

MONEY MATTERS.

Advice. Life. Investments. Superannuation and Retirement.

Edition 2, 2018

A (sea) change is as good as a holiday

Could a move be the answer to the retirement you want?

Avoiding the debt trap

To ease the squeeze start planning now

30 June super opportunities

Great super strategies still exist

Getting over the underinsurance problem

It's becoming easier to pick the best policy for you and your family

Change for the better

A change can give you a new lease of life



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We hope you enjoy our latest edition of Money Matters.

Please contact our office if you would like to discuss any item in this edition with an Adviser.

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Avoiding the debt trap

Australia's household debt has never been higher, putting many at greater risk as market conditions change. If you need to ease the squeeze, it's time to start planning now.

Debt can turbocharge wealth, but it also brings risk. Managing it is a delicate balance. For many people, the weight of their debt is tipping the scales towards dangerous territory.

"We're in a debt trap," Stephen Kinsella, senior lecturer in economics University of Limerick (UK), told an audience at a recent superannuation conference. "Every advanced economy has too much debt. We can kick the can down the road with lower interest rates and we have – we've kicked it so hard and so far it's unlikely there's a can left."

When it comes to kicking that can, Australians are world leaders. Household debt is among the highest in the world, equal to a record 188.4% of annual household income, according to RBA data. The bulk of that debt is in residential property, with a five-year east coast boom nearly doubling prices and encouraging an investor frenzy, which is only now showing signs of cooling.

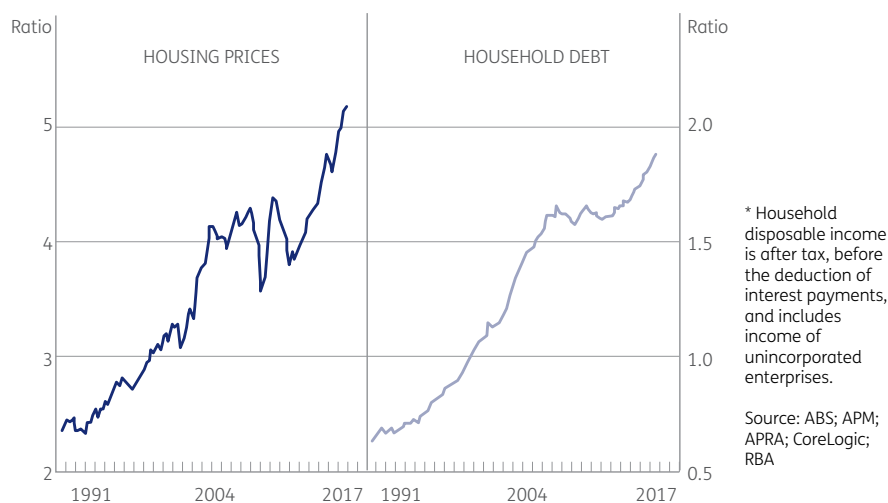
For many long-term homeowners, it has increased their wealth. However, many others have been locked out of the housing market, will retire with mortgage debt they never envisioned, or have taken on extra debt by lending money to adult children so they can also buy a home.

Why is this happening, and how can we reverse this trend and get a handle on our debt?

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Housing prices and household debt*

Ratio to annual household disposable income



How we got into this situation

Sydney has become one of the most expensive places in the world to live – the median dwelling price of almost \$900,000 hasn't helped matters.

However, there are also reasons behind those high property prices, apart from record low interest rates which have encouraged borrowing.

Reserve Bank of Australia governor Philip Lowe told a recent government committee that strong population growth, zoning regulations stopping over-development and inadequate transport have all provided a strong tailwind.

"If you asked anyone how a country would deliver high housing prices, you'd find we've made all those choices: live in fantastic coastal cities (most of us); underinvest in transport; have a liberal financial system; and not want high density. We've done all that, so there are high housing prices and this interaction between housing prices and debt."

The result is the average household mortgage debt-to-income ratio has risen from around 120% in 2012 to around 140% at the end of 2017. It's a clear danger sign although there have been few signs of mortgage stress so far as economic conditions remain benign.

The latest Household, Income and Labour Dynamics in Australia (HILDA)

survey shows that 75% of households with owner-occupier debt had mortgage payments of 30% or less of income – a rough indicator of the limit for a sustainable level of mortgage repayments. That still leaves one-quarter pushing the limits.

Don't wait until it's too late

Excess debt isn't just bad for your financial wellbeing, it can be hazardous to your health.

A broad UK survey of mental health in 2012 found that people in excess debt had stress levels comparable to those who had been in a war – findings which have been backed up in other studies.

"There's a deep psychological damage that goes along with being in excess debt," Kinsella said at the conference.

However, there are ways to avoid falling into the debt trap:

Be realistic before you buy

Consider the long-term behaviour of assets such as residential property before making a significant financial commitment.

Few assets post significant price rises year-in, year-out. For example, many home owners in Western Australia bought during the mining boom when prices were quickly climbing – and were burned when they then fell with the end

of the mining boom. Many east coast property investors have become caught up in recent rapid price rises but ignore the years following the global financial crisis when property prices remained largely flat.

Hope for the best but plan for the worst

When taking out a mortgage, plan for periods where you are unable to work, whether that's due to family commitments, illness, or unemployment. Consider income protection insurance as a way to lower your risk.

Don't rely on banks as a guide to how much you can borrow – their internal metrics can be based on a much lower standard of living than most people are prepared to accept.

Build in the impact of potential interest rate rises over the life of your loan – ASIC suggests considering a 2% rise, however with rates at historic lows it may be wise to be more cautious.

Understand what you spend

To set a budget that you can stick to, you need to understand how much you spend. ASIC deputy chair, Peter Kell, says that most of us underestimate our actual expenditure.

Monitor how your cashflow moves during the month, and build in a buffer to allow for unforeseen costs such as car repairs or replacing major appliances. The National Debt Helpline suggests allowing an extra 10% for rainy day expenses.

If you're already concerned about your debt levels, it's best to seek help early. A financial plan accompanied by easy-to-use budgeting tools and personal coaching can pave the way to paying down debt or restructuring it more effectively.

Your adviser can help you manage debt and build a realistic plan for the future. Contact our office today.

A (sea) change is as good as a holiday

The cost of city living is spiralling and new laws are trying to encourage older Australians to downsize their home. Moving to the coast or the country could be the answer to the retirement you've been looking for.

Sixty is the new forty. Some retirees are keen to embrace their new-found freedom by downsizing to city apartments. Others want to embark on dream holidays, travelling around the world or joining the tribe of grey nomads on the open road.

It seems like a natural course of action once adult children have – finally – moved out of the home.

However, the reality is far different.

There's a vast pool of research showing that older Australians strongly prefer to continue living in their place of residence – and want to stay there as long as possible. The graph on page 5 shows the results of a survey by the Productivity Commission.

However, it could be time to reconsider.

Unlocking the value of the home

The family home is rarely considered as a primary asset to fund retirement even though the typical home accounted for around half of household wealth in 2011-12, according to a report by the Productivity Commission. In contrast, the median superannuation balance of slightly more than \$100,000 accounted for about 15% of total wealth for those aged 55-64 years.

For many people, their home is likely to be worth an even greater proportion of total wealth after property prices have skyrocketed in Sydney and Melbourne over the past five years.

There are many good reasons – both emotional and financial – to hold on to the family home. It's filled with a lifetime of memories, plus people have often developed strong ties to their local community. Many older Australians want to leave the home to their children and grandchildren. Giving up the family home is frequently viewed as a result of diminishing independence or financial difficulty. Reverse mortgages and other equity release products can be complex and many retirees view them as a last resort.

However, as east coast residential property prices have quickly climbed, the proportion of first home owners in the market is falling. New legislation provides a new incentive to older Australians considering downsizing. This new scheme allows Australians aged 65 and over to sell a long-held home and divert up to \$300,000 per person into their super from July 1, 2018.

Those contributions are exempt from other super contribution restrictions such as the Age Test, Work Test and the \$1.6 million total super balance cap.

A survey by National Seniors found that the legislation would encourage 17% of older Australians who weren't previously considering moving to consider downsizing.

A better quality of life

While downsizing may not appeal to many retirees, there is an alternative that can offer a more enjoyable retirement.

Moving to the coast or the country can mean your dollar goes a lot further when buying a home. Away from the capital cities, it can be possible to buy a bigger and better house for less money. That means plenty of space for family and friends to visit, as well as a welcome injection of retirement funds.

For Chris, 69, moving to the coast was always part of his retirement plan. He and his wife had always wanted to live near the sea. Sydney house prices meant that wasn't a realistic option. For the price of a two-bedroom apartment in a beachside suburb, they were able to buy a large, comfortable house on the NSW far south coast with ocean views.

"We moved here 12 years ago, and it's been an excellent decision," says Chris. "It's much more peaceful than Sydney, which we found too congested as we got older. Here, it's a ten-minute walk to the beach or into town, and just a few hours' easy drive to Canberra if we need something bigger."

Cost of living: cheaper in regional centres

The benefits of living in smaller regional towns or by the seaside extend beyond lifestyle – the cost of living is far lower than in capital cities. That's not surprising, given that Sydney is now one of the 10 most expensive cities to live in worldwide.

In fact, the median 65-to-69-year-old retiree may be spending \$10,000 less a year if they choose to live in a regional area on the mainland or in Hobart, according to research by actuarial firm Milliman.

Its analysis of anonymised bank transaction data from more than 300,000 retirees also found that retirees living in regional areas spend significantly less on health than the national average, suggesting the lifestyle may also be good for wellbeing.

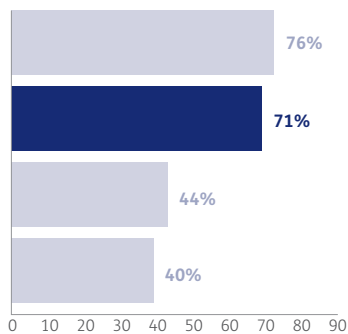
However, not everything in regional areas is always cheaper. Chris says the cost of building a new home can be more expensive further from the city. "We initially looked at building, but found it was going to cost more than in Sydney. Down here, there are fewer builders competing for work, plus longer distances to transport building materials. Buying an established house meant we could afford a bigger block of land, closer to town. We both enjoy gardening, and it's a more convenient location."

Contact our office today if you are considering moving and would like to maximise your financial worth.



Perceptions of the role of the family home in retirement*

I see my current home as the place I would like to see out my retirement



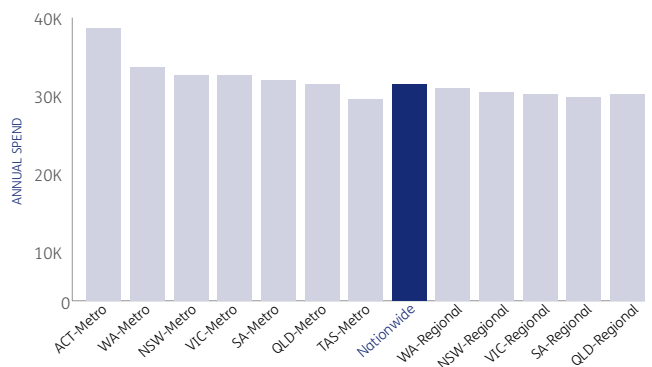
I see my current home as a safety net that could help me deal with future adverse financial events

Keeping hold of my current home is a key objective so it can be passed to my children

I see my current home as something I could potentially use to fund my retirement

* Percentage of respondents agreeing with the statement. Source: Productivity Commission survey.

Median annual spend by location



Source: Milliman Retirement Expectations and Spending Profiles Q1 2017.

Planning a move

You might be sold on moving to a beachside paradise or a rural retreat. But there are some important things to think about before you make the move:

- **Local amenities** – When you're used to being able to quickly pop to the shops, having a longer drive and fewer options could come as a nasty surprise. Check out what's available in the area you're considering to see if it has what you need, such as doctors and other medical specialists, sporting and recreation facilities, clubs, dining and entertainment.
- **Proximity to a major centre** – Whether you need to visit a major hospital, buy a new car, or replace your mattress, some things are hard to find in small towns. That's when being within easy range of a regional hub or city can be very useful.
- **Access to transport** – Family and friends may be keen to visit your new home, and good access to transport makes that easier. A nearby airport can also help with your own travel plans.
- **Weather** – In a country the size of Australia, our climate can vary widely. If you've spent your life somewhere with a moderate climate, the heat and humidity of Queensland could be too much. Or a cold Tasmanian winter might not sound bad, until you experience it for real.
- **Tourism** – If you move to a place that is a tourist destination, be prepared for crowds during peak season and school holidays. While it can be inconvenient, living in a tourist town also has its advantages, like better local facilities to enjoy all year round.



30 June super opportunities for all ages

Going, going, not gone – great super strategies still exist, as well as some new incentives.

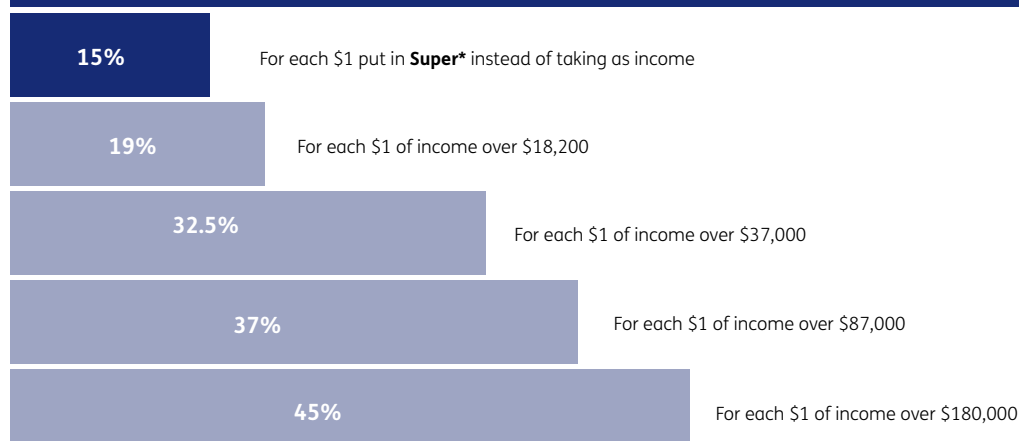
While a raft of changes came into play on 1 July 2017, there are still some worthwhile super opportunities for you to take advantage of leading up to 30 June 2018. While super might conjure up images of complexity to some and confusion to others, the fact is it remains one of the most powerful personal financial growth vehicles available and is ‘purpose built’ for helping you build your dream retirement.

But remember that when you are considering your superannuation options, there is a limit to how much you can contribute tax effectively. Confirming the best super strategy with your financial adviser is essential.

Tax-deductible contributions for ALL Australians

It’s not just the self-employed who can claim a tax deduction for personal contributions to super. Since 1 July 2017, all Australians who are under age 75 (including those between age 65-75 who meet the work test), can now claim tax deductions for personal super contributions. Tax-deductible super contributions are treated as concessional contributions and are included in the annual concessional contributions cap, which is currently \$25,000.

Which tax rate would you prefer?



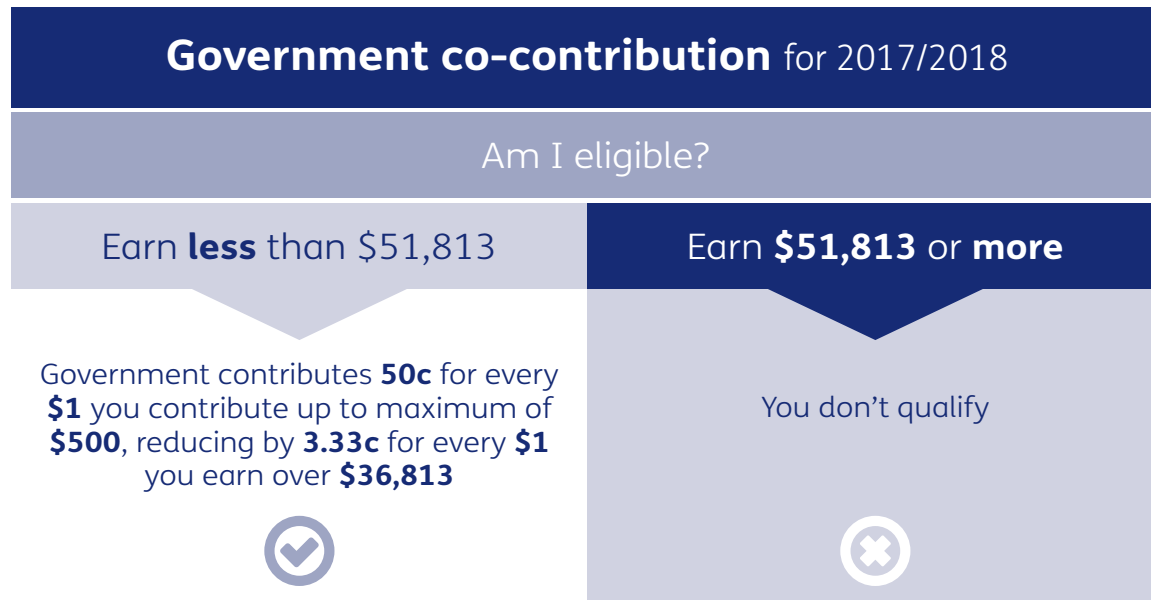
*As long as this is a concessional contribution within the \$25,000 cap
Note: A 30% tax on super contributions will apply to those earning more than \$250,000 pa

Remember to check you have not exceeded your concessional contributions cap (across all super funds) for the year¹.

Co-contributions: can you get an extra \$500 into your super tax free?

It seems like it's been around forever, but don't overlook this oldie – especially if your circumstances have changed. Receiving up to \$500 tax-free directly into your super fund may sound too good to be true, but the Australian government will give it to lower income Australians as a co-contribution so long as they contribute to super.

It's known as the superannuation co-contribution, you don't have to apply for this benefit or fill in any extra paperwork. You get it just by meeting the eligibility requirements below, which is determined when you lodge your tax return. But you do need to make an after-tax (non-concessional) contribution to your super in the current financial year: isn't that worth a second look?



Remember to check you have not exceeded your non-concessional contributions cap (across all super funds) for the year¹.

And don't forget about these new incentives....

Downsize your home and put money into super

Don't forget this new incentive if you're thinking of downsizing your home. From 1 July 2018, if you are aged 65 or older you will be able to contribute your downsizing proceeds from the sale of your principal residence to super as a non-concessional contribution. The contribution can be up to \$300,000 per person and is in addition to any other voluntary contributions you make under existing contribution caps.

First home super saver scheme

The first home super saver scheme allows first home buyers to save for a home deposit within their super fund. From 1 July 2017, voluntary contributions can be made of up to \$15,000 per year and \$30,000 in total into your super account and you will be able to withdraw these contributions to help buy or build a first home. This scheme is a welcome change in direction for younger Australians and may very well suit someone in your family who is over 18 years of age and has never owned property in Australia.

Information on these new incentives was featured in Edition 1, 2018 of Money Matters magazine. For more information contact our office.

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Whatever your age or income – there are still opportunities in super available for all.
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¹ For more information on contribution caps, talk to your financial adviser or visit www.ato.gov.au/rates/key-superannuation-rates-and-thresholds

Getting over the underinsurance problem

Navigating the life insurance market can be tricky, but with the help of an adviser plus new regulatory changes, it's becoming easier to pick the best policy for you and your family.

Insurance is one of the few products you should own – but hope never to use. That's because the stakes are so high – appropriate cover can provide some protection against risks many of us would rather not face such as death and total permanent disability (TPD).

But those risks are also hidden below the surface of everyday life and easily ignored. Australians are underinsured to the tune of \$4.5 trillion for death and \$11.2 trillion for TPD according to Rice Warner Actuaries.

It costs the government more than a billion dollars a year in extra social security payments but the personal cost to everyday Australians is far higher. A serious illness or death can destroy financial stability: homes can be put at risk when incomes can't be replaced, making recovery even harder at one of the toughest times families ever experience.

Addressing the reasons behind underinsurance

Many people have a low level of engagement with insurance, rarely interacting with the product unless it's in a time of crisis. This makes it different from other financial products such as transaction accounts and mortgages, which customers regularly use and check. It's easy to forget – until it's too late.

A recent PwC survey suggests the underinsurance gap could also be driven by a lack of trust and product complexity. While 78% of Australians view life insurance as important, only 42% believe their life insurer will be there for them in their time of need, according to the

survey. Some high profile scandals where insurers have not paid out as expected have exacerbated this perception.

However, the reality is that the bulk of insurance premiums are paid back through customer claims. Last year, the life insurance industry paid \$9.5 billion in claims, according to the Financial Services Council (FSC), which represents the industry.

While there are only around 11 retail life insurance providers in the market, the full range of products they offer can be overwhelming. A financial planner can provide significant value by helping you to select the most appropriate policy and guide you through any claims process.

A major review by the corporate regulator found term life, TPD, trauma, and income protection claims were declined least often when an adviser was involved (7% of claims), followed by group insurance through superannuation (8%) and non-advised channels (12%), such as online sales.

It suggests that insurance bought over the internet may, in some instances be cheaper, but not necessarily better value. It's an understandable consideration given the price of insurance weighs heavily on many Australians, according to a survey by insurance firm Real Insurance.

"Reflecting this, many claim they would be encouraged to take up life insurance if it was more affordable," the report.

"Easy-to-understand policies and some support in working out the best policy are also likely to encourage greater take-up."

Raising standards in the insurance industry

The life insurance industry has been in the spotlight in recent years and a number of enquiries have led to better standards in an effort to win back consumer trust.

The FSC has launched a Life Insurance Code of Practice to increase trust and confidence in the industry, while encouraging greater transparency for life insurance products. The code began on July 1, 2017.

Non-compliance with the Code can result in strong sanctions handed down by an independent Life Code Compliance Committee, which is administered by the Financial Ombudsman Service.

New regulations from January 1, 2018 also capped commissions for selling life insurance policies in an effort to better manage conflicts of interest that have the potential to sway advice.

Meanwhile, at the end of last year, the Insurance in Superannuation Working Group published a voluntary Code of Practice for super fund trustees, which imposes a raft of standards to further align the behaving of superannuation trustees with community expectations.

More change aimed at improving service standards is likely on the way with a Parliamentary Joint Committee recommending that consumers have stronger legal rights and insurers keep their medical definitions up-to-date.

The best time to understand the importance of life insurance is well before it's ever needed. Making sure you have the right policy in place will give you one less thing to worry about if the worst happens.

Your adviser can recommend products from any of the major retail life insurers in Australia. Call us today.



Can your adviser offer a full range of life insurance policies?

Many financial planning practices rely on an approved product list (APL) which outlines the financial products they can sell. It can provide a quality check, make it easier for an adviser to understand the products, and help lower the business's administrative costs.

However, it also restricts competition between insurance providers and can stop advisers from offering the best or most appropriate products to their clients.

In practice, many financial planning firms owned by major institutions only recommend one or two life insurance providers – often owned by the same institution – and ignore the others. More than two-thirds (70%) of their life insurance sales were funnelled into their own products over a three-year period according to Roy Morgan research.

Unfortunately, restricted APLs create conflicts of interest and undermine quality advice. Advisers having completely open and unrestricted life insurance APLs, empowers them to choose the right solution for you.

Broadly, the situation could finally be about to change after a Parliamentary Joint Committee completed its report into the Life Insurance Industry in March.

“A customer should be able to expect that the advice they are given is independent, genuinely in their best interest, and has not been influenced by deals and secret payments to get a product onto an APL,” the committee's report said.

It endorsed open APLs and, in the interim, suggested APLs include a balance of affiliated and non-affiliated products with greater transparency. The committee also called on ASIC and the ACCC to jointly investigate whether the past use of APLs has breached any anti-competitive laws.



Change for the better

Old habits die hard, but sometimes making a change can give you a new lease of life. Whether you want to improve your health, do more with your time, or improve your financial wellbeing, start small to succeed.

Change isn't easy. Sometimes the harder you try to do something different, the further the goal seems to slip out of reach.

Focusing on the end game when you're still at the beginning can be a recipe for failure. A big goal like saving for a house deposit or losing 20 kilos can feel overwhelming. The slow speed of progress is often discouraging, and minor setbacks can cause us to give up altogether.

Starting small can pay big dividends and is more likely to produce lasting results, according to research by Cornell University.

We really are creatures of habit

Trying to rely on willpower to change behaviour is like swimming upstream. You're fighting a force of nature – your own nature. Rather than strengthening a muscle, it can simply end up exhausted and unable to sustain the effort.

Roy F. Baumeister from Florida State University has found that self-control is like energy: it can be used up.

On the other hand, habits are things we do without even thinking about them. Because they're an entrenched part of our behaviour, they take minimal mental effort.

It can come as a surprise to discover that around 40% of what we do each day is based on habit.

Habits are prompted by context – they're associated with a certain time, place, and situation. When those things occur together, they trigger our action with it barely registering.

One of the most effective ways to develop a new habit is to link it to an existing one. Associating behaviour with a consistent cue helps cement it in our brains. That effect is strongest when the familiar action occurs directly before the new one.

Start the day right by introducing your new habit during the morning. As mental energy is depleted during the day, time is on your side when you begin early. The feeling of accomplishment has a motivating effect, helping you persevere until the new activity becomes a habit.

One change can make other changes easier. That's because they shake up our routine, enabling us to establish new contexts for the habits we want to develop, and removing cues for existing habits.

Make some initial changes to set yourself up for success. Throw out unhealthy snacks, or move them out of easy reach. Keep walking shoes near the front door or under your desk. Move your phone charger out of the bedroom to help get offline before bed.

Make it automatic

Simple tools can help us stick to our intentions by making it easier to motivate ourselves and track our progress.

For example:

- Set phone reminders to take medication at the same time every day.
- Wear a pedometer or a Fitbit to track your physical activity.
- Use financial tracking software to track your spending automatically.
- Open a bank or superannuation account with a digital round-up feature – it's the updated equivalent of a loose change jar.

If it sounds too good to be true, it probably is

Just like everybody learns at a different pace, the time it takes to establish a new habit will differ from person to person. On top of that, the specific behaviour you're trying to start or stop also affects how long it takes. Simpler changes will stick more readily than more complex ones.

Be patient with yourself, and don't worry if you experience a few stumbles along the way. Studies show that missing a day here and there doesn't make a big difference on reaching your goal. Conversely, thinking you're failing puts you at risk of falling off the wagon.



Volatility returns to markets but fundamentals remain sound

Investment markets around the world received a major jolt during the first quarter of 2018 thanks to concerns about rising US inflation and uncertainty that President Trump will initiate a global trade war. That could force the US Federal Reserve to hike interest rates faster than expected.

Global equity markets fell sharply in early February as the ongoing strength of the US economy, combined with the impact of Trump's US\$1.4 trillion tax cut package, spurred inflation concerns.

The S&P 500 closed the quarter down just 1.22% but endured significant volatility including an 11.8% fall at one stage. Australia's S&P/ASX 200 Index posted similar volatility but sank 5.04% over the quarter.

Those losses appear to have been exacerbated by President Trump's plans to impose US\$50 billion of tariffs on Chinese imports prompted China to retaliate with its own tariffs on US goods in March.

Nonetheless, the underlying market fundamentals remain sound with around three-quarters of Australian

companies reporting in February that their earnings had increased versus a year ago. Meanwhile, the US economy continues to strengthen and Wall Street analysts expect S&P 500 earnings to increase 18.4% for the first quarter, according to Thomson Reuters data.

Facebook's data privacy scandal, where users' information was shared with political consultancy firm Cambridge Analytica without their explicit knowledge, prompted a tech sell-off amid fears of further regulation. The surging US tech sector was further crimped when President Trump criticised Amazon's delivery pricing through the United States Postal Service in March.

Global GDP picked up to around 4% last year although Australian economic growth remains relatively sluggish. However, the Reserve Bank of Australia has also now held interest rates at a record low of 1.5% for 20 consecutive months with inflation and wages growth still lower than expected. Markets currently expect rates to remain on hold for at least the remainder of 2018, before an expected

25 basis point increase in the first half of 2019.

Residential property prices continued to soften in the March quarter with capital city home values 0.9% lower, led by a 1.7% decline in Sydney according to CoreLogic. The slowdown reflects banks' tighter lending criteria to investors after a crackdown by the prudential regulator.

Australia's struggling retailers enjoyed a solid start to the year with retail sales rising a seasonally-adjusted 0.2% in January and 0.6% in February.

The Australian dollar declined by about 2.1% against the US dollar over the quarter and is trading in the US76-77c range.

However, with inflation expected to rise, continued market volatility is expected ahead.

Your adviser can help you
structure an investment portfolio
that meets your risk profile.
Call us today.



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