QUARTERLY INSIGHT

InterPrac Financial Planning Newsletter Edition 2 2020

Mid-year Update

During this challenging time we are all experiencing, many of you may be feeling different emotions and uncertain as to what lies ahead. 2020 has been an interesting year and we understand that it can be difficult to turn on the tv or log into a social media app, without seeing the latest news of the pandemic.

However, it is important to turn your focus on the positive things in life because now is the time to sit back, reflect and look towards the future.

Throughout this newsletter, we will provide you with some insight into the government incentives and what this means for you, whether you should listen to stock market tips from a relative, friends or a taxi driver, how to make your superannuation work for you and due to the current circumstances, we wanted to include an article about how to look after your wellbeing.

We are all in this together and even though this is a difficult time for many of us, we want you to know that we are here for you.

Much of our role as your adviser is to provide not only actual investment advice but peace of mind, and just knowing you are ok.

If you have any anxiety or concern on any matter, or have friends or family who are fearful of markets, or what's next and need some advice or a listening ear, we are here for you and them.

Please stay safe and call on us as often as you need.

Government Update

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To summarize the key numbers the ministers provided the public included:

- An $85.8 billion deficit in the 2019-20 financial year financial year
- An expected $184.5 billion deficit in 2020-21
- Gross debt expected to increase to $851.9 billion by the end the 2020-21 financial year.

The mantra is all about the Coronavirus support measures costs in respect to spending by government and the reduction in revenue the government receives as a result of the lockdowns and social distancing impact on Australia's economy.

The clear message particularly from one of my favourite minsters, Mr Cormann, was that this is a best guess forecast. Just like the major gap between the cost of JobKeeper and JobSeeker, Mr Cormann made the point that the estimate could be greater but it also could be smaller than they announced.

From a planning perspective the ministers confirmed a number of points that many of the press had been speculating about over the last few weeks.

The COVID-19 SME Guarantee Scheme will be extended until 30 June 2021, albeit with targeted amendments.

While the finer details of the second phase of the Scheme are being finalised, it is proposed that from 1 October:

- Loans can be used for a broader range of business purposes including to support investment
- The maximum loan size will increase from $250,000 to $1 million per borrower
- Loans can be offered for terms of up to five years, rather than the current three year term, with a potential six month repayment holiday at the discretion of the lender
- A loan can be secured or unsecured (excluding commercial or residential property).

Superannuation

The Government has announced an extension for individuals accessing their superannuation early. The application period has been extended from 24 September to 31 December 2020.

JobKeeper Payment Extension

The JobKeeper Payment Scheme will be extended to 28 March 2021. While there will be changes to eligibility for the Scheme and the payment amounts, these will only apply from 28 September 2020, meaning that those businesses currently eligible for the JobKeeper Payments Scheme, will remain eligible until the first phase ends on 27 September 2020.

From 28 September 2020, businesses will need to re-test their eligibility to remain in the JobKeeper Payment Scheme, with those eligible receiving different tiers of payments based on the hours the eligible employee worked.

The details of this second phase of JobKeeper Payments are yet to be released, however some of the key details known at this stage are as set out on the following page.

Subsidy Rates

From 28 September 2020, the $1500 wage subsidy will be reduced to:

- $1200 per fortnight for ‘full-time’ workers, and
- $750 for part ‘part-time’ workers.

From 4 January 2021, it will be further reduced to:

- $1000 per fortnight for full-time workers, and
- $650 per fortnight for part-time workers

Importantly, an employee will be considered ‘full-time’ where they were actively engaged in the business for 20 hours or more per week (on average) during the month of February 2020.

If they don’t meet this requirement, they will be considered ‘part-time’ and thus the lower JobKeeper Payment amount would apply.

Continued eligibility

There are also changes to the way in which eligibility for the Scheme will be assessed.

From 28 September 2020:

- Business and not-for-profits seeking to continue claiming the JobKeeper Payment will be required to demonstrate that they have suffered an ongoing significant decline in turnover based on their actual GST turnover in recent periods (rather than projected GST turnover).
- They will be required to reassess their eligibility with reference to their actual GST turnover in the June and September quarters 2020. They will need to demonstrate that they have met the relevant decline in turnover test in both of those quarters to be eligible for JobKeeper Payments from 28 September to 3 January 2021.

From 4 January 2021:

Business and not-for-profits will need to further reassess their turnover for eligibility. They will need to demonstrate that they have met the relevant decline in turnover test with reference to their actual GST turnover in each of the June, September and December 2020 quarters to remain eligible from 4 January 2021.

Is Now a Good Time to Buy?

The market volatility over the last few months has made many of us, particularly retirees and those heavily-reliant on the share market, nervous about market fluctuations over these unprecedented times. Despite the rollercoaster ride of late; it's important not to lose sight of the basic fundamentals of investing.

Some of these include:

- Being comfortable with placing with your investment. Will you sleep well with the decision you made?
- Being prepared to hold your investment during down trends. Will you ignore backyard BBQ share market tips?
- Invest in quality stocks that operate in essential / required industries. Will you resist the temptation to buy the recent fad-stock?

Being comfortable with placing with your investment.

Making your initial plunge into financial instruments such as shares or managed funds can be one of the most important financial decisions you will make in your lifetime. Just like buying a pair of jeans, you need to feel comfortable with their fit, sizing, style and match to your other clothes.

Shares are no different – you need to feel comfortable with parting with your money to make your share trade (sometimes called parcel size), the share you are buying has sound fundamentals (P/E ratio, Earnings Per Share, Dividend Yield and Debt/Equity or gearing levels) and will complement other stocks in your portfolio and your risk profile.

Being prepared to hold your investment during down trends

Warren Buffet, who needs no introduction, once said "Price is what you pay; value is what you get." Share prices fluctuate on a daily basis and this fact is something that you will need to be aware of and at ease with. Price fluctuations are caused by supply and demand for a stock on any given day. When a stock is up, then demand is high leading to a buyer paying a higher price; and when a stock is down, then demand is down leading to a seller accepting a lower price. It can also be attributed to when a stock declares its dividend. This is known in the industry as being 'ex-div.'

Everyone, at one point or another, will encounter the backyard BBQ stock guru who will proclaim to be the Absolute Prophet and will give share market tips to anyone willing (or unwilling) to listen to them. These people should be avoided and if required, dealt with a simultaneous nod, smile and a 2-word reply – "thank you".

Having the courage to stand by your convictions is an important requirement in life, and particularly in relation to your own investment decisions. Avoid the white-noise you will hear and only rely on those whom have knowledge of your specific circumstances – that's what we are here for. If you can do that; than your financial decision and viewpoint are perfectly correlated.

Invest in quality stocks that operate in essential / required industries

The world is constantly evolving and changing and this impacts our everyday life in one way or another. Since the beginning of this century, we have seen how technology has changed the way we shop, invest and manage our finances, communicate with others, meet people and support our team from anywhere in the world; to name a few! A derivative of these changes is the human trait to 'get in early' and invest in the next big thing. Sure, there are the exceptions to the rule; but these are exactly that – exceptions.

Key industries that have proven the test of time include:

– Transport	– Healthcare suppliers	– Property
– Logistics	– Telecommunications	
– Banking	– Supermarkets	

By tracking those companies that are involved in everyday businesses that we need to get by in life, (we will buy fruit & vegetables before buying that new jacket), your portfolio returns should be strong over the long-term providing you with growth and income and a more comfortable lifestyle.

Please ensure before you jump into the deep end with investing in the share market to speak to us.


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25,215

Benefits of a Super Long Engagement

Superannuation is a long-term financial relationship. It begins with our first job, grows during our working life and hopefully supports us through our old age.

Throughout your super journey you will experience the ups and downs of bull and bear markets so it's important to keep your eye on the long term.

The earlier you get to know your super and nurture it with additional contributions along the way, the more secure your later years will be.

Like all relationships, the more effort you put into understanding what makes super tick, the more you will get out of it.

Check your account

The first step is to check how much money you have in super and whether you have accounts you've forgotten about.

You can search for lost super and consolidate all your money into one fund if you have multiple accounts using ATO online services through myGov. Having a single fund will avoid paying multiple sets of fees and insurance premiums.

The next step is to check what return you are earning on your money, how it is invested and how much you are paying in fees.

The difference between the best and worst performing funds could fund several overseas trips when you retire, so it's worth checking how your fund's returns and fees compare with others. You can switch funds if you are not happy, but it's never wise to do so based on one year's disappointing return.

State your preferences

Default options are designed for the average member, but you are not necessarily average. Younger people can generally afford to take a little more risk than people who are close to retirement because they have time to recover from market downturns.

So think about your tolerance for risk, taking into account your age, and see what investment options your super fund offers.

As you grow in confidence and have more money to invest you may want the control and flexibility that come with running your own self-managed super fund.

Also check whether you have insurance in your super. A recent report by the Australian Securities and Investments Commission (ASIC) found that almost one quarter of fund members don't know they have insurance cover, potentially missing out on payouts they are entitled to.[ii]

Insurances may include Total and Permanent Disability (TPD) and Income Protection which you can access if you are unable to work due to illness or injury, and Death cover which goes to your beneficiaries if you die.

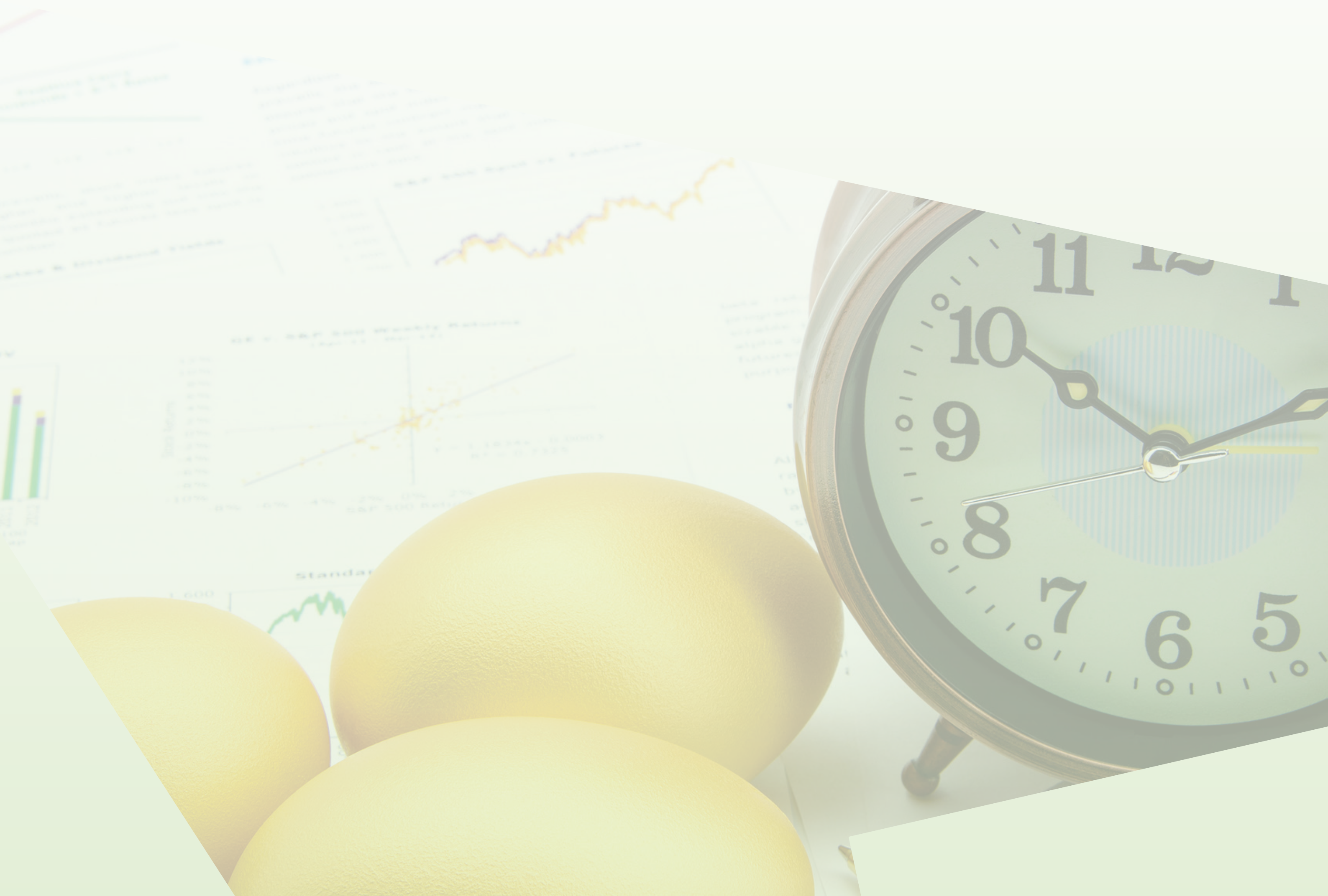
BUILDING YOUR NEST EGG

Once you understand how super works you can take your relationship to the next level by adding more of your own money. Small amounts added now can make a big difference when you retire.

You can build your super in several ways:

- Pre-tax contributions of up to $25,000 a year (including SG amounts), either from a salary sacrifice arrangement with your employer or as a personal tax-deductible contribution. This is likely to be of benefit if your marginal tax rate is higher than the super tax rate of 15 per cent.

- After-tax contributions from your take home pay. If you are a low-income earner the government may match 50c in every dollar you add to super up to a maximum of $500 a year.



- If you are 65 and considering downsizing your home, you may be able to contribute up to $300,000 of the proceeds into your super.

You could also share the love by adding to your partner's super. This is a good way to reduce the long-term financial impact of one partner taking time out of the workforce to care for children. You can split up to 85 per cent of your pre-tax contributions with your partner. Or you can make an after-tax contribution and, if your partner earns less than $40,000, you may be eligible for a tax offset on the first $3,000 you put in their super.

Before you make additional contributions, adjust your insurance, or alter your investment strategy, it's important to assess your overall financial situation, objectives and needs. Better still, make an appointment to discuss how you can build a positive long-term relationship with your super.

Super Changes Add Flexibility

Just when you thought you had a grip on the superannuation rules, they change again. This time though, the changes are mostly positive, especially for older super members keen to top up their savings.

From July 1, changes came into effect with the potential to help retirees as well as members suffering financial hardship due to the economic impacts of COVID-19.

You can now work longer and continue contributing to your super, while couples can take advantage of spouse contributions for longer than they could previously. The temporary reduction in minimum pension drawdowns remains in place, as does early access to super. And if you own a business, you have a brief window of opportunity to get up to date with your employees' super payments without penalty.

Here's a summary of the new rules.

Work test to kick in at 67

Under changes to the work test, if you are aged 65 or 66 you can now put more money into super even if you aren't working. This gives people flexibility to make voluntary catch-up contributions for a few more years and give their retirement savings a last-minute boost.

Say you are 65 and inherit some money. You can now make a voluntary non-concessional contribution to your super account up to the annual limit of $100,000, even if you are not currently working enough hours to satisfy the work test. You could then withdraw the money or start a super pension.

Under the work test, which now kicks in at age 67, you must work at least 40 hours within 30 consecutive days in the financial year in which you make the contribution.

There are also plans to allow people aged 65 or 66 to use the existing bring forward rules. This allows you to 'bring forward' up to three years' worth of non-concessional contributions, or up to $300,000 in the current financial year. However, that legislation is still pending.

Couples get a super boost

Couples also have more flexibility to grow their retirement savings later in life, thanks to recent changes to spouse contributions. As of July 1, you can contribute to your spouse's super fund until they reach age 75, up from the previous age limit of 69.

What's more, if your spouse (married or de facto) earns less than $37,000 you may be able to claim a tax offset of up to $540 for your contribution to their super.

The usual annual contribution limits still apply, and the receiving spouse still needs to meet the work test (outlined above).

Super pension drawdowns halved

Retirees whose superannuation has taken a hit from the COVID-19 market volatility have also been given a bit more wriggle room this financial year. The government has temporarily halved the minimum amount retirees must withdraw each financial year from their account-based super pension.

This temporary measure will help retirees who might otherwise have to sell assets at depressed prices to provide cash for their pension payments.

For example, someone aged 65 would normally be required to withdraw 5 per cent of their super pension account balance each financial year. But in 2020-21 they need only withdraw 2.5 per cent of their account balance if they wish. The minimum drawdown rate increases gradually with age to 7 per cent from age 95 under the temporary rules (normally 14 per cent), as you can see in the table on the next page. There is no maximum withdrawal rate.

Table 1: Minimum pension drawdown rates
(as a percentage of your super pension account balance)

Age of beneficiary	Temporary withdrawal rate 2019-20 and 2020-21	Normal withdrawal rate
Under 65	2%	4%
65 to 74	2.5%	5%
75 to 79	3%	6%
80 to 84	3.5%	7%
85 to 89	4.5%	9%
90 to 94	5.5%	11%
95 and older	7%	14%

Source: ATO

Early release of super

Younger super fund members have not been forgotten. You can withdraw up to $10,000 from your super account this financial year if you are suffering financial hardship due to the economic impact of COVID-19. This is in addition to the $10,000 you could withdraw last financial year.

It must be stressed though, that the early withdrawal of your super should be a last resort because of the adverse impact on your retirement savings. An amount of $10,000 withdrawn early in your working life could potentially be worth many times that by the time you retire.

If, after weighing up your financial options, you wish to take advantage of this temporary measure then you need to apply by September 24.

Super guarantee amnesty for employers

If you run your own business and you have taken your eye off the ball when it comes to paying the correct amount of super to your employees, then the Australian Taxation Office (ATO) is offering a temporary amnesty to set things right.

You have until 7 September 2020 to disclose and pay any unpaid Super Guarantee (SG) amounts for your employees. These contribution shortfalls can be from any quarter from 1 July 1992 to 31 March 2018.

Under the amnesty, you will not have to pay the normal interest charges and other penalties of up to 200 per cent. You can also claim a tax deduction for your payments.

If you would like more information about any of these changes or how to take advantage of them, give us a call.

vic.gov.au/media/4861682/rep591- published-7-september-2018.pdf

Maintaining Your Mental Health Through the Pandemic

The COVID-19 pandemic has shifted our day-to-day lives in a dramatic way. One of the biggest changes to come from this period, was a transition to working from home for many people.

On top of this adjustment, parents had the additional challenge of monitoring remote schooling for their children. Social interactions were severely reduced and many of the activities that allow us to unwind, such as going to the gym, a cinema or a concert, were no longer possible.

While this return to more of a home-based life has had its benefits, it has also meant a blurring of the lines between work and rest. Coupled with isolation, heightened stress and anxiety which has built up over the days, weeks and now months may become something quite serious, such as burnout.

What is burnout?

Burnout is a form of emotional, mental and physical exhaustion caused by prolonged or extreme stress. You may feel as if you've got nothing left in the tank and you struggle to concentrate and stay motivated. As a result you can start to dislike your job or doubt your ability to effectively do your work.

Burnout can creep up on you as stress accumulates. You may find yourself feeling depressed and anxious, dealing with physical symptoms such as headaches, sore muscles and stomach aches, are no longer able to think creatively or on the spot, and feel tired and drained.

Why burnout is on the increase

According to Safe Work Australia data collected between 2012 – 2013 and 2016 – 2017, 92% of serious work-related mental health conditions were attributed to mental stress.i The 2016 Snapshot of the Australian Workplace found that 29% of workers always or often felt a high amount of stress in relation to their job.ii

The COVID-19 situation has brought with it significant mental health challenges, as made evident by the increase in calls to mental health support services.

You may be feeling an increased pressure to keep many balls up in the air and placing expectations on yourself (or having them placed on you) to be as productive and efficient as you'd ordinarily be. Not only can working from home make it harder to switch off at the end of the day and compartmentalise your home and work life, it also reduces your social contact which can lead to isolation.

Looking after your mental health

It's important to acknowledge we're undergoing a pretty unique period of time. Society has had to adjust and many people are experiencing a collective uncertainty. Rather than push through with a 'business as usual' mentality, give yourself the space to recognise that you're in a challenging situation.

If you're working from home, you may have greater flexibility, plus no more dreaded morning commutes, but try to keep to a regular schedule as much as possible. Be realistic about how much work you can get through a day while still making time to have your three main meals away from the computer screen and powering off before bedtime.

Limit your exposure to the news, be aware of what you are viewing and reading and take note of the impact it may be having on your mental health, whether it be depressing news stories or those happy social media posts.

While social distancing and restrictions may inhibit you from what you'd ideally like to be doing, think outside the square for now. Healthy relationships support good mental health. Ask a friend to grab a takeaway coffee with you and have a walk and a chat. Make a regular appointment to call or visit a family member or friend to check in with each other. Get out of the house for a run or a bike ride to get your blood pumping.

i https://www.safeworkaustralia.gov.au/doc/infographic-workplace-mental-health

ii https://www.convergeinternational.com.au/docs/default-source/research/a-future-that-works-2016-snapshot-of-the-australian-workplace

RESOURCES TO ACCESS

There's no shame in reaching out for help, as we all need support during times of hardship and when we are feeling overwhelmed.

Beyond Blue is an excellent resource with helpful information, active forums and a 24-hour confidential support hotline (1300 224 636).

You can also chat with your GP who can help you form a mental health care plan which provides access to a certain amount of subsidised sessions with a psychologist.

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