



Spring 2022 Newsletter

Welcome to our Spring newsletter. September means it's football finals season and hopefully the beginning of warmer weather despite the recent late winter chill.

In August, the focus was on US Federal Reserve chair Jerome Powell's speech at the annual Jackson Hole business gathering on August 26, and he was blunt. To hose down talk of interest rate cuts in 2023, he said the Fed was focused on bringing US inflation down to 2% (from 8.5% now), even at the risk of recession. He said this will "take some time", will likely require a "sustained period of below trend economic growth", and households should expect "some pain" in the months ahead. The S&P500 share index promptly fell 3.4% and bond yields rose. Economists expect the US central bank will continue lifting rates each month for the remainder of 2022.

In Australia, economic conditions are less gloomy. Australia's trade surplus was a record \$136.4 billion in 2022-23. Unemployment fell to 3.4% in July while wages growth rose to an annual rate of 2.6% in the year to June, the strongest in 8 years but well below inflation. The ANZ-Roy Morgan consumer confidence index rose slightly in September to a still depressed 85.0 points while the NAB business confidence index jumped to +6.9 points in July, well above the long-term average of +5.4 points. Half-way through the June half-year reporting season, CommSec reports ASX200 company profits increased 56% in aggregate while dividends are 6% lower on a year earlier.

The Aussie dollar fell more than one cent over the month to close around US68.5c. Aussie shares bucked the global trend, finishing steady over the month.

Heritage Private Wealth Pty Ltd

Mark Jennings B.Com, LLB, AFP, JP
Level 5

115 Pitt Street
Sydney NSW 2000

P (02) 9113 7294

E mjennings@heritagepw.com.au

W <https://www.heritageprivatewealth.com.au>

How much do you need to retire?



Working out how much you need to save for retirement is a question that keeps many pre-retirees awake at night. Recent market volatility and fluctuating superannuation balances have only added to the uncertainty.

So it's timely that new research shows you may need less than you fear. For most people, it will certainly be less than the figure of \$1 million or more that is often bandied around.

For most people, the amount you need to save will depend on how much you wish to spend in retirement to maintain your current standard of living. When Super Consumers Australia (SCA) recently set about designing retirement savings targets they started by looking at what pre-retirees aged 55 to 59 actually spend now.

Retirement savings targets

SCA estimated retirement savings targets for three levels of spending – low, medium and high – for recently retired singles and couples aged 65 to 69.

Significantly, only so-called high spending couples who want to spend at least \$75,000 a year would need to save more than \$1 million. A couple hoping to spend a medium-level \$56,000 a year would need to save \$352,000. High spending singles would need \$743,000 to cover spending of \$51,000 a year, and \$258,000 for medium annual spending of \$38,000.

While these savings targets are based on what people actually spend, there is a buffer built in to provide confidence that your savings can weather periods of market volatility and won't run out before you reach age 90.

They assume you own your home outright and will be eligible for the Age Pension, which is reflected in the relatively low savings targets for all but wealthier retirees.*

Retirement planning rules of thumb

The SCA research is the latest attempt at a retirement planning 'rule of thumb'. Rules of thumb are popular shortcuts that give a best estimate of what tends to work for most people, based on practical experience and population averages.

These tend to fall into two camps:

- **A target replacement rate for retirement income.** This approach assumes most people want to continue the standard of living they are used to, so it takes pre-retirement income as a starting point. A target replacement range of 65-75 per cent of pre-retirement income is generally deemed appropriate for most Australians.
- **Budget standards.** This approach estimates the cost of a basket of goods and services likely to provide a given standard of living in retirement. The best-known example in Australia is the Association of Superannuation Funds of Australia (ASFA) Retirement Standard which provides 'modest' and 'comfortable' budget estimates.

SCA sits somewhere between the two, offering three levels of spending to ASFA's two, based on pre-retirement spending rather than a basket of goods. Interestingly, the results are similar with ASFA's 'comfortable' budget falling between SCA's medium and high targets.

ASFA estimates a single retiree will need to save \$545,000 to live comfortably on

annual income of \$46,494 a year, while retired couples will need \$640,000 to generate annual income of \$65,445. This also assumes you are a homeowner and will be eligible for the Age Pension.

Limitations of shortcuts

The big unknown is how long you will live. If you're healthy and have good genes, you might expect to live well into your 90s which may require a bigger nest egg. Luckily, it's never too late to give your super a boost. You could:

- Salary sacrifice some of your pre-tax income or make a personal super contribution and claim a tax deduction but stay within the annual concessional contributions cap of \$27,500.
- Make an after-tax super contribution of up to the annual limit of \$110,000, or up to \$330,000 using the bring-forward rule.
- Downsize your home and put up to \$300,000 of the proceeds into your super fund.

Thanks to new rules that came into force on July 1, you may be able to add to your super up to age 75 even if you're no longer working.

While retirement planning rules of thumb are a useful starting point, they are no substitute for a personal plan. If you would like to discuss your retirement income strategy, give us a call.

*Assumptions also include average annual inflation of 2.5% in future, which is the average rate over the past 20 years, and average annual returns net of fees and taxes of 5.6% in retirement phase and 5% in accumulation phase.

- CONSULTATIVE REPORT: Retirement Spending Levels and Savings Targets, Super Consumers Australia,
- 2020 Retirement Income Review, The Treasury
- Association of Superannuation Funds of Australia (ASFA) Retirement Standard

How is my *insurance* taxed?



With the cost of living on the rise, it's more important than ever to have a financial safety net that protects you and your family in case the unexpected happens.

Most Australian employees have some form of life insurance, often through their superannuation fund, but many of us tend to 'set and forget'.

To make the most of your life insurance policy, it's useful to understand how it works, and how premiums and payments are affected by tax.

Various types of life insurance

Life insurance is an umbrella term for a range of policies that cover different situations. They include:

- **Life cover**, which pays out after your death to someone you have nominated.
- **Income protection** covers you if you're unable to work because of illness or injury.
- **Total and permanent disability (TPD)** insurance provides medical and living costs if you become permanently disabled.
- **Accidental death and injury** cover pays a lump sum if you die or are injured.
- **Critical illness or trauma** insurance pays a lump sum to cover medical expenses for major medical conditions.
- **Business expenses** insurance covers ongoing fixed business costs if you're a business owner suffering serious illness or injury.

Tax benefits and deductions

The premiums for most types of life insurance are not tax deductible, but there are exceptions. Premiums for income protection held outside of super are tax-deductible and inside super for the self-employed. Business expenses insurance premiums are also tax deductible.

The tax treatment of benefits paid out by policies also varies according to the type of policy and your situation, so it's important to talk to us. Generally, life cover paid to someone who's financially dependent on you (typically a spouse and children under 18 years) is not taxed. But if the beneficiary isn't your financial dependent, they can expect to pay tax.

Income protection insurance payments must be declared on your tax return and will be taxed at your marginal rate, just like your usual salary. Business expense insurance payouts also taxable.

Lump sum payments made through other policies are not taxable.

Inside super or outside?

Some of these insurances, particularly life cover, income protection and TPD, can be purchased through your super fund. Most people have a basic level of cover held this way, but you should check to see if it's adequate for your needs.

If you are aged under 25, have a super balance of \$6,000 or less, or your account is inactive, you will need to "opt in" if you want insurance cover.

If you have a self-managed super fund (SMSF), you're required to consider whether to hold life insurance for each of the fund's members, although there's no obligation to buy.

Super pros and cons

You'll need to do the sums for your circumstances, which is where an adviser can assist, but there may be an advantage to using your super to pay the premiums. The main reason is cost.

Sometimes, the buying power of larger super funds allows them to negotiate competitive pricing for insurance products.ⁱ It's not always the case, so you'll need to shop around to make sure you're getting the best deal.

Another potential financial benefit in paying the monthly premiums out of your super account, is that you're using funds taxed at 15 per cent. Whereas, if you pay the premium from your own bank account, you'd be using funds already taxed at your marginal tax rate, which may be higher. That means your pre-tax dollars are working harder and you've still got your cash in the bank.

The main drawback to paying insurance premiums through super is that you'll be reducing your super balance, which means less for retirement. However, you could choose to boost your balance using salary sacrifice or personal contributions.

Your safety net checklist

1. Decide on who and what needs to be financially protected if something should happen to you.
2. Weigh up the best type of life insurance to meet your needs and shop around.
3. Be clear about any tax implications of an insurance payout
4. Make sure the policy benefit is adequate and check it annually.

Deciding on the type of life insurance you need can be tricky, so give us a call to discuss your insurance needs.

ⁱ Insurance through super - Moneysmart.gov.au



Go on...

TAKE A BREAK

One of the things many of us have been missing over the past few years is holidays, but now that the world is opening up again for travel and destinations that have been pretty quiet are now eagerly welcoming back tourists, taking a break has never been more appealing.

Holidays are not just a lovely way to spend time, they are fantastic for us on so many levels. Having a break from the daily grind gets us out of our usual routine, opens us up to new experiences and is good for us mentally and physically.

However, the stats tell us that for many Australians it's been a long time between breaks.

In fact, around 8 million Australians have accrued nearly 175 million days of leave over the past 12 months, up from 151 the previous year! That's a lot of missed holidays!

Whether you are one of those who hasn't had much of a break lately or even if you've just got back from a trip and are planning your next one - there are a host of good reasons to take a holiday.

Holiday to keep the doctor away

Holidays have been proven to lower stress which has a myriad of benefits including addressing the risk of cardiovascular issues like stroke and heart attack. A study following more than 12,000 middle-aged men at high risk for heart disease, found those who took yearly breaks were less likely to die from any cause, including heart attacks and other cardiovascular issues.ⁱⁱ

It's not just physical health that benefits, taking a break is unsurprisingly pretty

good for mental health with even a short break of a few days having a powerful mood enhancing effect.ⁱⁱⁱ

Travel to broaden the mind

Lifelong learning is not only good for our careers but also important for our personal growth. And travel is a learning experience like no other, whether you are heading to a new country or a different part of your city or state you'll meet new people and experience a different way of life.

Travel is also the ultimate experience in mindfulness – you are living in the moment when you are on holiday. A break in routine takes us off autopilot and puts us in charge.

Having a break makes you more productive

If you are worried about the impact a break can have on your career – don't be! Research by Boston Consulting Group found that professionals who took planned time off were significantly more productive than those who spent more time working.^{iv} Holidays offer time for introspection, goal setting and a chance to recharge your batteries for a new lease on life.

Planning for a wonderful time

Not all vacations are created equal. Just taking any quickly thrown-together escape may not provide all the health and productivity benefits associated

with taking a vacation. A poorly planned break can be a source of tension and stress, rather than the opposite.

So how do you get the best out of a break?

Be flexible - While it's important to plan before you leave, have enough flexibility for discovery – be open to new experiences and willing to change the schedule to accommodate those spontaneous magical moments.

Don't sweat the small stuff - Things can and do go awry once you are away but don't let silly little things spoil the break.

Switch off - Don't be tempted to check your emails or socials every few minutes – stay in the moment. A decent break from work will also reinforce that the office doesn't need you 24/7 and that life comes first.

Watch the budget but have some allowances to splurge - Focus on experiences and the memories you'll take home with you rather than what's on sale at the gift shop or duty free.

And finally, don't feel that a holiday must be a luxurious destination or for a long period of time to count. A change of scenery can be as good as a holiday - even taking a mini break and heading off for a weekend away to a lovely destination can provide all the benefits of a holiday. So, what are you waiting for? Start planning that next trip. The wide, wonderful world awaits!

i <http://www.roymorgan.com/findings/8696-annual-leave-holidays-march-2021-202105170711>

ii <https://pubmed.ncbi.nlm.nih.gov/11020089/>

iii <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5800229/>

iv <https://hbr.org/2009/10/making-time-off-predictable-and-required>