February 2021

It's February, the kids are back at school and the nation is getting back to business. It's still not business as usual, but with the vaccine rollout about to begin there is a growing sense of optimism.

There was a sense of relief on the global economic front in January as Joe Biden was sworn in as US President. Financial markets rallied on expectations of more US government financial stimulus and a stronger focus on containing the COVID-19 health crisis. There were also positive economic signs from our other major trading partner, China where a V-shaped recovery is underway. China's economy grew by 2.3% in 2020, the best performance of any major economy even though it was China's slowest growth since 1976.

In Australia, there were also signs of a cautious economic recovery. Consumer confidence hit a 14-month high in January, due to our success in dealing with the pandemic and supporting jobs. The ANZ-Roy Morgan consumer confidence rating hit 111.2 points, just below its long-term average of 112.6. Unemployment fell from 6.8% to 6.6% in December, a time when businesses typically hire casual staff for the Christmas-summer holiday rush. Retail trade fell 4.2% in December but was still up 9.4% over the year. Inflation remains weak, with the consumer price index (CPI) up 0.9% in the December quarter and also up 0.9% in 2020 overall. The exception is house prices, up 3% in 2020. This was reflected in the value of new home loans which rose 5.6% in November due to record low interest rates and government policy initiatives. The Aussie dollar finished the month slightly lower at US76c.

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LESSONS from 2020 to secure a bright future

It was a year most of us would like to forget. And yet, some of the toughest lessons of 2020 had a silver lining.

We weathered bushfires, floods, a pandemic that's not over yet and a recession that is. Through it all we emerged a stronger community. Many of us also learned some useful financial lessons that we can put to work in 2021 and beyond to help create a more secure future.

So what were the money lessons of 2020?

Along with frequent hand sanitizing and social distancing, one of the big take-homes of 2020 was a renewed appreciation of the benefit of saving for a rainy day.

Check your safety net

Faced with the shock and uncertainty of the economic shutdown, and the first recession in almost 30 years, we initially snapped shut our wallets. When the government's stimulus payments began landing in bank accounts, followed up with tax cuts, those who could squirreled some away.

In the June quarter 2020, the ratio of household savings to income jumped to 22 per cent, compared with a mere 4 per cent in the same period the year before.[i]

This was highlighted in a recent survey asking people what they intended to do with the personal income tax cuts that were brought forward in last year's Budget. While saving was the most popular goal for 57 per cent of respondents, this rose to 66 per cent for people aged 18-34.[ii]

Not only had younger people never experienced a recession, but they were also more likely to be affected by job losses and insecure work.

As general rule of thumb, it's a good idea to have the equivalent of around three months' income in cash so you can ride out life's curve balls. You could put your savings in a bank savings account or, if you have a mortgage, in a redraw or offset account linked to your loan.

Diversify and stay the course

While cash in the bank is a relief if you receive an unexpected bill or your income fluctuates from month to month, it won't build long-term financial security.

Once you have a saved enough for short-term emergencies, you need to channel some of your savings into investments to fund your future goals and retirement income needs.

Another positive lesson from 2020 was the power of a diversified investment portfolio to ride out short-term market shocks. Actually, that's two lessons.

While having a mix of investments helps cushion the blow when one asset class or investment goes through a rough patch, it's equally important to stay the course. The performance of diversified superannuation funds last year is a good example of these two principles in action.

For example, Australian and international shares plunged 27 per cent and 20 per cent respectively in the three months to March last year as the economic impact of the pandemic became clear. But losses for members of diversified super funds were limited to 11.7%. By the end of June returns were down just 0.5% on average and have bounced back strongly since then.[iii] People who sold in March would have missed the recovery that followed.

Insure against loss

While savings and a diversified investment portfolio provide a degree of financial security, there may be times when more financial support is needed.

One sobering lesson from the pandemic, fires and floods was that life is fragile and material comforts such as your family home can't be taken for granted. That's where insurance comes in.

Sadly, many of those who lost their homes and other belongings during the summer bushfires and floods were not insured, or inadequately insured.

While homes are precious, there is nothing more precious than life itself. Having an appropriate level of life insurance and total and permanent disability (TPD) insurance will provide financial support for you and/or your family to continue your lifestyle if you were to become critically ill, injured or pass away.

As a new year beckons and you make a list of your goals and wishes, take some time to reflect on the lessons of the past. If you would like to discuss ways to build financial security in 2021, contact us now.

i https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/latest-release#key-statistics

ii https://www3.colonialfirststate.com.au/content/dam/colonial-first-state/docs/about-us/media-releases/20201124-media-release-tax-cuts-final.pdf

iii Returns for median superannuation Growth fund, Chant West.

Is an SMSF right for you?

As anyone who has joined the weekend crowd at Bunnings knows, Australians love DIY. And that same can-do spirit helps explain why 1.1 million Aussies choose to take control of their retirement savings with a self-managed superannuation fund (SMSF).

As well as control, investment choice is a key reason for having an SMSF. As an example, these are the only type of super fund that allow you to invest in direct property, including your small business premises.

Other reasons people give are dissatisfaction with their existing fund, more flexibility to manage tax and greater flexibility in estate planning.

What type of person has an SMSF?

If you think SMSFs are only for wealthy older folk, think again.

The average age of people establishing an SMSF is currently between 35 and 44. They're also dedicated. The majority of SMSF trustees say they spend 1 to 5 hours a month monitoring their fund.[i,ii]

But an SMSF is not for everyone. There has been ongoing debate about how much you need in your fund to make it cost-effective and whether the returns are competitive with mainstream super funds.

So is an SMSF right for you? Here are some things to consider.

The cost of control

Running an SMSF comes with the responsibility to comply with superannuation regulations, which costs time and money.

There are set-up costs and ongoing administration and investment costs. These vary enormously depending on whether you do a lot of the administration and investment yourself or outsource to professionals.

A recent survey by Rice Warner of more than 100,000 SMSFs found that annual compliance costs ranged from $1,189 to $2,738. These are underlying costs that can't be avoided, such as the annual ASIC fee, ATO supervisory levy, audit fee, financial statement and tax return.[iii]

If trustees decide they don't want any involvement in the administration of their fund, the cost of full administration ranges from $1,514 to $3,359.

There is an even wider range of ongoing investment fees, depending on the type of investments you hold. Fees tend to be highest for funds with investment property because of the higher management, accounting and auditing costs.

By comparison, the same report estimated annual fees for industry funds range from $445 to $6,861 for one member and $505 to $7,055 for two members. Fees for retail funds were similar. Fees for SMSFs are the same whether the fund has one or two members.

Size matters

As a general principle, the higher your SMSF account balance, the more cost-effective it is to run.

According to the Rice Warner survey:

- Funds with $200,000 or more in assets are cost-competitive with both industry and retail super funds, even if they fully outsource their administration.
- Funds with a balance of $100,000 to $200,000 may be competitive if they use one of the cheaper service providers or do some of the administration themselves.
- Funds with $500,000 or more are generally the cheapest alternative.

Returns also tend to be better for funds with more than $500,000 in assets.

Even though SMSFs with a balance of under $100,000 are more expensive than industry or retail funds, they may be appropriate if you expect your balance to grow to a competitive size fairly soon.

Increased responsibility

While SMSFs offer more control, that doesn't mean you can do as you like. Every member of your fund has legal responsibility for ensuring it complies with all the relevant rules and regulations, even if you outsource some functions.

SMSFs are regulated by the ATO which monitors the sector with an eagle eye and hands out penalties for rule breakers. And there are lots of rules.

The most important rule is the sole purpose test, which dictates that you must run your fund with the sole purpose of providing retirement benefits for members. Fund assets must be kept separate from your personal assets and you can't just dip into your retirement savings early when you're short of cash.

Don't overlook insurance

If you considering rolling the balance of an existing super fund into an SMSF, it could mean losing your life insurance cover. To ensure you are not left with inadequate insurance you may need to arrange new policies.

If you would like to discuss your superannuation options and whether an SMSF may be suitable for you, don't hesitate to call.

i https://www.smsfassociation.com/media-release/survey-sheds-new-insights-on-why-individuals-set-up-smsfs?at_context=50383

ii https://www.smsfassociation.com/media-release/survey-sheds-new-insights-on-why-individuals-set-up-smsfs?at_context=50383

iii https://www.ricewarner.com/wp-content/uploads/2020/11/Cost-of-Operating-SMSFs-2020_23.11.20.pdf

EXTENDING that holiday feeling

Does the summer break already feel like so long ago? If that holiday glow and relaxation didn't last as long as you wanted, you're not alone.

New research indicates that the mental health benefits of a holiday unfortunately fade quicker than a tan. The study found that it takes us just three days to get back into our normal level of stress.[i] Fortunately, there are ways you can hold onto that holiday feeling all year round.

Incorporate holiday habits

Morning sleep-ins, days spent outdoors in the sun, having long chats with family and friends, enjoying delicious food and drink, not being tethered to your phone – no wonder we feel more relaxed on holiday than we do in our day-to-day lives!

While most of us don't have the luxury of sleeping in and turning up to work when we feel like it, you can incorporate some of your holiday habits into your regular working week. This can be as simple as taking regular breaks and scheduling in some outdoors time, whether it's finding a park near the office, or going on a bush walk on the weekend. You might also like to opt for a screen-free day and instead pick up a book or have a board game night.

Take smaller breaks

Your leave allowance and financial situation may only permit you to take a small time away from work, but rather than just focusing on long holidays, try to also take regular breaks. This could be weekends away or even just a day spent in a different town close to where you live, acting as a tourist and exploring the area. Just a day of adventuring will add some novelty into your schedule and allow you to unwind without needing to take an extensive period of leave or to travel far.

Rethink your workday

Rethinking your workday can improve your productivity. If you have the flexibility to do so, you may find changing your hours can have a positive effect on your productivity and motivation. For example, if you're someone who struggles to get going before mid-morning, starting work later can have you feeling fresher and more alert.

It can also help to split your day into 90-minute windows to allow you to focus on a set number of tasks.[ii] Doing so can improve your efficiency and give you more free time as a result.

Reduce stress

We all know that excess stress is bad for us, but it can be near impossible to remain relaxed and care-free. Being on holiday and away from our regular lives can provide insight into what we are stressed about.

If the constant beep of notifications on your phone grates on you, having phone-free time can help. Maybe you feel under pressure at work or have an unmanageable workload – can you discuss these concerns with a colleague, boss or HR? A cause of stress can even be not having enough to do and being unsure of your purpose, in which case it could be helpful to reach out to a mentor or life coach for guidance. Whatever it may be, identifying your stressors will help you work towards reducing them.

Develop a positive mindset

Hand-in-hand with being more relaxed is having a positive mindset. Our holidays give us much to feel grateful for, such as the freedom of movement and access to beautiful locations, which we may have taken for granted pre-COVID-19.

In our everyday lives, rather than pining for that next holiday, think about what you are grateful for. This focus on gratitude and positivity makes it much easier to enjoy the day-to-day, and may lead you to adjust your priorities to reduce stress and improve your overall happiness.

We hope you all have a happy, prosperous and fulfilled year and we're here to help if you need a hand. Enjoy your present, with a positive mindset.

i https://www.businessthink.unsw.edu.au/Pages/Rest-and-rejuvenate-why-your-summer-holiday-may-not-have-done-the-trick.aspx

ii https://lifehacker.com/why-we-should-rethink-the-eight-hour-workday-515742249