Waverley Wealth News - Summer 2019

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

I hope that you and your family had a safe, happy and healthy Christmas and New Year period, and that 2019 brings you only good things!

Recent market volatility continues to be the current theme, with the October/November/December quarter negatively impacting most investors portfolios. Happily, we have seen a small bounce back in January so let's hope that the positive momentum can continue. As always, if you have any degree of concern about your portfolio, please don't hesitate to make contact with me so we can discuss your circumstances.

As in previous editions, we try to provide articles that 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 "Super investment options - what's right for you"? We also provide you with information on "Your retirement questions answered", as well as an article on "Money can buy you happiness - you're just spending it wrong".

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.

In the meantime we hope you enjoy the read.

Kind regards,
Scott

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Super investment options – what's right for you?

Choosing the right super investment options at the right time could make a difference to how much money you have when you retire.

When it comes to your superannuation, the investment options you choose today and in future may impact how much money you retire with.

If you haven't selected an investment option within your super, you're probably invested in your fund's default option, which will generally take a balanced approach to risk and return.

To get you up to speed, we've answered some commonly asked questions around how your money is invested, the different options available and how your preferences can affect your investment returns at any age.

What do super funds do with my money?

Typically, no less than 9.5% of your before-tax salary (if you're eligible) is paid into super, which is then taxed at a maximum of 15%. Your super fund will invest this money over the course of your working life, so you can hopefully retire comfortably.

Your super fund will let you choose from a range of investment options and generally the main difference will be the level of risk you're willing to take to potentially generate higher returns.

If you haven't selected an investment option, your super fund will usually put you into a default option, which generally means your exposure to risk and return is somewhere in the middle.

If you're not sure what options you're invested in, contact your super provider.

What are the super investment options I can choose from?

Most super funds let you choose from a range, or mix of investment options and asset classes. These might include 'growth', 'balanced', 'conservative' and 'cash' but the terms can differ across super funds.

Here's a small sample of the typical type of investment options[i] available:

- Growth options aim for higher returns over the long term, however losses can also be notable when markets aren't performing. They typically invest around 85% in shares or property.
- Balanced options don't tend to perform as well as growth options over the long term, but the loss is also less when there are market downturns. They typically invest around 70% in shares or property, with the rest in fixed interest and cash.
- Conservative options generally aim to reduce the risk of market volatility and therefore may generate lower returns. They typically invest around 30% in shares and property, with the rest in fixed interest and cash.
- Cash options aim to generate stable returns to safeguard the money you've accumulated. They typically invest 100% in deposits with Australian deposit-taking institutions, such as banks, building societies and credit unions.

Super funds may have different allocations, so it's important to read your super fund's product disclosure statement before making any decisions.

What's the right investment option for me?

Choosing the most suitable investment option generally comes down to your goals for retirement, your attitude to risk and the time you have available to invest.

For instance, if you're young, you may have more time to ride out market highs and lows, and therefore be willing to take on more risk in the hope of achieving higher returns.

If you're closer to being able to access your super, you may prefer a conservative approach as a share market crash could be harder to recover from than if you're 20 years away from retirement.

Different options may suit you at different ages. We can help you determine what investor style you are, and explore appropriate strategies with you..

While many people put off thinking about super, being informed and engaged from a young age and throughout your career may make a big difference to the returns generated and your final super balance.

i ASIC MoneySmart - Super investment options Types of investment options

Your retirement questions answered

If you're wondering what you might do with your super money when you do access it, remember there will be a number of things to weigh up and look into.

How can I take my super?

Taking super as a lump sum

A lump sum could help you pay off your home loan or other outstanding debts, but there may be tax implications to consider and you should think about what you'll live on if you have no super left.

The government's Age Pension could be one option, although if you're pinning your hopes entirely on government support, you should consider the sort of lifestyle it might fund.

June 2017 figures show a 65-year-old retiring today needs an annual income of $43,695 to fund a 'comfortable' lifestyle in retirement, assuming they are relatively healthy and own their home outright.[i] By comparison, the max Age Pension rate for a single person is around $23,254 annually.[ii]

Moving it into an account-based pension (or allocated pension)

If you're thinking that you'd like to receive a regular income in retirement, an account-based pension (or allocated pension) could be a tax-effective option.

While the most you'll be able to transfer into these pension accounts is $1.6 million, you won't be limited to what you can take out. However, each year you'll need to withdraw a minimum amount.

Purchasing an annuity with your super

An annuity provides a series of regular payments over a set number of years, or for the remainder of your life, depending on whether you opt for a fixed-term or lifetime annuity.

You will however be sacrificing some flexibility, as you can't easily make lump sum withdrawals and life expectancy is also a major consideration.

What about the Age Pension?

Currently, to be eligible for a full or part Age Pension from the government, you must be 65 or older and satisfy an income test and an assets test, as well as other requirements.[iii]

In July, the qualifying age for the Age Pension increased to 65 and 6 months, and it will continue to increase by six months every two years until 1 July 2023 when the qualifying age will be 67.

You can check out your Age Pension eligibility age below.[iii]

Date of birth	Age Pension eligibility age
Before 1 July 1952	65 yrs
1 Jul 1952 - 31 Dec 1953	65 yrs & 6 mths
1 Jan 1954 - 30 Jun 1955	66 yrs
1 Jul 1955 - 31 Dec 1956	66 yrs & 6 mths
From 1 Jan 1957	67 yrs

Meanwhile, it's important to remember that what you do, and at what time you do it, could have tax implications and may impact your social security entitlements. This is why it's important you do your research and explore the alternatives with your financial adviser.

Can I return to work if I've taken my super?

Generally, you can, but if you previously declared your permanent retirement, you may need to prove your intention was genuine at the time.

According to retirees who did return to full or part-time employment, the most common reasons why they decided to go back to the workforce was financial necessity, followed closely by boredom.[iv]

We can help

We can assist you to determine what will work best for you. Give us a call to make a time for a chat about how we can help you to start planning for the lifestyle you want in retirement.

i ASFA retirement standard – June 2017 quarter table 1

ii Department of Human Services – Payment rates for Age Pension table 1

iii Department of Human Services – Age Pension (eligibility and payment rates)

iv ABS – Australian Social Trends – Older people and the labour market paragraph 26

Money can buy you happiness, you're just spending it wrong.

This is the view of Dr Michael Norton from Harvard Business School. Michael's research indicates that money can indeed make you happy if you use it to buy experiences, time, or invest in others.

Buying experiences – when we buy experiences, we don't just buy the duration of that experience. Michael's team's research found that we're happiest the day before leaving for a holiday–the anticipation is just as valuable. Furthermore, we experience positivity bias when we remember a holiday. And the more time spent in an experience the better it gets in our memory.

Buying time – when we buy big houses, they tend to be further from where we work. So while our big house doesn't make us more or less happy, the commute is longer. We spend more time away from our families, and less time doing the things we enjoy or that are good for us, like exercise. This makes us less happy. If we can use our money to buy things that save us from time spent on mundane experiences like vacuuming or commuting, we're happier overall.

Investing in others – Michael's team undertook a study instructing some people to spend money on others, and some to spend it on themselves. It found those who spent money on others experienced an increase in happiness by the end of the day, while those who spent it on themselves did not. Interestingly, the study also found minimal difference in happiness levels between those who were able impact another person's life significantly, and those whose good deeds were more trivial.

We spoke to Michael further about the findings of his research.

Is there any difference in the level of happiness when people are using their own money compared to 'free money' such as lottery winnings?

Turns out that spending free cash on yourself–like winning the lottery–does nothing to affect your overall happiness. However, spending free cash on others makes you happier, and spending your own money on others makes you the happiest. But it's not a huge difference between spending free cash and spending your own.

The problem is that more people are likely to give away free money, than their own, so on balance there's more happiness created by the free money.

What about when you spend money on yourself: is there a difference in happiness levels when you're spending money that you've earned?

There doesn't seem to be, actually. We tried to find ways where spending your own money on yourself does make you happy, and we thought that it might when you're treating yourself with your own money – say, when you've had a hard week. In the moment it does, but it does nothing to affect lasting happiness.

When you spoke about incentivising people to volunteer, you mentioned they were happier, and therefore more likely to do something they were already interested in. On the flip side, you could argue people are motivated to help because they feel guilty. Is guilt a major factor in motivating people to do things?

The number one reason people say they can't volunteer is because they don't have time. For some people that's true but we had a feeling that for many people they do have time but don't realise it. So we did an experiment where we asked people if they could volunteer for an hour a week and everyone said "no, I don't have enough time".

But then we took a different approach with another group. We asked them; "do you watch TV?". The answer was often yes. Then we asked them "how many hours per day?". They'd say something like three. So then we calculated it; three hours per day, "do you realise you watch more than 15 hours per week?". You show them that they do have time, but you also increase the feeling of guilt.

It looks like guilt could be a better short term rather than long term incentive. So when someone comes into the office and asks you to donate to their kid's charity initiative, you feel guilty, but there's no clear link to whether you later continue to be nice because of that feeling.

For some people the concept of buying time by living closer to their workplace may seem out of reach. Is there any evidence to suggest that better use of the time spent on unavoidable necessities like commuting, could help to make you happier?

It turns out that if you give people free time, they typically spend it doing things that don't make them happy. We did one experiment where we had people come to our lab, then we told them they were finished early – effectively giving them a windfall.

We found that most people either wasted the time or treated themselves to something like a massage. The problem is that at the end of the day, they're still not that happy.

The only thing that made people happy was when we asked them to spend the extra time on someone else. They did things like call a friend they knew was struggling – small things you know you should do. Those things make us happier, but we don't naturally default to them when we have time.