Waverley Wealth News - Spring 17

Welcome to the very first edition of our client newsletter - Waverley Wealth News.

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition we discuss “What does a comfortable Retirement look like”? We also provide you with information on “Where’s the best place to put your Money”, as well as an article on “It must be true, I saw it on the News”!

If you would like to discuss any of the issues raised in this newsletter, please don’t hesitate to contact us on 0403 879 982 or email at - enquiries@waverleywealth.com.au

In the meantime, enjoy the Spring weather and we hope you enjoy the read.

Kind regards,
Scott.

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What does a comfortable retirement look like?

How much money you'll need will depend on a variety of things.

Have you got a plan in mind for when you retire? Is it to travel overseas, hit more balls on the golf course or spend time with family and friends? Whatever your goals, you'll need to have a plan for how you're going to get there financially.

Comfortable versus a modest retirement

Everyone's idea of how much money they'll need in retirement is different.

As a guide, the Association of Superannuation Funds of Australia (ASFA) suggests couples around age 65 will need $59,000 a year and singles will need about $43,000 in today's dollars to live 'comfortably'.[i] Now this is assuming you're in relatively good health and that you own your own home.

On this budget, you should be able to afford things like a new car, private health insurance, to dine at quality restaurants and have local, and some overseas, holidays.

By comparison, a 'modest' yearly budget of around $34,000 for couples or close to $24,000 for singles would provide a more basic lifestyle.[i] This means you'd probably have to keep your older appliances and car for a bit longer, eat out less frequently and generally stay locally for holidays.

So how much is enough?

To work out how much money you'll need in retirement, start by asking yourself these questions:

- Do I have enough money saved in my super? Try our super simulator (www.amp.com.au/super/supersimulator/index.html#!/) to find out if you're on track or if you have a gap in your savings
- Am I going to have to rely on the Age Pension? If you plan to retire before you get the Age Pension, consider what savings you'll need to support you for those extra years in retirement
- Will I have to work longer or do something else to generate an income?

How you could retire with more

Once you've considered these questions, think about ways to give your financial situation a boost while you're still working.

- Got more than one super account? Think about consolidating your super into one account to save on fees and reduce paperwork
- Consider making extra before-tax contributions to your super through salary sacrificing. Use our salary sacrifice calculator (www.amp.com.au/calculators/sal_sac_calculator/salary_sacrifice.htm#Top0/) to find out how much you could put aside
- If you're eligible, think about making a personal tax-deductible contribution to your super, as these will typically only be taxed at 15%[ii] and you can claim these as a tax deduction.[iii] You'll need to fill in a 'notice of intent' form and send it to your super fund before you submit your tax return
- If you decide to sell or downsize assets, such as your home, make sure you check what the tax implications are and whether it will affect your eligibility for the Age Pension. Find out about what changes are happening to the Age Pension assets test from 2017 at www.amp.com.au/news/2016/october/changes-to-the-age-pension-assets-test/.

It's also important to note that the Federal Government proposed a number of changes to superannuation in the 2016 Federal Budget, which may progress to legislation. You should seek financial advice before making any decisions regarding additional super contributions.

i http://www.superannuation.asn.au/resources/retirement-standard

ii 30% if you earn over $300,000 per annum.

iii These contributions will count toward your concessional contribution cap. The concessional contribution cap is currently $30,000 (or $35,000 for those aged 49 and over on 30 June 2016).

Where's the best place to put your money?

When it comes to deciding between super and your home loan there's a lot to consider.

If you're paying off your home loan but you also understand the value in building up your super, you may find yourself trying to balance your present needs with those you'll have in your future.

So how can you straddle the short and long terms and give yourself the best of both worlds?

Is super best…

Depending on your age, it can be best to channel as much money as you can into superannuation. That's because it's one of the most tax-effective ways to save—you ultimately end up with more in your hand as less goes to the tax man.

And say you'll retire in 10 or more years, in super you have the potential to benefit from compound interest and dollar-cost averaging: two of the most powerful ways to build long-term wealth.

When it comes to property, you generally have to use after-tax dollars to repay your home loan. But in super you can deposit pre-tax dollars, often with minimal or no impact on your take-home pay.

By salary sacrificing money into super (although there's a limit on how much you can deposit each year) less tax is applied to your income so it's likely you'll lower your overall tax bill each year as well.

…or property?

Buying a home can be important too. Although research shows it's becoming less important than it used to be. Because as property prices rise, many people are finding property is becoming less accessible. And this is driving significant change in the Australian way of life.

Where property ownership used to be a given, the recent Household, Income and Labour Dynamics survey projects a significant reduction in home ownership rates with less than 50% of Australians owning their own homes by 2017.[i]

One of the expected effects of this all-time-low rate of home ownership is a skew towards superannuation for long-term wealth accumulation. And while super is readily accessible as an investment (although you usually have to wait until retirement to access your money) it's also attractive because it doesn't present the high entry costs that property comes with.

However, while adding money to super has many advantages, if you are already paying off a home that can be a good thing too—depending on how long you have before retirement, you can end up building enough capital growth to help you in retirement. By putting extra into your home loan, you'll also pay less in interest charges as the principal amount owed on your home loan decreases.

And, as we generally expect the value of most homes to rise over time, the more you repay, the more equity you may be able to build.

So what's best for you?

So what if you've got some extra cash—how do you prioritise?

There's no blanket answer to this question. Because depending on your own circumstances, your current super balance, income, needs and goals the way you prioritise will be unique for you.

That's where financial advice can make a big difference. Come and visit us and we can help make sure you will be comfortable and have everything you need in retirement—and help you into the property market if that turns out to be the best option for you. You may not need to choose one option over the other. You may be able to have the best of both worlds.

i The Household, Income and Labour Dynamics in Australia Survey, Selected Findings from Waves 1 to 14, (2016).

It must be true, I saw it on the news

"Good evening and welcome to the evening news. Our top story – the All Ordinaries rose by one point on limited trading with little economic data of any consequence released today".

That's a line viewers are unlikely to hear when they flick on the 6pm news. It's not very dramatic, and it's not bad news. A more realistic lede might include details of "billions wiped off the value of shares" or "fears for mum and dad investors". You'd be lucky to hear details of a seemingly insignificant share market recovery outside of the briefest of updates squeezed in somewhere between the latest Kardashian crisis and the cute Panda story from China.

Bad news sells

Firstly, why bad news? Why can't we have a break from stories of refugee crises, badly behaved footballers or surfers providing sharks with a tasty afternoon snack?

Several publishers and broadcasters have put this to the test over the years – most recently in 2014 when a Russian news site known as *City Reporter* decided to report good news to its readers for an entire day. Bad news was reported, but it was given a positive angle i.e. "deposed Prime Minister looks forward to spending more time with the family". The result was a potpourri of sunshine, unicorns and positivity – that absolutely no one wanted to read. The City Reporter lost two-thirds of its normal readership that day, according to a post by one of its editors on Facebook. "If it bleeds, it leads," according to an old newsroom adage.

An avalanche of news

Newspaper readership and patronage of free-to-air nightly news has been steadily declining for decades – the introduction of digital devices and media, the change in people's lifestyle and work patterns, myriad distraction for a slice of our leisure time, inflexible business models and an inability by media proprietors to embrace the world of 'new media' are just some of the reasons. But the irony, at least for a TV news perspective, is that there is more news being shown each day than at any time in broadcasting history. News is both cheap to produce and can be repeated many times each day without losing its currency or relevance.

Advertising as news

The other conundrum for media operators and users alike is that newspapers and broadcast newsrooms are producing more content than ever with increasingly few staff. How is this possible?

Just take a look through your daily paper or favourite news website – in addition to a handful of stories sourced by reporters, you'll find content from media releases dressed up as news, unsubstantiated rumour lifted straight from social media and, worst of all, reams and reams of comment pieces to whip up public fervour and generate a few extra desperate clicks on the operator's website. For generations, the nightly news was a trusted and generally reliable source of information but that's no longer the case.

But, returning to our initial point and the money issues that impact these invisible "viewers" every day, how can this source remain trusted in the face of increased competition, particularly from sites and blogs that can and do specialise on topics covering the smallest niches imaginable, and decreasing resources. It's simple – it can't. We can help you pick through the mountain of information available and take the time to review it with you and discuss the relevance to your specific financial situation.