Parkside Newsletter April 2022

Welcome to an early Federal Budget edition of our April newsletter. As the Morrison Government clears the decks ahead of a May election, Australians will be weighing up the impact on their household budgets.

The war in Ukraine added a major new source of uncertainty to the local and global economic outlook in March. Economic sanctions against Russia have cut its oil exports, sending crude oil prices surging 6% over the month to more than US$111 a barrel. This puts further pressure on inflation, already on the rise as global economies recover from the pandemic. In the US, inflation is at a 40-year high of 7.9%. The US Federal Reserve lifted official interest rates in March for the first time since 2018, by 25 basis points to a range of 0.25-0.50%.

In Australia, the lead-up to the Federal Budget added to the uncertainty. The Reserve Bank is taking a “patient” approach on interest rates for now, but with inflation at 3.5% and tipped to go higher it is expected to begin lifting rates later this year. Australia’s economy grew by 3.4% in the December quarter, the strongest gain since 1976 as the nation emerged from lockdowns. Unemployment fell from 4.2% to 4.0% in February, but rising prices are putting pressure on household budgets. Petrol prices hit a high of $2.12 a litre in March, costing the average motorist an extra $66.20 to fill their tank since the start of the year. Consumer confidence is at an 18-month low, with the Westpac-Melbourne Institute index down 4.2% in March to 96.6 points. And a 20.6% lift in home prices in the year to February has pushed the average mortgage on established homes to a record $635,000.

Rising commodity prices – iron ore and wheat were both up almost 5% in March - pushed the Aussie dollar to around US75c.

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Sharing super

a *win-win* for couples

Australia's superannuation system is based on individual accounts, with men and women treated equally. But that's where equality ends. It's a simple fact that women generally retire with much less super than men.

The latest figures show women aged 60-64 have an average super balance of $289,179, almost 25 per cent less than men the same age (average balance $359,870).[i]

The reasons for this are well-known. Women earn less than men on average and are more likely to take time out of the workforce to raise children or care for sick or elderly family members. When they return to the workforce, it's often part-time at least until the children are older.

So, it makes sense for couples to join forces to bridge the super gap as they build their retirement savings. Fortunately, Australia's super system provides incentives to do just that, including tax and estate planning benefits.

Restoring the balance

There are several ways you can top up your partner's super account to build a bigger retirement nest egg you can share and enjoy together. Where superannuation law is concerned, partner or spouse includes de facto and same sex couples.

One of the simplest ways to spread the super love is to make a non-concessional (after tax) contribution into your partner's super account. Other strategies include contribution splitting and a recontribution strategy.

Spouse contribution

If your partner earns less than $40,000 you may be able contribute up to $3,000 directly into their super each year and potentially receive a tax offset of up to $540.

The receiving partner must be under age 75, have a total super balance of less than $1.7 million on June 30 in the year before the contribution was made, and not have exceeded their annual non-concessional contributions cap of $110,000.

Also be aware that you can't receive a tax offset for super contributions you make into your own super account and then split with your spouse.[ii]

Contributions splitting

This allows one member of a couple to transfer up to 85 per cent of their concessional (before tax) super contributions into their partner's account.

Any contributions you split with your partner will still count towards your annual concessional contributions cap of $27,500. However, in some years you may be able to contribute more if your super balance is less than $500,000 and you have unused contributions caps from previous years under the 'carry-forward' rule.

If your partner is younger than you, splitting your contributions with them may help you qualify for a higher Age Pension. This is because their super won't be assessed for social security purposes if they haven't reached Age Pension age, currently 66 and six months.[iii]

Recontribution strategy

Another handy way to equalise super for older couples is for the partner with the higher balance to withdraw funds from their super and re-contribute it to their partner's super account.

This strategy is generally used for couples who are both over age 60. That's because you can only withdraw super once you reach your preservation age ~~(currently age 57)~~ or meet another condition of release such as turning 60 and retiring.

Any super transferred this way will count towards the receiving partner's annual non-concessional contributions cap of $110,000. If they are under 67, they may (75 after 1 Jul) be able to receive up to $330,000 using the 'bring-forward' rule.

As well as boosting your partner's super, a re-contribution strategy can potentially reduce the tax on death benefits paid to non-dependents when they die.
And if they are younger than you, it may also help you qualify for a higher Age Pension. These are complex arrangements so please get in touch before you act.

A joint effort

Sharing super can also help wealthier couples increase the amount they have in the tax-free retirement phase of super.

That's because there's a $1.7 million cap on how much an individual can transfer from accumulation phase into a tax-free super pension account.
Any excess must be left in an accumulation account or removed from super, where it will be taxed. But here's the good news – couples can potentially transfer up to $3.4 million into retirement phase, or $1.7 million each.[iv]

By working as a team and closing the super gap, couples can potentially enjoy a better standard of living in retirement.
If you would like to check your eligibility or find out which strategies may suit your personal circumstance, get in touch.

i https://www.superannuation.asn.au/ArticleDocuments/402/2202_Super_stats.pdf.aspx?Embed=Y

ii https://www.ato.gov.au/individuals/income-and deductions/offsets-and-rebates/super-related-taxoffsets/#Taxoffsetforsupercontributionsonbehalfof

iii https://www.ato.gov.au/Forms/Contributions-splitting/

iv https://www.ato.gov.au/individuals/super/withdrawing-and-using-your-super/transfer-balance-cap/

Budgeting for success in 4 easy steps

With all eyes on the Federal Budget and balancing the nation's books, it's a good time to review your personal balance sheet. If it's not as healthy as you would like, perhaps it's time to do a little budget repair of your own.

Just as governments need to set policy objectives and budget for future spending commitments, households need to feel confident they can meet their current and future financial commitments.

So no matter how much you earn, it's always a good strategy to check that your spending doesn't exceed your income. It's also important to think about how much you need to save today to pay for all the things you want to achieve in the future.

Before we look more closely at your personal finances, it's worth understanding how you may be affected by the big picture.

Cost of living pressures

The big economic issues for everyone right now, from the federal government and the Reserve Bank to businesses and households, are inflation and interest rates.

While economists talk about inflation, individuals experience this as an increase in their cost of living. Inflation increased by 3.5% in the year to December, with the price of fuel and the cost of buying a new home the biggest contributors. Prices of food, transport, health and insurance are also rising.[i]

Rising prices also put pressure on the Reserve Bank to lift interest rates to dampen demand. Lenders respond by increasing interest rates on mortgages and other loan products. While the Reserve Bank has indicated it is unlikely to lift rates before late 2022, homeowners and investors need to be prepared for an inevitable increase in mortgage repayments.

While higher prices are not a major concern if your income is growing faster than inflation, annual wages growth is lagging inflation at just 2.3 per cent.[ii] In other words, unless you're lucky enough to secure a big wage rise your finances could be going backwards in real (after inflation) terms.

Given these challenges, what can you do to get ahead?

Start at the beginning

Money may not buy you happiness, but having enough to afford the life you want to lead certainly helps. So how much is enough?

A recent survey by Finder found 25 per cent of Australians wouldn't feel affluent unless they earned at least $500,000 a year.[iii] Not only is this almost nine times the average income of around $60,000, many of today's rich listers started out with far less.[iv]

There's nothing wrong with dreaming big but you are more likely to achieve your goals by being realistic and to start with, making the most of what you already have.

Before you can build wealth, you need to understand what's coming in, where your money's going and where you could make savings, by following these four steps:

1. Add up your annual income from wages, investments and government benefits.

2. Add up your spending on essential living expenses including mortgage or rent, groceries, utilities, transport and insurances; and discretionary spending on the fun stuff like clothes, dining out, entertainment and holidays. If you don't have receipts, try tracking your spending over three months or so using one of the many free online budgeting apps.

3. Subtract your total spending in step 2 from your total income in step 1. If you spend more than you earn or barely break even, then look for areas where you could save. Things like cutting back on takeaways, impulse spending online, and streaming services you rarely use.

Ring your mortgage lender to negotiate a better interest rate and when insurances come up for renewal, shop around.

4. Draw up a budget to track your spending and put a savings plan in place to achieve your goals. Even a simple plan will help with discipline and make regular saving automatic.

Putting it all together

Some of the most popular budget strategies take a bucket approach, with separate money buckets for needs, wants and savings.[v] Most aim to set aside around 20 per cent of your income as savings and paying yourself first by setting up regular debits to a savings account. If you have debts or don't have an emergency fund, then these should be attended to before you direct savings to investments or other goals.

To be successful, a budget needs to be one you can stick to, tailored to your personal goals and financial situation. If you would like us to help plan your personal budget strategy, get in touch.

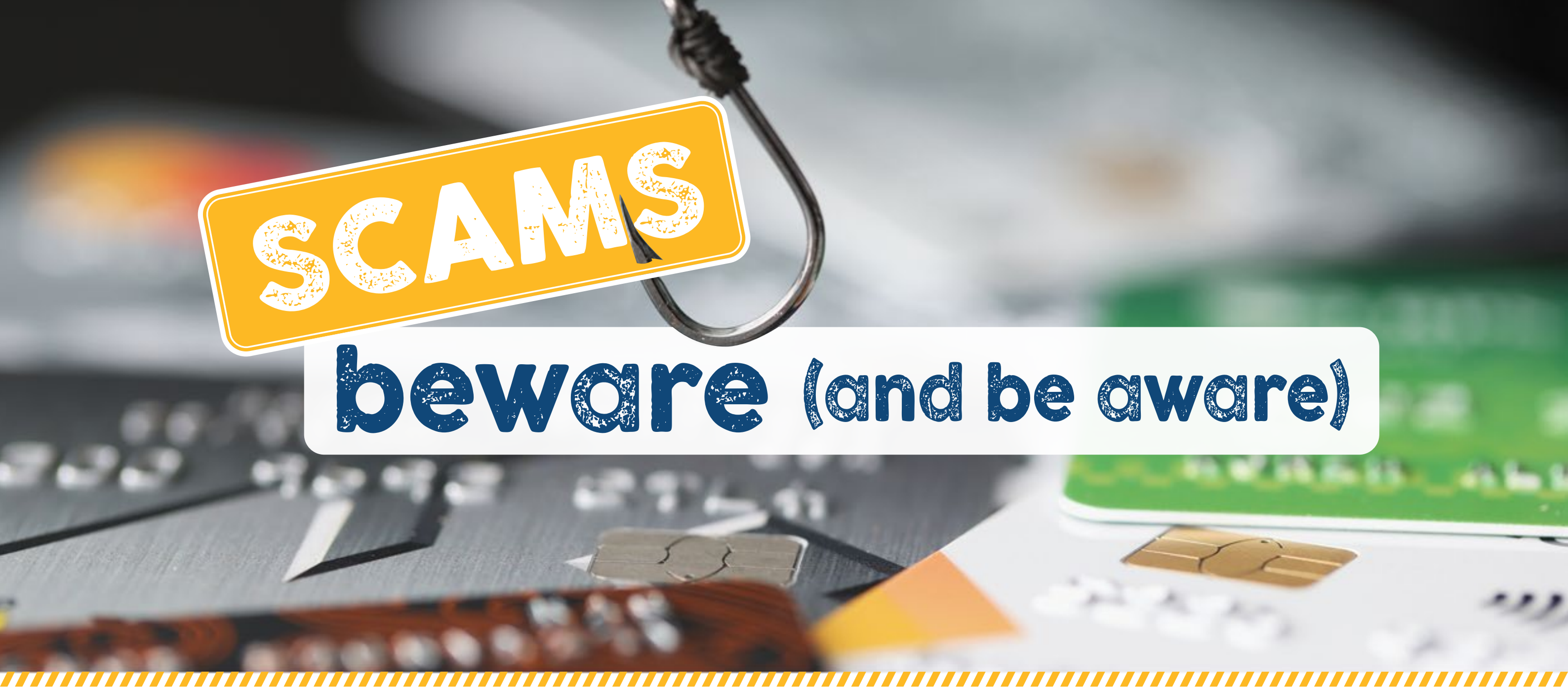
i https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-indexaustralia/latest-release

ii https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/wage-price-index-australia/latestrelease

iii https://www.finder.com.au/average-aussie-needs-330000-to-feel-rich

iv https://www.abc.net.au/news/2021-06-20/are-you-middle-income-see-how-you-compare/100226488

v https://www.finder.com.au/best-budgeting-strategies



SCAMS beware (and be aware)

There is a saying 'a fool and his money are often parted' but with scammers becoming ever more devious and sophisticated in their methods, it pays for everyone to be aware of the latest tricks being employed.

According to Australian Competition and Consumer Commission (ACCC) data, last year was the worst year on record for the amount lost to scammers, with a record $323 million lost during 2021. This represents a concerning increase of 84% on the previous year.[i]

And with Australians spending more time online than ever before, predictably the area of most growth is cybercrime.

Incidences increasing

Cybercrime increased over 13% during the 2020-21 financial year, with data revealing one attack occurs every 8 minutes.[ii]

Police records indicate that as the number of house break-ins and burglaries decreased through COVID, the amount of digital scams increased as criminal activity found an alternative outlet and moved online.[iii] Scammers also exploited the pandemic environment by targeting an increasing reliance on online activity and digital information and services.

Most common scams

Phishing, where scammers try to get you to reveal information that enables them to access your money (or in some cases steal your identity), is one of the most common scams. Last year Scamwatch, a website run by the Australian Competition and Consumer Commission (ACCC), received more than 44,000 reports of phishing, costing Australians $1.6 million.[iv] While some phishing scams are obvious, like free give-aways, you can also be directed to sites that masquerade as financial providers or government departments and they can look pretty official.

The trick to not be taken in is to be very wary of clicking on a pop up or unknown site and do an independent google search or verify the site is secure. Before submitting any information, make sure the site's URL begins with "https" and there should be a closed lock icon near the address bar. It's also a good idea to keep your browser and antivirus software up to date.

Scams that cost us the most

Investment scams are becoming ever more sophisticated and the amounts associated with these scams are significant. Investment scams accounted for $177 million in 2021.[v]

In one of the most disturbing trends of the year, the Australian Securities and Investment Commission (ASIC) said some investment scammers were presenting impressive credentials, including their funds 'association' with highly regarded domestic and international financial services institutions.

Those doing their diligence on the funds were met with professional-looking prospectuses offering very high returns and claiming investor funds would be invested in triple A rated or government bonds, offering protection under the government's financial claims scheme. Scammers even cleverly honed in on those most likely to be tempted by these investment products by gathering the personal and contact details potential 'investors' entered into fake investment comparison websites.

While the rise in, and increasingly compelling nature of investment scams is certainly of concern, we are here to help if you have any opportunities you'd like to explore that need thorough investigation.

Staying scam-proof

- **Be alert, not alarmed** – always consider the fact that the 'opportunity' you are being presented with or the fine or fee you are being asked to pay may be a scam. Don't be swayed by the fact that it looks like it is coming from a well-known company or source.
- **Keep your personal details and passwords secure.** Be careful how much information you share on social media and be wary of providing personal information.
- **Beware of unusual payment requests.** Scammers will often ask for unusual methods of payment which are untraceable like iTunes cards, store gift card or debit cards, or even cryptocurrency like Bitcoin.

The best way to avoid scams, is to be aware of the tactics being employed and maintain a sceptical frame of mind. If something seems too good to be true, or if your alarm bells are ringing take your time and do your due diligence before taking any action.

i, v https://www.savings.com.au/news/scamwatch-2021

ii https://www.cyber.gov.au/acsc/view-all-content/reports-and-statistics/acsc-annual-cyber-threat-report-2020

iii https://www.abc.net.au/news/2021-09-22/financial-crimes-increasing-as-burglars-switch-to-fraud/100473828

iv https://www.scamwatch.gov.au/get-help/protect-yourself-from-scams