Insights and investment solutions magazine

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Welcome

In this edition of Insights and Investment Solutions magazine, read the latest market update based on the highlights across the Australian market over the past month.

We look at strategies to boosting your super and pitfalls to avoid in investing.

Until next time – happy reading.

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Market update

Climate change concerns and energy woes dominated the global economy this month as nations prepared for the UN's Climate Change Conference (COP26) and continued to respond to a tightening energy market. Focus on China continues as investors keep their eyes on the property sector, looking for any further indications of instability after September's Evergrande 'almost-crisis'. Financial markets, spurred on by strong September quarter earnings, sparked the bulls across Australia, the US and Europe.

Economic Update

Housing became the hot topic this month for Australian regulators as October dwelling prices grew 1.5% - hitting a cumulative 21.6% growth over the year. Being the strongest annual growth since 1989, it seems some early signs of geographical divergence are beginning to appear as Perth prices fell -0.1% for the first time since June 2020. Growth across the two largest markets of Sydney and Melbourne has also slowed from the pace seen earlier in the year reporting 1.5% and 1% respectively.

As concerns increase over the level of sustainability for housing growth, multiple regulators have begun putting eyes on the market. The Australian Prudential Regulation Authority (APRA), Australia's banking regulator, announced an increase in the serviceability buffer from 2.5% to 3%. This measure, that increases the buffer that lenders must use to assess the borrowing capacity of prospective borrowers, will formally come into place on 1 November.

The Reserve Bank of Australia (RBA)'s Deputy Governor came forward warning of the potential implications for this weak target – warning that foreign investors were increasingly bringing up the topic of climate change with the RBA, Australian corporates and government debt buyers.

Core inflation for the September quarter was released this month – surprising markets as it reached its highest levels in the last 6 years. Data from the Australian Bureau of Statistics (ABS) showed the headline consumer price index (CPI) rose 0.8% in the third quarter and 3.0% for the year, much as expected. However, the trimmed mean measure of core inflation favoured by the RBA rose 0.7% in the quarter, above forecasts of 0.5%. This gave capital to the RBA critics, as supposedly evidencing the stance that the RBA is behind the curve on inflation and monetary policy tightening should happen earlier than planned.

Unemployment was also a theme for the month as Australian media outlets reacted to PWC and Deloitte's report coining a post-COVID easing era as 'The Great Resignation'. The consultants published that almost 40% of workers in Australia are planning to change jobs within the next 12 months, following the phenomenon seen already in the US. The September unemployment rate was reported this month, citing a 10-basis point increase reaching 4.6%. As employment declined across the country, economists have attributed this predominantly to Victoria where the state absorbed nearly 90% of the fall in national jobs. The jury is still out on if this Great Resignation era is a short-lived phenomena or a true threat to Australian employment stability as economists, politicians, media outlets and influencers continue to put their 5 cents into the debate.

Keeping track of your super just got easier

Keeping track of your super has always been an important phrase in financial advice. It helps you have an understanding of how much you have saved towards your retirement and is the starting point to planning what else is needed to reach your retirement goals. But it can be hard to keep track of your super, particularly if you have had multiple jobs and multiple super accounts. Consolidation is great, so long as you now where all your accounts are. Whilst it won't help you with the past, changes from 1 November 2021 mean there is less chance of opening more super accounts into the future. From that date, you will have a super account 'stapled' to you.

Stapling of super means that where you don't choose a super fund to receive your employer contributions into the future, your employer will be required to check with the ATO if you already have a default account that has been receiving contributions from a previous employer. If you have one, and don't exercise the right to choose another fund, your employer has to pay super contributions to that stapled fund. The only time you wouldn't have a stapled super account is if you have exercised choice, in which case you would be telling your employer the fund to contribute to anyway, or it is the first time you are employed and receiving super contributions. If it's your first time, then your employer will let you know if your options, including their default fund if you don't choose another option.

In a further boost to your super, the Government has also recently introduced a Bill into Federal Parliament to give effect to some of their superannuation related announcements from the 2021 Federal Budget. Largely due to take effect from 1 July 2022, these changes include:

- Removal of the existing $450 minimum salary per month before you are entitled to receive super guarantee payments.
- Increasing the amount first home buyers can potentially withdraw from the super towards a deposit from $30,000 to $50,000.
- Lowering to age 60 (from 65) the age at which you could potentially make a downsizer contribution of up to $300,000 into super when you sell your main residence.
- Removing the need to meet a work test between the ages of 67 and 74 to make an after tax (or non-concessional) contribution into your super.

These changes are still only in a Bill before Parliament and need to progress through the legislative process before they become law.

Boost your super

Simple strategies are available to grow your super and they can be worth exploring. It could mean more money for you in retirement – with potential tax benefits today.

Why add to your superannuation?

Relying on your employer's 10% (2021/22) Superannuation Guarantee (SG) contributions alone may not provide sufficient funds for you to achieve your retirement goals. Taking active steps to boost your super today through extra super contributions could mean enjoying a better-quality lifestyle in retirement and there may be tax benefits you can take advantage of.

Let's look at the key options available.

Increase your before-tax super contributions

Adding to your super with before-tax money could be a tax-friendly way to boost your superannuation. They are known as 'concessional contributions'. Annual limits apply to concessional contributions – something to bear in mind when adding to your super.

Salary sacrifice

A tax-effective way of making additional before-tax contributions to your superannuation is through salary sacrificing. Contributions can be made from your pre-tax salary – rather than receiving the money as cash in hand. These are known as 'concessional contributions'. As these super contributions are taxed at a low rate in most cases, this strategy could help to boost your retirement savings and it could also be a useful tax-effective investment strategy.

You should consider your concessional contributions cap when considering a salary sacrifice strategy to super.

Tax deductible contributions

You can make personal contributions using after-tax dollars (such as funds you transfer from your bank account into your super) and then claim them as a tax deduction when doing your tax return.

If you provide your super fund with a 'Notice of intent to claim or vary a deduction for personal contributions' or equivalent form for these personal contributions, your super fund will treat them as before-tax (concessional) contributions and they will be subject to 15% contributions tax, similar to salary sacrifice contributions. This tax-effective investment strategy may be of benefit if you are self-employed or your employer doesn't offer you the option to salary sacrifice, or if you have cash to spare.

You should consider your concessional contributions cap when considering a tax-deductible contribution strategy to super.

Make contributions from your own pocket

Limits apply to superannuation contributions made from after-tax money (which you don't claim a tax deduction on), which could include contributions from your salary or non-super investment proceeds. These are known as 'non-concessional contributions'. With the Government's super co-contribution scheme, by making a non-concessional contribution into your super, you may receive a benefit from the Government based on after-tax contributions you make to your superannuation fund, if you meet the eligibility criteria.

Downsizer contributions

If you are aged 65 or over, you may be eligible to contribute up to $300,000 ($600,000 combined for a couple) from the proceeds of the sale of your principal residence to your superannuation as a downsizer contribution.

Downsizer contributions are not tax deductible, and are not counted towards your contribution caps.

Pitfalls to avoid

If there's one rule of thumb for investors to bear in mind, it's that 'if it looks too good to be true, it probably is'.

Be aware

The expression 'a fool and his money are easily parted' is not as relevant today as it once was. These days, scams and fake investment schemes can be very sophisticated and difficult to tell apart from the real deal.

That said, there are some key clues to look for to avoid losing your money to a scam.

Indicators of a scam

Take a look at the classic warning signs to know if you could be dealing with a scam.

Unrealistic returns

We all want to earn high returns but the fact is that most of us will 'get rich slow' by spending less than we earn and steadily growing investments across the main asset classes of cash, fixed interest, property and shares.

If you come across promises of returns that are extremely high – especially when coupled with declarations of low or no risk - you need to question how it is the returns can be so strong. Always remember the fundamental rule that risk equals return. The higher the return, the greater the risk you could lose part or all of your money.

Generous tax breaks

No one especially enjoys paying tax but a good investment should stand on its own merits, and any tax concessions are the icing on the cake – not the main drawcard.

Quality shares and property, managed investments investing in these assets, and your superannuation may offer the potential for perfectly legitimate tax concessions. But any so-called investment that focuses on tax savings should be questioned.

High pressure selling tactics

Claims of 'a limited time offer', 'an exclusive opportunity' or any other tactic designed to get you to make a quick decision should send the alarm bells ringing. High quality assets do not need to rely on high pressure sales pitches to attract investors.

Protect your money with some golden rules

Always treat cold call offers of an investment or invitations to invest out of the blue with a healthy dose of scepticism. Do not hand out details of your financial accounts or other personal identification details to anyone you don't completely trust. This especially applies to emails you receive unexpectedly.

If you feel you have been scammed, contact the police and your financial institutions immediately as the security of your accounts may have been compromised.

Stay up to date with scams

Scammers and con artists operate in the physical world and online too. Stay up to date with the latest financial scams by checking out the government's Scamwatch website.

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