QUARTERLY INSIGHT

InterPrac Financial Planning Newsletter Edition 3 2020

End of Year Update

Wow, what a year!

With summer knocking on our door, sporting finals in progress and only ten Sundays until Christmas, we look back at 2020 as the year that has made us realise that the small things in life matter the most; a big hug from parents or friends, a picnic in the park with the family and a bike ride along the beach were things that we took for granted, until we were restricted from leaving our homes.

There are many stories about how Coronavirus has affected people's lives, professionally and personally and the topic of conversation at the moment is on our economy.

Most people want to understand what this Federal Budget means for them and inside this End of Year Edition, we have included an article that clearly explains the Federal Budget and how we are going to rebuild this country together.

We have also included a range of articles around your retirement plans, housing, how to build a healthier relationship with technology and ways to support your health and wellbeing.

We wish you all a wonderful rest of the year, please continue to stay safe and as always, we are here to lend an ear for you, your family and your friends.

We hope that if we can take something from this pandemic, it is the importance of our family, friends and our health, now more than ever.

Please feel free to call us. Take care.

Building a Bridge to Recovery

In what has been billed as one of the most important budgets since the Great Depression, and the first since the onset of the COVID-19 pandemic dragged Australia into its first recession in almost 30 years, Treasurer Josh Frydenberg said the next phase of the journey is to secure Australia's future.

As expected, the focus is on job creation, tax cuts and targeted spending to get the economy over the COVID-19 hump.

The Treasurer said this Budget, which was delayed six months due to the pandemic, is "all about helping those who are out of a job get into a job and helping those who are in work, stay in work".

The big picture

After coming within a whisker of balancing the budget at the end of 2019, the Treasurer revealed the budget deficit is now projected to blow out to $213.7 billion this financial year, or 11 per cent of GDP, the biggest deficit in 75 years.

With official interest rates at a record low of 0.25 per cent, the Reserve Bank has little firepower left to stimulate the economy. That puts the onus on Government spending to get the economy moving, fortunately at extremely favourable borrowing rates. And that is just as well, because debt and deficit will be with us well into the decade.

The Government forecasts the deficit will fall to $66.9 billion by 2023-24. Net debt is expected to hit $703 billion this financial year, or 36 per cent of GDP, dwarfing the $85.3 billion debt last financial year. Debt is expected to peak at $966 billion, or 44 per cent of GDP, by June 2024.

The figures are eye-watering, but the Government is determined to do what it takes to keep Australians in jobs and grow our way out of recession.

So, what does the Budget mean for you, your family and your community?

It's all about jobs

With young people bearing the brunt of COVID-related job losses, the Government is pulling out all stops to get young people into jobs. Youth unemployment currently stands at 14.3 per cent, more than twice the overall jobless rate of 6.8 per cent.

As we transition away from the JobKeeper and JobSeeker subsidies, the Government announced more than $6 billion in new spending which it estimates will help create 450,000 jobs for young people.

"Having a job means more than earning an income," Mr Frydenberg said.

Measures include:

- A new JobMaker program worth $4 billion by 2022-23, under which employers who fill new jobs with young workers who are unemployed or studying will receive a hiring credit of up to $10,400 over the next year. Employers who hire someone under 29 will receive $200 a week, and $100 a week for those aged 30-35. New employees must work at least 20 hours a week to be eligible.
- A $1.2 billion program to pay half the salary of up to 100,000 new apprentices and trainees taken on by businesses.

In recognition that the pandemic has had a disproportionate impact on women's employment, the Budget includes the promised "Women's economic security statement" but the size of the support package may disappoint some.

Just over $240 million has been allocated to "create more opportunities and choices for women" in science, technology, engineering and mathematics (STEM) as well as male-dominated industries and business.

Housing and infrastructure

As part of its job creation strategy, the government also announced $14 billion in new and accelerated infrastructure projects since the onset of COVID.

The projects will be in all states and territories and include major road and rail projects, smaller shovel-ready road safety projects, as well as new water infrastructure such as dams, weirs and pipelines.

The construction industry will also be supported by the first home loan deposit scheme being extended to an extra 10,000 new or newly built homes in 2020-21. This scheme allows first home owners to buy with a deposit as low as 5 per cent and the Government will be guaranteeing up to 15 per cent.

Personal tax cuts

As widely tipped, the government will follow up last year's tax cut by bringing forward stage two of its planned tax cuts and back date them to July 1 this year to give mostly low and middle-income taxpayers an immediate boost.

As the table on the following page shows, the upper income threshold for the 19 per cent marginal tax rate will increase from $37,000 a year to $45,000 a year. The upper threshold for the 32.5 per cent tax bracket will increase from $90,000 to $120,000.

As a result, more than 11 million Australians will save between $87 and $2,745 this financial year. Couples will save up to $5,490.

Building a Bridge to Recovery continued

Marginal tax rate*	Previous taxable income thresholds	New taxable income thresholds
0%	$0-$18,200	$0-$18,200
19%	$18,201-$37,000	$18,201-$45,000
32.5%	$37,001-$90,000	$45,001-$120,000
37%	$90,001-$180,000	$120,001-$180,000
45%	More than $180,000	More than $180,000
Low income tax offset (LITO)	Up to $445	Up to $700
Low & middle income tax offset (LMITO)	Up to $1,080	Up to $1,080**

*Does not include Medicare Levy of 2%
**LMITO will only be available until the end of the 2020-21 income year.

You don't need to do anything to receive the tax cuts. The Australian Taxation Office (ATO) will automatically adjust the tax tables it applies to businesses and simply take less. It will also account for three months of taxes already paid from 1 July this year so workers can catch up on missed savings.

Business tax relief

In another move that will help protect jobs in the hard-hit small business sector, business owners will also get tax relief through loss carry back provisions for struggling firms. This will allow them to claim back a rebate on tax they have previously paid until they get back on their feet.

Businesses with turnover of up to $5 billion a year will be able to write off the full value of any depreciable asset they buy before June 2022.

Cash boost for retirees

Around 2.5 million pensioners will get extra help to make up for the traditional September rise in the Age Pension not going ahead this year. However, self-funded retirees may feel they have been left out.

Age pensioners and as well as people on the disability support pension, Veterans pension, Commonwealth Seniors Health Card holders and recipients of Family Tax Benefit will receive two payments of $250 from December and from March.

This is in addition to two previous payments of $750 earlier this year.

Health and aged care

After the terrible toll the pandemic has waged on aged care residents and the elderly, the Government will add 23,000 additional Home Care packages to allow senior Australians to remain in their home for as long as possible.

Funding for mental health and suicide prevention will also be increased by $5.7 billion this year, with a doubling of Medicare-funded places for psychological services.

Super funds on notice

Underperforming super funds are to be named and shamed with a new comparison tool called Your Super. This will allow super members to compare fees and returns.

All funds will be required to undergo an annual performance test from 2021 and underperforming funds will be banned from taking on new members unless they do better.

Looking ahead

As the underlying Budget assumptions are based on finding a coronavirus vaccine sometime next year, Government projections for economic growth, jobs and debt are necessarily best estimates only.

Only time will tell if Budget spending and other incentives will be enough to encourage business to invest and employ, and to prevent the economy dipping further as JobKeeper and JobSeeker temporary support payments are wound back.

Another test will be whether the Budget initiatives help those most affected by the recession, notably young people and women.

The Government has said it is prepared to consider more spending to get the economy out of recession. The Treasurer will have another opportunity to fine tune his economic strategy fairly soon, with the next federal budget due in just seven months, in May 2021.

If you have any questions about any of the Budget measures and how they might impact your finances, don't hesitate to contact us.

Four Steps to a Healthier Relationship with Technology

Cheryl Keates, PCC, Leadership & Performance Coach

The advancement of technology in today's world is head-spinning. Just over a decade ago, we often used mobile phones to simply make calls, and computers were mostly restricted to work purposes.

Technology has the ability to move us forward, helping us advance in our personal and professional lives. It gives us incredible freedom, like taking businesses online and acquiring customers from all over the world, connecting with old high school friends, and sharing important milestones with our network.

At some point, laptops and smartphones became our best friends, accompanying us wherever we go from the moment that we wake up until we close our eyes at night.

Even though there are so many advantages, it's important to understand what impact technology can have on different areas of our lives, such as social connections, productivity and emotional health. Establishing and maintaining a healthy relationship with our devices and the internet gives us the opportunity to only be affected in positive ways, eliminating the disadvantages and dangers it brings.

I find that being able to disconnect from the phone or computer supports not only better focus, decision making and resilience, but also overall well-being and groundedness.

Here are four ways to establish a healthy relationship with technology:

1. Limit phone time

One of the first things many of us do in the morning is we check our phone. We open our email and find an important message, often with the urge to address the issue immediately. We rush to our desk and are taken down the rabbit hole. Before we even realize, it's 11 a.m., and we're not dressed and haven't had breakfast or worked out.

Setting rules to limit phone time allows you to set boundaries between your personal and professional lives and, therefore, find a better balance. I find that being able to shut off work after coming home enables you to fully recharge and build better relationships with your loved ones.

2. Collect yourself before using your phone or laptop

Don't get caught up in the craziness of the web. Balance yourself with meditation, workouts and plenty of offline activities and interactions. Reboot your brain, and collect your mental energy and focus. Spending time away from the "noise" can have a huge impact on your performance at work. In my experiences, it can allow you to collect mental energy and focus, lead with a clearer mind, and make better decisions.

3. If possible, schedule your incoming emails with an app

Find an app that collects all of your messages and delivers them exclusively at certain times of the day. Don't get thrown off your workflow by a little email that requires two minutes of your attention. Scheduling a few time slots during the day to dedicate to emails is much more efficient than shifting your focus away from other important tasks every time you see an email come in.

4. Take breaks and step away from technology every few hours

Get your eyes off a screen and rejuvenate. Regular time away from the desk, such as a short walk outside, a conversation to get to know the team better or a coffee meeting, not only helps with recharging your batteries, but it's also a great way to build better relationships.

By using our devices responsibly and becoming aware of the impact they have on us, we can optimize the way they work for us instead of becoming slaves to them. We can improve our personal performance and take advantage of more opportunities. Slowly but surely, our world will change into one that exists offline as well as online, blurring the lines of what's truly important in life without being aware of how we change our priorities. I believe that re-evaluating how we use technology is crucial to our well-being and our overall performance as leaders.

Even in the Midst of a Recession the Australian Housing Market Continues Along its Merry Way

By Greg Jericho, The Guardian

The Australian housing market is a peculiar beast. You would think that in the midst of a worldwide pandemic that has seen Australia's economy crash by 7%, and around one in five Australians either unemployed or desiring more hours that house prices might take a tumble. But no.

This week the bureau of statistics released the latest residential property price index which shows that across the nation's capital cities, property prices fell 1.8% in the June quarter. And sure, that might sound like a lot – perhaps even that there is a major market correction. But it is not even the biggest one quarter fall in the past two years, let alone anything like the record falls we have seen in other parts of the economy.

And despite that one quarter fall, residential property prices remain well above what they were a year ago:

Every capital city except Canberra saw prices fall in June – with Sydney and Melbourne the biggest falls. And yet in every capital city except Darwin prices are above what they were a year ago – with Sydney and Melbourne having the biggest rises:

Now sure, you might think that these figures look at the past and are thus not reflective of what is happening now. Certainly clearance rates at auctions in Sydney are down on where they were last year, and Melbourne is currently almost an auction-free zone.

But housing finance growth suggests there is little "cooling" about to occur.

Last week the ABS revealed there was a strong rebound in July of mortgage approvals – with the value of owner-occupier housing loans being 18.5% above what it was in July last year:

A sizeable portion of that growth is due to favourable first-home buyer programs in Victoria and Western Australia, but even when they are excluded, there is a clear increase in loans:

This is important because there is a very strong relationship between housing loan growth and what house prices will do in the next six months:

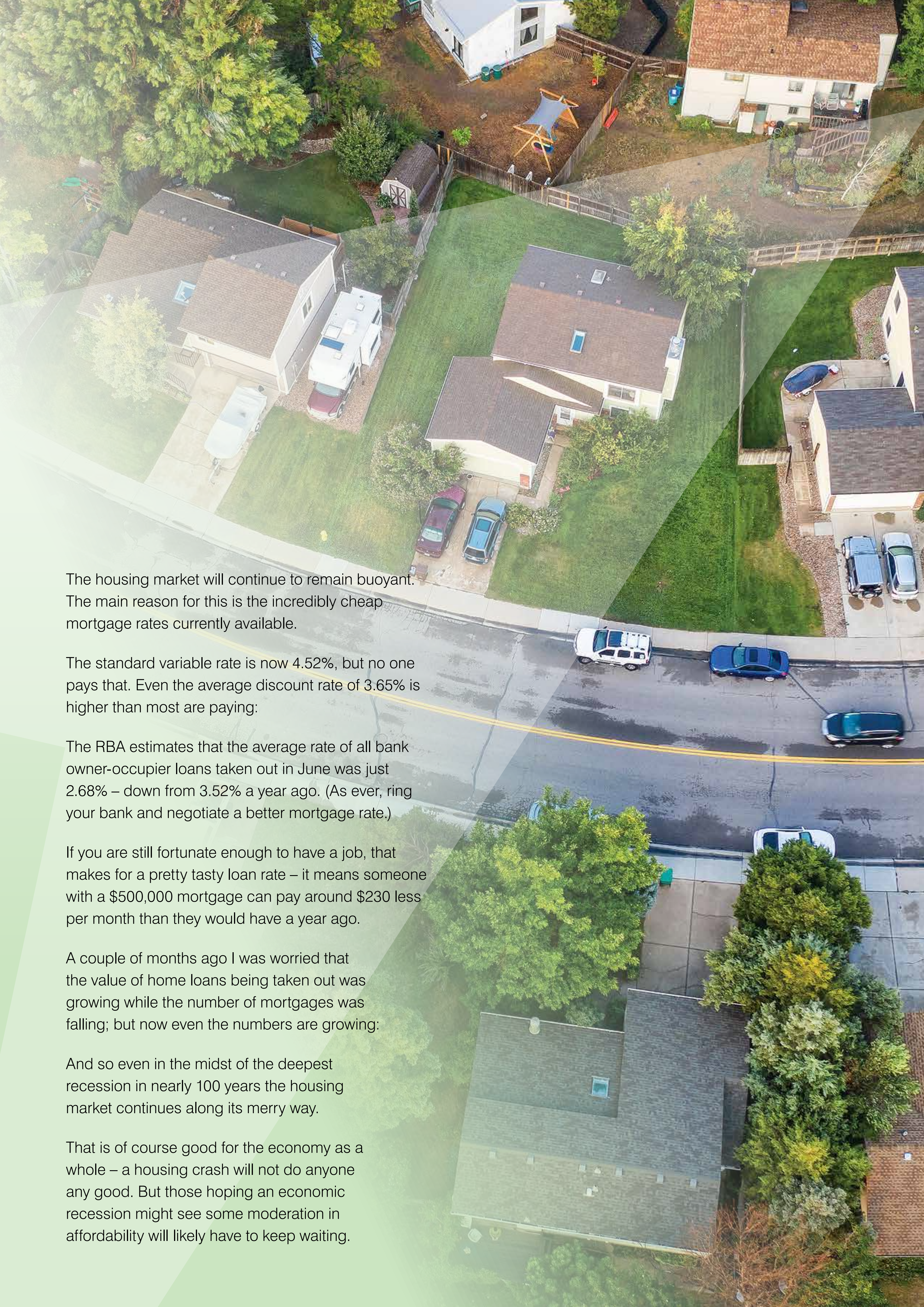
Even in Melbourne this suggest that we are not likely to see house prices fall below what they were a year earlier any time soon:

And yet this all comes at a time when some commentators and analysts are worrying about a "September credit cliff" that could occur when around 11% of mortgage holders who have deferred their loans for six months will need to start repaying them at the end of this month.

That would be an economic calamity – given it will coincide with the government's decision to reduce the jobseeker bonus payment – but it is unlikely, mostly because it is not in the banks' interest for that to happen.

In July, APRA wrote to banks advising them that prior to the end of September banks "may continue to defer home loan repayments "until the earlier of an aggregate period of deferral totalling ten months; or 31 March 2021".

Reserve Bank board recent meeting minutes did not raise any concern about the issue.



The housing market will continue to remain buoyant. The main reason for this is the incredibly cheap mortgage rates currently available.

The standard variable rate is now 4.52%, but no one pays that. Even the average discount rate of 3.65% is higher than most are paying:

The RBA estimates that the average rate of all bank owner-occupier loans taken out in June was just 2.68% – down from 3.52% a year ago. (As ever, ring your bank and negotiate a better mortgage rate.)

If you are still fortunate enough to have a job, that makes for a pretty tasty loan rate – it means someone with a $500,000 mortgage can pay around $230 less per month than they would have a year ago.

A couple of months ago I was worried that the value of home loans being taken out was growing while the number of mortgages was falling; but now even the numbers are growing:

And so even in the midst of the deepest recession in nearly 100 years the housing market continues along its merry way.

That is of course good for the economy as a whole – a housing crash will not do anyone any good. But those hoping an economic recession might see some moderation in affordability will likely have to keep waiting.

Getting Retirement Plans Back on Track

After a year when even the best laid plans have been put on hold due to COVID-19, people who were planning to retire soon may be having second thoughts. You may be concerned about a drop in your super balance, insecure work, or an uncertain investment outlook.

Whatever your circumstances, a financial tune-up may be required to get your retirement plans back on track. You may even find you're in better financial shape than you feared, but you won't know until you do your sums.

The best place to start is to think about your future income needs.

What will retirement cost?

Your retirement spending will depend on your lifestyle, if you are married or single, whether you own your home and where you want to live.

Maybe you want to holiday overseas every year while you are still physically active or buy a van and tour Australia. Do you want to eat out regularly, play golf, and lead an active social life; or are you a homebody who enjoys gardening, craftwork or pottering in the shed?

Also think about the cost of creature comforts, such as the ability to upgrade cars, computers and mobiles, buy nice clothes, enjoy good wine and pay for private health insurance.

It's often suggested you will need around 70 per cent of your pre-retirement income to continue living in the manner to which you have become accustomed. That's because it's generally cheaper to live in retirement, with little or no tax to pay and (hopefully) no mortgage or rent.

Draw up a budget

To get you started, the ASFA Retirement Standard may be helpful. It provides sample budgets for different households and living standards.

ASFA suggests singles aged 65 would need around $44,183 a year to live comfortably, while couples would need around $62,435. Of course, comfort is different for everyone so you may wish to aim higher.

To put these figures in perspective, the full age pension is currently around $24,550 a year for singles and $37,013 for couples. As you can see, this doesn't stretch to ASFA's modest budget, let alone a comfortable lifestyle, especially for retirees who are paying rent or still paying off a mortgage.

Then there is the 'known unknown' of how long you will live. Today's 65-year-olds can expect to live to an average age of around 85 years for men and 87 for women. The challenge is to ensure your money lasts the distance.

Can I afford to retire?

Once you have a rough idea what your ideal retirement will cost, you can work out if you have enough super and other savings to fund it.

Using the ASFA benchmark for a comfortable lifestyle, say you hope to retire at age 65 on annual income of $62,000 a year until age 85. Couples would need a lump sum of $640,000 and singles would need $545,000. This assumes you earn 6 per cent a year on your investments, draw down all your capital and receive a part Age pension.

Add up your savings and investments inside and outside super. Subtract your debts, including outstanding loans and credit card bills, to arrive at your current net savings. Then work out how much you are likely to have by the time you hope to retire if you continue your current savings strategy.

There are many online calculators to help you estimate your retirement balance, such as the MoneySmart super calculator.

Closing the gap

If there's a gap between your retirement dream and your financial reality, you still have choices.

If you have the means, you could make additional super contributions up to your concessional cap of $25,000 a year. You may also be able to make after-tax contributions of up to $100,000 a year or, subject to eligibility, $300,000 in any three-year period.

You might also consider delaying retirement which has the double advantage of allowing you to accumulate more savings and reduce the number of years you need to draw on them.

These are challenging times to be embarking on your retirement journey, but a little planning now could put you back in the driver's seat. Get in touch if you would like to discuss your retirement strategy.

Managing COVID Fatigue is Crucial to Our Health and Wellbeing During the Pandemic

By Emily Kumlien, UW Health

Since March 2020, the word 'Coronavirus' has been dominating our conversations and as a result we have seen a significant change with how we live, work and most importantly how we interact with family and friends.

We have seen the sudden shutdown of our schooling system, businesses, entertainment, golf clubs, gyms etc.

We are living in curfews, lockdowns and restrictions, a situation no-one predicted, it is a new world that has had and continues to have a significant impact on people's financial situation, their health and well-being.

Studies state that an increase in depression and anxiety could explain why some people are feeling fatigued during this pandemic, as compounded stress and exhaustion from worrying about the coronavirus is leading to "COVID Fatigue," a shorthand way of talking about an overall sense of exhaustion based on the combination of challenges people are facing during the pandemic.

As a result, health care providers are seeing an increase in people who are feeling defeated, burned out and engaging in risky behaviours that can increase the spread of the coronavirus. Patients are also reporting higher levels of depression, anxiety, alcohol and drug dependency as the pandemic persists. As a result, the next challenge is to flatten the mental health curve.

UW Health psychologist Shilagh Mirgain says that once a person recognises that they are experiencing the symptoms of COVID Fatigue, there are number of helpful tips and behavioural changes that they can do to benefit their mental health by better managing the uncertainty of these times. The following are the four main areas of COVID Fatigue and some coping mechanisms for each one:

Change fatigue and uncertainty burnout

- Radical acceptance that life will continue to be difficult for a while.
- Find the silver lining.
- Look for activities new and old that continue to fulfill you.

Depleted surge capacity

- "Take 5" mindfulness practice to recharge.
- Expect less from yourself - cut yourself some slack and give yourself some grace.

Zoom burnout

- 20-20-20 rule (For every 20 minutes you are looking at a screen, look away from the screen and focus on a spot 20 feet away for 20 seconds).
- Consider getting blue light blocking glasses.
- Use transitions well (getting up and walking for two minutes every hour can help reverse the negative health effects from prolonged sitting. Also consider other formats for meetings, such as a telephone call or shorter meetings where you do some of the work by e-mail).
- Choose to move: Make physical activity a priority.

"Doom scrolling," or staying glued to electronic devices to find out information on the disasters and stressors that face our country

- Limit how much social media you are exposed to.
- Be mindful of the type of news you are consuming.

Remember to get plenty of exercise and sunshine.

We are all in this together, stay safe.

Your Financial Planner is an Authorised Representative / Corporate Authorised Representative of

InterPrac Financial Planning Pty Ltd

ABN 14 076 093 680

Australian Financial Services Licence Number 246638, Level 8, 525 Flinders Street Melbourne VIC 3000