go as high as 45%.

"Once you're retired, you can use those savings as an income stream in the form of regular pension payments.

And the tax rate on investment earnings inside the income stream is nil," says Perri. Plus, "there's no tax on the income stream payments if you are over 60 years of age."

How super is taxed depends on your age, contributions and other factors, so it's important to understand the different tax implications that could apply to your nest egg.

Use compound interest to your advantage

The famous physicist Albert Einstein once described the ability to understand compound interest as the eighth wonder of the world. Building up a healthy super balance is aided by the principle of compound interest, which delivers its best rewards to people who invest early and stay in the market.

"The rate of return on a super balance is calculated on a potentially higher balance over time because your employer makes contributions, or you're making contributions yourself," says Perri.

"But your balance may also rise due to investment returns, so the following month you will receive returns on those returns."

"Given the long-term view with super, and starting early, the longer you have your super invested, the longer it has to grow and compound over time," he says. And if you make extra contributions, then the benefits of compound interest are exponential.

In times of uncertainty, it can pay to take control of your finances, so you feel peace of mind that you're prepared for the future. And you don't have to do it alone. We are here to help.

Considerations when downsizing your home

If you're thinking of downsizing your home before or during retirement, there are a number of factors to think about, from super contributions to Age Pension entitlements.

Retirement can be an exciting new chapter, offering you the chance to fulfil those travel dreams or focus on a hobby. If you're one of the Aussies who owns their home outright, you might be thinking of downsizing your property – selling the family home and purchasing a cheaper, usually smaller dwelling – to help those dreams become a reality.

But downsizing isn't simply a matter of packing up and moving house. Here are a few things to consider when deciding if it's right for you.

Motivations for downsizing

A recent survey from the Australian Housing and Urban Research Institute[i] indicates that more than half of Australians aged 55 and older have either downsized or thought about doing it. Their main motivators are made up of both lifestyle and financial reasons[ii].

For example:

- The property may be worth a lot of money and downsizing releases some of the capital tied up in a long-held home freeing up cash.
- It provides a more modest space to maintain and insure, rewarding downsizers with additional time, money and resources.
- A smaller home could mean a change of pace that better suits changing needs.

There may be implications for your Age Pension entitlements if you sell your home, so check with us to understand your eligibility requirements.

Cash from the sale to top up super

Depending on your financial situation and goals, some of the money from the sale could be added to your super. If you've owned your property for 10 years or more, you may be able to contribute up to $300,000 from the sale of your family home into your super[iii], without having to satisfy the usual work test requirements and without affecting your annual contribution caps.

Don't forget about the costs of moving

While downsizing can free up capital, some of the cash you receive from the sale of your property may be needed for the cost of moving, so factor in legal and real estate agent fees, and removalists. Another important consideration is stamp duty, which is a tax on the total value of the property you buy. The percentage that's payable varies from state to state. AMP's stamp duty calculator can help.

Lifestyle considerations before downsizing

Apart from the financial considerations, there are lifestyle factors that could affect your decision to downsize:

- Moving to a smaller home may mean less maintenance, but it could also give you less flexibility in terms of family being able to stay, or storage space.
- Your existing home may be close to family and friends, so if you're planning to change location it may affect your day-to-day life.
- Leaving a family home behind can be emotionally challenging as it's likely to have been a place with many special memories.

Other options for retirement living

Purchasing another, smaller home isn't the only option for retirees. You may be considering moving to a retirement village or even aged care, depending on your needs. These will have different costs or fees to purchasing a standard property.

Downsizing in or leading up to retirement isn't always straightforward, so speak to us about the best options for your circumstances.

i Australian Housing and Urban Research Institute, The University of Sydney (2019): Moving, downsizing and housing equity consumption choices of older Australians.

ii Australian Housing and Urban Research Institute, The University of Sydney (2020): The Downsizing Patterns and Preferences of Australians Over 55.

iii Australian Taxation Office: Downsizing contributions into superannuation.

How to identify (and beat) your spending triggers

Are you buying more to perk yourself up? You aren't alone. Since the start of COVID-19, there's been an increase in online shopping[i]. But, if you want to get a handle on your add-to-cart habit, understanding why you spend money can help bring your purchasing patterns in line with your financial goals.

We often talk about money in terms of dollars and cents, but the subject can sometimes run deeper than just numbers. Frivolous spending as a result of your emotional state is more common than you might think. One study found more than 81% of Australians spend in order to seek comfort[ii], suggesting that our spending patterns are created by more than needs alone.

Having an uncontrollable urge to spend can have a negative impact on your finances – especially if it's putting a dent in your financial goals. One way to curb this spending habit is to understand your triggers and put some specific steps in place to regain control.

What is unconscious spending?

Unconscious spending is the act of spending money without careful thought - sometimes it may even be done on impulse. Whether it's the latest pair of designer shoes or a new set of golf clubs, it's the type of spending that seems to happen almost outside of your control – and often, outside of your budget.

Common triggers for unconscious spending habits

There's a range of emotional triggers that may tempt us into spending more than we intend to. Research has found that some people spend money when they're feeling sad[iii] and will pay more for an item if they're feeling this way.

Boredom can also be a significant trigger. A study into comfort spending found that 47% of Australians admit to purchasing because they're bored[ii]. The monotony of COVID-19, coupled with a need to delay many plans for travel and other experiences, could be a perfect storm for boredom-induced spending.

Pinpoint your spending patterns and triggers

Still unsure why you spend the way you do? These pointers may help you to identify your triggers.

Uncover your spending habits

Looking for a routine or pattern in your spending can offer some valuable clues and help you control your spending. What things do you typically purchase on impulse - is it clothing or kombucha? Does your unconscious spending usually represent big amounts or small amounts of money? Is it frequent, or more likely to be done in a short burst? Asking yourself these questions could uncover a few commonalities.

Look closely for emotional spending cues

Are there certain times of the day that you're more likely to spend? Does it often happen during times of boredom or is it more likely to happen when you're stressed or distracted? Do you tend to spend on credit as opposed to dipping into your savings or using cash?

By isolating some of the key behaviours that surround your unconscious spending, you can better understand your personal purchasing triggers.

Ask yourself: why do I feel like spending money?

The way we feel when we spend money may be different for everyone, but knowing the reasons why you're partial to purchasing at a certain time, or as a result of a certain feeling, can help you gain more clarity around your triggers.

If you get closer to understanding the feeling you get when purchasing, you can try to replicate that feeling elsewhere, without needing to spend.

Getting on top of unconscious spending

Pinpointing your personal spending triggers is the first step towards doing something about unconscious spending. These two approaches can help you get on top of the habit.

Become more money-mindful

Setting specific and achievable financial goals is a great way to gain more mindfulness around your money. Without a clear end point to aim for, when it comes to spending, it's difficult to know how much is too much. By creating an endpoint – or goal – for your money, you're more likely to focus your aim.

To stay on track, create and stick to a successful budget. If you have a clear understanding of how much is coming in and going out, you'll have a greater sense of control over your spending decisions.

Put your money where you can see it

For some, the ease of online transactions is exactly what allows them to overlook the fact that they're actually spending money.

There's a tendency now to use things like Zip and Afterpay. We're a cashless society and it's as easy as tap-and-go.

If you tend to spend without thinking, you might revert to cash or direct debit payments where possible to remind yourself that your money is real and tangible.

i https://www.ampcapital.com/au/en/insights-hub/articles/2020/august/econosights-the-outlook-for-consumers

ii https://mozo.com.au/credit-cards/articles/comfort-spending

iii https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4142804/