Waverley Wealth News - Winter 2021

It's July, there's a nip in the air and winter has well and truly set in as Australia deals with COVID outbreaks across several states. But July also marks the start of the new financial year, a good time to reflect on how far we have come since this time last year and to make plans for the year ahead.

As the financial year ended, there was plenty to celebrate on the economic front despite the continuing impact of COVID-19. Australia rebounded out of recession, with economic growth up 1.8% in March, the third consecutive quarterly rise. Interest rates remain at an historic low of 0.1% and inflation sits at just 1.1%, well below the Reserve Bank's 2-3% target. Despite fears that global economic recovery will lead to higher inflation and interest rates, the Reserve has indicated rates will not rise until 2024 or annual wage growth reaches 3% (currently 1.5%).

In other positive news, unemployment continues to fall - from 5.5% to 5.1% in May. Retail trade rose 0.1% in May, up 7.4% up on the year, as consumer confidence grows. The ANZ-Roy Morgan consumer confidence index lifted by almost a point in June to 112.2 points.

Australia's trade surplus increased from $5.8 billion in March to $8 billion in April, the 40th consecutive monthly rise, on the back of strong Chinese demand for our iron ore and other commodities. Iron ore prices rose 6.7% in June and almost 36% in 2021 to date. Oil prices have also surged, with Bent Crude up 8.4% in June and 45% this year. That's good for producers and energy stocks, but not so good for businesses reliant on fuel and consumers at the petrol bowser. The Aussie dollar finished the year around US75c, up from US69c a year ago but down on its 3-year high of just under US80c in February due to US dollar strength.

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Here's to a happy, healthy, **long life!**

One of the things that we all have in common as living beings is our finite lifespan and our awareness of this also contributes to motivating us to make each and every moment count.

Yet while many of us don't want to reflect much on our mortality, we all want to live happier, healthier and longer lives. In fact, it's a very human trait to be fascinated by the potential of extending our lifespans.

While one 105-year-old woman, who has survived COVID and the 1918 Spanish flu outbreak, recently credited her longevity to eating gin-soaked raisins on a daily basis, there are those who go to much greater lengths.[i]

Living long

Over the past 100 years, life expectancy in Australia has increased from around 50 years to well over 80 years, with a boy born today expected to live around 80.9 years and a girl 85.0 years.[ii] Most researchers looking at trends in mortality believe life expectancy will continue to increase in coming decades.

That's not enough for a small cohort of people termed 'Biohackers' who 'hack' their bodies to make them function better and in many cases, live significantly longer.

One high profile biohacker, Dave Asprey, is vocal in his aim to reach the grand old age of 180. Dedicating millions of dollars to the cause, Dave gets regular stem cell injections, bathes in infrared light, uses a hyperbaric chamber and takes over 100 supplements a day.[iii]

How to live longer and better

We're not all Silicone Valley millionaires, able to access expensive biohacking treatments, nor do we all want to. But there are some common-sense ways to not only live longer, but live better.

Eat well

While the 'perfect' diet is often contested, what the experts generally agree on is that we should incorporate plenty of plant foods, limit red meat, avoid processed foods and eat healthy fats and complex carbs.[iv] Often the Okinawa Diet is referenced when it comes to living longer, as the residents of this Japanese island can live to 100 – Okinawa has the most centenarians per 100,000 population. The Okinawans eat a lot of plant foods, with some seafood and meat.

Move it

Being physically active is also important. Again, this can look different for different people, but regular exercise has been proven to improve heart health, control blood sugar levels, maintain or provide weight loss, and also possibly decrease our risk of developing cancer.[v]

Stay sharp

Staying mentally active can also improve our lifespans. As we age, our mental abilities decline, but that doesn't mean that there's nothing you can do about it. And it's not all bad news either, in fact, an older brain can create new connections between neurones. As some neurones die, their roles are taken up by others to help you adapt.[vi] Prioritising your social life, being open to new experiences and taking up new hobbies will keep you mentally active, as will that puzzle book or game of Trivial Pursuit.

Connection

Maintaining a healthy social life won't just help your brain, research has also shown there are many physical benefits to staying connected. Lower blood pressure, a stronger immune system and possibly reduced inflammation can be the result of being happy around other people.[vii]

Purpose

It's also important to be happy within yourself. Feeling fulfilled has been linked to longevity. A research scientist call Robert Butler found that those who could express their sense of purpose or life meaning lived about 8 years longer than those who were rudderless.[viii]

Ultimately, it's not just the years in your life, but the life in your years that's important. What's the point of living to 100, or 180, if you don't feel content and well? Living a full and satisfying life is the main goal we should strive for, and by taking care of ourselves, we hopefully will have years in our life and life in our years.

i https://www.forbes.com/sites brucelee/2021/02/27/105-year-old-recovered-from-covid-19-her-tip-eating-gin-soaked-raisins/?sh=1b702a2ee551

ii https://www.abs.gov.au/media-centre/media-releases/life-expectancy-continues-increase-australia

iii https://www.menshealth.com.au/how-to-live-to-180-years-old-bulletproof-founder-dave-asprey

iv https://www.nbcnews.com/better/lifestyle/what-science-says-about-best-way-eat-what-we-re-ncna1104911

v https://www.health.harvard.edu/healthbeat/5-ways-exercise-helps-men-live-longer-and-better

vi https://www.betterhealth.vic.gov.au/health/HealthyLiving/healthy-ageing-stay-mentally-active

vii https://www.betterhealth.vic.gov.au/health/healthyliving/Strong-relationships-strong-health

viii https://www.bluezones.com/2019/05/news-huge-study-confirms-purpose-and-meaning-add-years-to-life/

THE FINANCIAL rewards of optimism

If it wasn't already clear, the past 12 months certainly cemented the fact that life has a habit of throwing us the occasional curveball. The reality is we all face challenges, however approaching life with a positive mindset can help us deal with any issues we may face and improve our lives in many ways.

Having a positive outlook not only improves our health and wellbeing, it can also have a meaningful and very real positive impact on our finances.

How optimism can improve our finances

If you have a cautious or anxious approach to your finances, such as worrying you'll never have enough money or being wary of spending, it will likely come as a surprise to hear that being optimistic can improve your financial situation.

A recent study connected the link between financial well-being and an optimistic mindset, finding that people who classify themselves as optimists enjoy 62 per cent fewer days of financial stress per year compared to pessimists.[i]

Superior financial well-being

When you are positive in your outlook, you are also much more likely to follow better financial habits in managing your money. Optimists tend to save for major purchases, with around 90 percent of optimists having saved for a significant purchase, be it a car, a house or an overseas holiday, compared to pessimists at just 70 per cent.[i]

However, optimism does not equal naivety, optimists still tend to have contingency plans in place for unforeseen events that may detrimentally impact their bottom line. Some 66 per cent of optimists had an emergency fund, compared to under 50 percent of the pessimists.[i]

This goes to show that maintaining an optimistic approach to your finances does still involve planning for the future. By being prepared, you'll reduce the stress that comes from feeling the rug could be pulled from beneath you without a safety net.

Your career and earning capacity

An optimistic approach to life and your career leads to achieving greater career success and the financial rewards that come with being successful in your job.

Optimists are 40 percent more likely than pessimists to receive a promotion within a space of twelve months and up to six times more predisposed to being highly engaged in their chosen career.[i]

Changing your attitude

Knowing that optimism is great for your wallet and your health is one thing, but how do you shift your outlook? If you're prone to worry, focussing on pessimistic outcomes or a bit of a sceptic, looking on the bright side of life can seem easier said than done.

It is possible to nurture optimism, and you get this opportunity every day. Cultivating optimism can be as simple as adopting optimistic behaviours.

So, what are the financial behaviours of optimists that we can emulate?

Optimists tend to be more comfortable talking about and learning about money, and are more likely to follow expert financial advice than their more pessimistic peers.

Positive people display a correspondingly positive approach to their finances. They tend to put plans in place and have the courage to dream big. You don't have to be too ambitious in how you carry out those plans, every small step you take will help you to get where you want to be.

Everyone experiences setbacks at various times, however optimists rise to these challenges, learning from their past mistakes and persisting in their endeavours. Don't be too hard on yourself if you are experiencing difficulties. We all face challenges and during these times, focus on solutions rather than just the problems, be conscious of your "internal talk" and don't be afraid to seek out support. It's important to focus on what you can do differently going forward, this could be as simple as working towards a "rainy day" fund.

It's never too late to change your outlook. By embracing optimism, you can reap the rewards that a more positive outlook provides.

i https://www.optforoptimism.com/optimism/optimismresearch.pdf

The NEW Financial Year *rings in* SUPER CHANGES

As the new financial year gets underway, there are some big changes to superannuation that could add up to a welcome lift in your retirement savings.

Some, like the rise in the Superannuation Guarantee (SG), will happen automatically so you won't need to lift a finger. Others, like higher contribution caps, may require some planning to get the full benefit.

Here's a summary of the changes starting from 1 July 2021.

Increase in the Super Guarantee

If you are an employee, the amount your employer contributes to your super fund has just increased to 10 per cent of your pre-tax ordinary time earnings, up from 9.5 per cent. For higher income earners, employers are not required to pay the SG on amounts you earn above $58,920 per quarter (up from $57,090 in 2020-21).

Say you earn $100,000 a year before tax. In the 2021-22 financial year your employer is required to contribute $10,000 into your super account, up from $9,500 last financial year. For younger members especially, that could add up to a substantial increase in your retirement savings once time and compound earnings weave their magic.

The SG rate is scheduled to rise again to 10.5 per cent on 1 July 2022 and gradually increase until it reaches 12% on 1 July 2025.

Higher contributions caps

The annual limits on the amount you can contribute to super have also been lifted, for the first time in four years.

The concessional (before tax) contributions cap has increased from $25,000 a year to $27,500. These contributions include SG payments from your employer as well as any salary sacrifice arrangements you have in place and personal contributions you claim a tax deduction for.

At the same time, the cap on non-concessional (after tax) contributions has gone up from $100,000 to $110,000. This means the amount you can contribute under a bring-forward arrangement has also increased, provided you are eligible.

Under the bring-forward rule, you can put up to three years' non-concessional contributions into your super in a single financial year. So this year, if eligible, you could potentially contribute up to $330,000 this way (3 x $110,000), up from $300,000 previously. This is a useful strategy if you receive a windfall and want to use some of it to boost your retirement savings.

More generous Total Super Balance and Transfer Balance Cap

Super remains the most tax-efficient savings vehicle in the land, but there are limits to how much you can squirrel away in super for your retirement. These limits, however, have just become a little more generous.

The Total Super Balance (TSB) threshold which determines whether you can make non-concessional (after-tax) contributions in a financial year is assessed at 30 June of the previous financial year. The TSB at which no non-concessional contributions can be made this financial year will increase to $1.7 million from $1.6 million.

Just to confuse matters, the same limit applies to the amount you can transfer from your accumulation account into a retirement phase super pension. This is known as the Transfer Balance Cap (TBC), and it has also just increased to $1.7 million from $1.6 million.

If you retired and started a super pension before July 1 this year, your TBC may be less than $1.7 million and you may not be able to take full advantage of the increased TBC. The rules are complex, so get in touch if you would like to discuss your situation.

Reduction in minimum pension drawdowns extended

In response to record low interest rates and volatile investment markets, the government has extended the temporary 50 per cent reduction in minimum pension drawdowns until 30 June 2022.

Retirees with certain super pensions and annuities are required to withdraw a minimum percentage of their account balance each year. Due to the impact of the pandemic on retiree finances, the minimum withdrawal amounts were also halved for the 2019-20 and 2020-21 financial years.

Time to prepare

There's a lot for super fund members to digest. SMSF trustees in particular will need to ensure they document changes that affect any of the members in their fund. But these latest changes also present retirement planning opportunities.

Whatever your situation, if you would like to discuss how to make the most of the new rules, please get in touch.