Parkside Newsletter - April 2021

April is here beginning with a welcome Easter break. As the vaccine rollout continues, restrictions ease, and life is a little closer to normal despite occasional setbacks.

There was a raft of positive economic news in March, which should make the Federal Treasurer's job a little easier when he hands down the Budget on May 11. The Australian economy staged a remarkable V-shaped recovery in 2020, growing 3.1% in the December quarter and 3.4% the previous quarter – the biggest 6-month lift on record - after plunging into recession in the first half year. The main contributor was iron ore, which has doubled in price since March last year.

As the vaccine rollout began and restrictions eased, business and consumer confidence rebounded. The NAB Business Confidence Index rose to an 11-year high of +16.4 points in February while the ANZ-Roy Morgan Consumer Confidence rating hit a 7-year high of 124 points in March, up 30% over the year.

Confidence was reflected in a recent surge in new vehicle sales, housing construction and property values. It was also boosted by a fall in unemployment from 6.4% to an 11-month low of 5.8% in February. Company profits have also remained strong, with 86% of ASX200 companies reporting a profit in the December half year. Although aggregate earnings fell 17%, dividends were up 5% on a year ago with an estimated $26 billion currently flowing to shareholders.

It's not all plain sailing though. Temporary coronavirus JobSeeker and JobKeeper payments ended on March 31, and fuel prices are rising just as everyone fills up for Easter road trips. The strengthening economy saw the Aussie dollar shed 2c to US76c in March.

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Taking a break - A WIN FOR YOU & THE ECONOMY

2021 is shaping up to be a much more positive year than 2020 in so many ways. For people who put holiday plans on hold or those with itchy feet because they haven't had much of a break for a while, this year is the year to get out and about.

While overseas jaunts are off the table for some time to come, Australia's management of the pandemic means we are able to head off and explore the local sights, while helping local communities and industries hit hard by 2020.

Recently the Australian Government announced their latest stimulus package for these industries, with $1.2 billion allocated to help our domestic tourism and aviation sectors.[i]

From 1 April 2021, there will be 800,000 half-priced flights available to 13 key regions which includes the Gold Coast, Cairns, the Whitsundays and Mackay region, the Sunshine Coast, Lasseter and Alice Springs, Launceston, Devonport and Burnie, Broome, Avalon, Merimbula and Kangaroo Island.

It's also worth keeping your eye out for state run initiatives in the form of travel voucher schemes. While the amounts offered and conditions vary from state to state, they generally enable you to wine, dine or stay the night in a location with part of your bill subsidised.

The importance of R&R

There's nothing like a holiday to help us feel more relaxed and give us a break from our everyday lives, something we very much need after the year that was.

We know that having a break, whether it be from work or just our regular routines, tends to improve our wellbeing. It can offer a circuit breaker from some of your stressors, give you a new perspective as you take in new surroundings, lighten your mood as you do things you enjoy, give you a chance to spend some quality time with loved ones and simply recharge your batteries by sleeping in and taking it easy.

Supporting local

Perhaps you had to cancel that trip to Paris or have to let go the idea of relaxing on a beach in Bali. Fortunately, we are spoiled for choice when it comes to travelling in Australia, whether it's a beach holiday you are after, a hike in the mountains, a trip to the snow, a tour of the outback or a foray into a rainforest. We are blessed with a myriad of natural wonders as well as vibrant cities with world class restaurants, attractions and nightlife. Not only will you have a wonderful time, you can also feel good about supporting businesses who need a hand getting back on their feet.

While it can seem like a distant memory due to the COVID-19 outbreak, 2020 was also a hard time for many Australians due to the bushfires that ravaged many parts of the country. As a result, the locations affected are needing to rebuild and welcome tourists back, so why not give them a visit.

Planning your trip

Whether you take advantage of the flight specials or instead travel by bus, train or car, seeing another part of the country will give you something to look forward to.

While we may have become nervous about forward planning due to the uncertainty of 2020, being organised will enable you to make the most of travel deals and plan your itinerary so you can fit in everything you want to do.

If you're concerned about travelling at the present time, why not take the road less travelled and head to a private spot (perhaps an Airbnb rather than a busy hotel) in a destination that isn't as well-known. By avoiding popular travel periods such as the school holidays, you will also avoid the crowds.

Wherever you travel in Australia, whether it's to the other side of the country or just down the road, we hope you enjoy your well-deserved break and are able to recharge your batteries for what is shaping up to be an exciting year ahead.

i https://www.nestegg.com.au/invest-money/economy/government-launches-half-price-flights-to-kickstart-tourism?utm_source=Nestegg&utm_campaign=11_03_2021&utm_medium=email&utm_content=1&utm_emailID=12572647d444fd955c403119b8e4aec9f388abb9d188716e87830bfdbc9e9693

3 WAYS TO LIFT RETIREMENT INCOME

Aussies are living 10 years longer than we did 50 years ago; we are also staying fit and active well into retirement. Expectations of retirement are also higher, whether that be overseas travel, eating out, learning a new skill or spoiling the grandkids.

Recent changes to boost retirement income may go at least some of the way to achieving your dream retirement and providing for a healthy, independent and good life in your later years. While there are some changes that affect self-funded retirees, the changes generally relate to those with Centrelink entitlements.

Here are the three main areas where changes have been introduced as of 1 July 2019.

Pension Work Bonus

If you receive the age pension or a Veterans Affairs pension, you can now earn up to $300 a fortnight (up from $250) without impacting on your Centrelink payment. Together with the income test free area of $174, this means singles can earn $472 a fortnight before your pension is affected.

The work bonus applies whether you are an employee or self-employed. And you don't have to earn a maximum of $300 every fortnight. You can accumulate unused work bonus up to $7,800 (previously $6,500) and use this when you earn employment or business income in the future.[i]

For instance, if you haven't worked for a year, you accumulate $7,800 of unused work bonus. Then if you earn $4,000 for contract work over a six-week period, $4,000 of your accumulated work bonus (leaving a balance of $3,800) is used so your Centrelink payment will not be affected.

Not only can you improve your income, but you may also enjoy the stimulation of remaining in the workforce.

Pension Loans Scheme

Changes to the Pensions Loans Scheme mean that more people can tap into the equity in their home.[ii]

The fortnightly loan to boost income has been extended to apply to all age pensioners as well as self-funded retirees.

You can borrow up to 150 per cent (previously 100 per cent) of your maximum fortnightly pension rate to provide you with a better standard of living in retirement. The amount borrowed is secured by property you own in Australia.

The loan can be repaid at any time you choose, although it is recovered either when you sell the property or it's sold from your estate (whichever comes first).

Currently retirees are charged a compounding variable interest rate of 5.25 per cent a year.

The scheme is effectively a reverse mortgage facilitated by the government. Of course, such a loan will reduce your home equity, but it will give you added cash flow in the meantime.

New means testing of annuities

Changes have also been made to the treatment of pooled lifetime retirement income streams such as lifetime pensions, lifetime annuities both in and out of super and deferred lifetime annuities.[iii]

An annuity is a product where your money is pooled with other investors and a set amount is paid to you each year, usually for the rest of your life. The changes do not apply to account-based pensions or to annuities purchased before 1 July 2019.

Under the new rules, Centrelink will treat a fixed 60 per cent of all annuity payments as income. And for the assets test, it will assess 60 per cent of the nominal purchase price for the period until you are age 84 (for a minimum of five years) and after that 30 per cent for the rest of your life.

While the 60 per cent ruling may improve your circumstances, it won't in all cases. If you have or are considering an annuity, give us a call to discuss what works best for you.

As the interest rate on annuities is set at the time of purchase, they are less attractive when interest rates are low. But there is an argument for investing part of your retirement savings in an annuity to give you guaranteed income on top of any Centrelink payments or a superannuation account-based pension that may not last your lifetime.

These three changes are all aimed at giving you additional sources of stable income in retirement. If you would like to know more, give us a call.

i https://www.dss.gov.au/seniors/programmes-services/work-bonus

ii https://www.humanservices.gov.au/individuals/news/changes-pension-loans-scheme-from-1-july-2019

iii https://www.dss.gov.au/sites/default/files/documents/05_2018/d18_13635_budget_2018-19_-_factsheet_-_more_choices_for_a_longer_life_-_finances_for_a_longer_life.pdf

Making a super split

Separation and divorce can be a challenging time, often made all the more difficult when you have to divide your assets. So how do you go about decoupling your superannuation?

In years gone by, superannuation was not treated as matrimonial property, so divorce settlements typically saw the woman keeping the house as she generally had the children and the man keeping his super. In a sense, neither party won. She ended up with a house but no money for her retirement while he had nowhere to live but money for his later years.

To remedy this situation, since 2002 super can be included when valuing a couple's combined assets for a divorce settlement. After all, these days super is probably your second largest asset after your family home.

While super is counted in the calculation of the total property, that does not mean it is mandatory to split the super – the choice is yours.

Unlike the early 2000s, both partners are likely to have superannuation these days although traditionally women will still tend to have lower balances.[i] On average, women retire with just over half the super balance of men and 23 per cent of women retire with no super at all.

As a result, many divorcing couples may end up splitting super along with their other property.

How to split your super

If you decide to split your super, then you have three avenues, but keep in mind that all require legal advice.

The three ways to split your super are:

- A formal written agreement that both you and your partner instruct a lawyer stating you have sought independent advice,
- A consent order, or
- A court order.

A court order is the last resort if you can't agree on a property settlement.

You can split your super as you choose both in terms of the amount and the timing. You can split it as a percentage or as an agreed figure and you can choose to split it immediately or at some time in the future. Much will depend on each of your life stages.

But whatever you decide, you MUST comply with the superannuation laws. Money received from your partner's super must be kept in super unless you satisfy a condition of release. You also need to be mindful of taxable and non-taxable components and divide them equally.

How does it work?

Say the superannuation balances of a couple is $500,000 with John having $400,000 and Susie $100,000. If the property settlement on divorce was decided as a straight 50:50 split and it included the super, then John would need to give $150,000 of his super to Susie.

Susie would nominate a fund and the money would be transferred.

If you have a binding financial agreement or a court order, this transfer of assets from one fund to another will not trigger a CGT event. But if you don't have such an agreement, then John would trigger a CGT event on the $150,000 he transferred.

Susie, meanwhile, would have the advantage of resetting the cost base on her received $150,000. So, a win for Susie, but not for John.

If John happened to be in the pension phase but Susie was still too young, the money that is transferred from his super to Susie will be treated according to his situation. As a result, Susie would be able to access the money before she reached preservation age.

What about SMSFs?

If you have a self-managed super fund, the situation could get a little more complicated as you have to deal with the issue of trusteeship.

If there are only two members/trustees in the fund and Susie chose to leave, then John would either have to find a new trustee within six months or change to a corporate trustee where he could be the sole director.

Assets within an SMSF can also prove an issue, particularly if a sizeable proportion of the fund was tied up in a single asset such as commercial premises. How easy would it be to actually sell the premises? What if the property was John's business premises and the means by which John was in a position to pay Susie child support? These are questions that need addressing.

If you are in the process of divorce or considering it, why not call us to help you plan your finances before and after the event.

i https://www.afr.com/companies/financial-services/women-less-than-equal-in-retirement-20201203-p56khb#:~:text=According%20to%20research%20from%20Industry,with%20no%20superannuation%20at%20all.