Your Private Wealth Specialists

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INSIDE THIS ISSUE

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OPINION

CHAIRMAN'S VIEW

History will tell us that change is constant and change manifests itself in many ways.

Politically, we are seeing a change of Government in the United States with Joe Biden leading the Democrats back into power, legal challenges and recounts notwithstanding. His task will not be an easy one and he will face challenges on many fronts not the least of which will be how he engages with China, with the strident left within the Democrats, with Covid 19 and how he will interact with the 70 odd million who supported Trump and who Hilary Clinton referred to as the "deplorables".

You see similar attitudes in Australia when recently Dan Andrews, Premier of Victoria referred to Joshua Frydenberg, Treasurer of Australia and fellow Victorian, as just "another Liberal". When Andrews talks about all Victorians sharing the pain, was he referring to:

- the people living in metropolitan Melbourne who were locked down
- the public servants whose income remained the same and who, in many instances, received a pay rise or, Daniel Andrews himself who late last year as one of the top five politicians in Victoria who received annual pay rises of nearly 12%, in his case his salary rising to $441,000 an increase of more than $46,000
- the staff of Qantas and Virgin and other travel associated industries who have lost their income
- the myriad of small businesses forced to close, many of whom will lose their livelihoods
- the self-funded retirees who had purchased investment properties to assist in providing income in their retirement and whose tenants were told by various state governments that they did not have to pay their rent for up to 12 months, could not be evicted and would not be recorded as being delinquent tenants. You don't need a lot of imagination to know that some tenants simply stopped paying.

As occurred in the GFC the pain, and certainly the financial pain, has not and will not be shared equally.

It is my personal view, from what I can see happening around the world and in Australia is that the lifestyle we enjoy is under threat and not just as a result of the Coronavirus pandemic. The threat is driven by ideology, aided and abetted by poor and often as not misleading reporting which rather than being factual is becoming more "opinion" based. In some instances what purports to be news is simply a paid advertorial.

Earlier this year The Age ran a story with the headline: "Unprecedented historic corruption: Trump's defiant help for Stone adds to tumult".

This headline "Unprecedented historic corruption" referred to Trump pardoning Stone, you would think he was the only President in America to issue a Pardon. In fact, every President except for two have pardoned, commuted or rescinded convictions. At the date of writing, Republican President Donald Trump pardoned 28 people, Democrat Barack Obama pardoned 1,927 people. The last six Democrat Presidents pardoned in excess of 6,700 and if you included Jimmy Carter pardoning 200,000 Draft dodgers the total is in excess of 206,000 but that does not suit the narrative or the political view that the editor wanted to present.

What happens when lock downs and Government support is wound back.

When support for businesses and employees starts to wind back, Australia and the world are likely to see an increase in the number of businesses closing for good. This will be accompanied by an increase in the unemployed and underemployed. This will come when, for the first time, unemployment in Australia has exceeded 1 million people and remember that most countries including Australia calculate the numbers in a way that lowers the real rate of unemployment.

A little anecdotal evidence, recently GDA advertised for a receptionist, we had over 240 applicants with the vast majority of those having at least one degree and in excess of fifty percent having two or more degrees. There was a consistent thread in the applications, little to no work experience and quite often an inability to spell. It leads me to another interesting question that you might ask yourself. If you were to travel overseas to a country where you could not speak the language or at best had a very rudimentary knowledge of it, do you think you could obtain a degree? Personally, I don't think I could do it, but a lot of the Universities in Australia don't seem to think it is a problem. You might ask yourself, exactly what courses the Tasmanian University cut when it reduced the number of degrees on offer by almost 400. If you are a curious person you might also wonder just how many students around Australia obtain a position relative to their degree. If you haven't yet run out of curiosity, you might also wonder how much of your taxpayers' money goes into supporting this system, or if some of it would be better applied to health or aged care.

In the current economic climate we will likely see bank interest rates remain low for a number of years. Whether you view this as a positive or negative may be determined by whether you are a self-funded retiree to whom income is extremely important.

While I am concerned with what I see happening, the outcome is that it leads us to continually strive to improve all aspects of what we do for our clients, in particular we continue to strengthen both our research processes and the processes that allow us to act in a timely manner for our clients, to this end additional staff are being added to the GDA Team.

John Fairlie, Chairman

MONEY MATTERS

Why you need a Will

One of the best ways to make sure your estate plan covers everything it should, is to seek advice from a financial planning professional and a solicitor who specialises in estate planning. A financial planner can offer you guidance on growing and protecting your assets during your lifetime. They can also talk to you about what to consider as you decide how you want your assets to be distributed among your family and loved ones, both before and after you die. This includes the tax consequences of transferring assets to your beneficiaries.

However, a financial planner cannot offer legal advice on your estate plan and they cannot draw up the legal documents you need to make sure your Will and estate plan are legal and binding. You'll need to work with your solicitor or an organisation that specialises in estate planning.

COVID-19 and your estate plan

Each State and Territory has their own legislation that lays out how estate planning documents must be signed and witnessed. Your solicitor will be able to guide you through this process so that your Will can be considered valid in a court of law.

With social distancing and other restrictions in place due to COVID-19, it can be more difficult to make these arrangements for signing and witnessing your Will and other estate planning documents. In Queensland, New South Wales and Victoria, new legislation has been introduced to allow certain legal documents to be signed and witnessed via video conference. Your solicitor can get you up to speed on the details of this process and let you know what software and devices you'll need to complete remote signing and witnessing to meet these legislative requirements.

This legislation does not allow you to have a binding nomination for your super death benefit witnessed via video conference. To make arrangements for this part of your estate plan, you'll need to get in touch with your financial planner or super fund and check their requirements for making a valid binding nomination.

Do I need a Power of Attorney?

Under the new legislation for New South Wales, Queensland and Victoria, Power of Attorney arrangements can also be witnessed remotely via video conference. There are different types of Powers of Attorney you can nominate, but the two main ones are a Medical Power of Attorney (also known as a guardianship) and an Enduring Power of Attorney. As you might expect, a Medical Power of Attorney gives another person authority to make decisions about your medical treatment if you're not physically or mentally able to choose for yourself. An Enduring Power of Attorney (PoA), on the other hand, gives someone the legal authority to manage your financial affairs when you're unable to do so.

As you grow older, having a PoA organised is important in case you lose capacity to make decisions about your finances. If this were to happen and you don't have someone legally appointed to act on your behalf, your financial affairs and your personal wellbeing could both be affected. If you don't have PoA arrangements in place with a trusted friend or family member, it can make it difficult for things to be done on your behalf such as paying your bills or looking after your home.

In choosing the people or persons to nominate as your PoA, it should be someone you can trust to act in your best interests. And it also helps if they have some experience with finances and good knowledge of your assets so they can fully understand the consequences and results of any decisions or actions they take. In many cases, attorneys are family members – parents, siblings, children or grandchildren – as they are often the ones who know best how we ourselves would think or act.

With the current restrictions in place for interstate travel, having a friend or relative in a different state as an Attorney may no longer be a practical option. So if you are choosing someone as a PoA or making changes to to your PoA arrangements, it's worth thinking about having someone nearby to act on your behalf if you should become ill or lose capacity to manage your own affairs.

What happens if I don't have a Will?

If you die without a Will, your assets will be distributed according to the intestacy legislation for your State or Territory. Assets will be shared among family members according to these legal requirements. This is why it's important to have a Will, to make sure that your estate is passed on according to your wishes.

Money and Life, 11/04/2020

The real cost of retirement

When you're looking at saving and planning for retirement, it's important to know how much you can expect to be spending. The latest retirement standard figures and other data sources can give you an idea of the cost of retirement, but what else do you need to take into account to ensure your financial wellbeing?

Running the numbers – the retirement standard

Since June 2006, the Association of Superannuation Funds of Australia (ASFA) have been monitoring the living costs associated with retirement. Every quarter they research and publish the average annual budget singles and couples aged around 65 can expect to spend when living a modest or comfortable lifestyle in retirement. This is known as the "retirement standard" and for some time it's been a popular yardstick for what it costs to live as a retired person in Australia.

Your definition of comfortable

For a modest way of life, think essential living expenses, taking holidays in Australia only and limited spending on upgrades to cars, appliances and electronic items. Things like international travel, a new car from time to time and eating out on a regular basis are definitely the trappings of the "comfortable" lifestyle category.

Of course your idea of what a comfortable lifestyle looks like – and the money it takes to live it – could be quite different from the retirement standard definition and estimates. The amount you earn and spend in the lead up to retirement is just one of the things that can influence your budget and spending patterns after you've left work. How and where you plan to spend your retirement is also going to affect how much income youll need.

The big ticket items – health and energy

According to a recent media release from the ASFA, budgets for singles and couples living comfortably have risen 23% and 26% respectively in the decade since the first retirement standard figures were published. The increases for a modest lifestyle are considerably higher, at 33% for a single person and 36% for a couple[1]. As the ASFA have identified the rising costs of power, food, rates and health care as the main culprits for these changes[2], it's not surprising that the impact is greater for those living modestly. In any household budget, these four items would be considered essentials rather than luxuries.

The modest living retirement standard figures are running well ahead of the Consumer Price Index (CPI) increase for the same period which was 28.6%[3]. But while it might seem retired people living a simple life are worse off than they were 10 years ago, changes in the aged pension tell a different story. In real terms, the aged pension rose by 70% for a single person and 54% for couples[4] during this time, making it possible for retirees to cover their living costs, in spite of major price hikes for essentials.

Relying on the aged pension?

This is an important reminder of the significance of the Age Pension in supplementing income from your super. In fact, the latest quarterly Milliman Retirement Expectations and Spending report published in June 2017, claims the median annual expenditure of a couple aged 65-69 is just $34,858, which is only marginally higher than today's full aged pension allowance for couples of $34,819 per year.[5] But as January 2017 changes in assets and income tests for the age pension demonstrate, it's difficult to have certainty about your future entitlement to government benefits in retirement.

Taking home and health for granted

Something else to bear in mind when calculating your own personal retirement budget is whether you own your own home and how you're doing health wise. Retirement standard figures are based on two important assumptions – you live in a home you own outright and you're in good health. So if you're likely to be renting for the rest of your life or spending on a mortgage or medical bills in the early years of retirement, you'll need to factor this into your budget.

Advice could make a difference

Even with the help of carefully compiled estimates, surveys and reports from the ASFA and Milliman, figuring out how much you should be saving for retirement and how best to invest it for a healthy return can be a challenge. Seeking advice from ypur GDA Financial Planner can help you understand the super balance you're going to need to retire in comfort and come up with a strategy for working towards that target.

[1] ASFA Media Release Retirement cost increases driven by power prices, health care, food and rates 29 May 2017 "Between June 2006 and March 2017, the RS budget at the modest level for a single person increased by 33 per cent, while the single comfortable budget rose by 23 per cent. The budget for a couple at the modest level increased by 36 per cent and at the comfortable level by around 26 per cent." https://www.superannuation.asn.au/media/media-releases/2017/media-release-29-may-2017

[2] ASFA Media Release Retirement cost increases driven by power prices, health care, food and rates 29 May 2017 "Over the period, electricity costs increased by 124 per cent, health costs by 60 per cent, property rates and charges by 83 per cent and food costs by 24 per cent." https://www.superannuation.asn.au/media/media-releases/2017/media-release-29-may-2017

[3] ASFA Media Release Retirement cost increases driven by power prices, health care, food and rates 29 May 2017 "ASFA CEO Dr Martin Fahy said the figures compared to an overall 28.6 per cent increase in the Consumer Price Index (CPI)." https://www.superannuation.asn.au/media/media-releases/2017/media-release-29-may-2017

[4] ASFA Media Release Retirement cost increases driven by power prices, health care, food and rates 29 May 2017 "Over the more than 10 year period, the maximum Age Pension increased in real terms, by 70 per cent for a single person and 54 per cent for a couple."https://www.superannuation.asn.au/media/media-releases/2017/media-release-29-may-2017

[5] Milliman Retirement Expectations and Spending report Q2, 2017, 30 June 2017, page 8 "the Age Pension is expected to fund a large portion of household spend for many couples. The observed median annual spend for couples aged 65-69 is $34,858 which is only slightly higher than the full Age Pension."

Can your SMSF buy a retirement home for you now?

Can you buy your retirement home now in your SMSF and use it when you retire? It may be tempting but is it possible?

Let's look at Garry and Betty who are the directors of the corporate trustee of their SMSF. They are contemplating acquiring a property through their SMSF, which they plan to lease to an unrelated third party at market value until both of them reach their preservation age and retire.

They want to know whether it is possible for them to reside in the property as their principal place of residence once both of them have retired.

There are a few things that Garry and Betty will need to consider to ensure that the transaction complies with superannuation laws.

Issue 1: the sole purpose test

Is purchasing the property now with the intent to reside in it in the future once the members of the SMSF have retired, a breach of the sole purpose test?

SMSF Ruling 2008/2 provides that an SMSF may only be maintained for the sole purpose of providing retirement benefits to the members, or to their dependants if a member dies before retirement. It also provides that in determining whether an SMSF has satisfied the 'sole purpose' test, one must consider all the facts and circumstances surrounding the trustee's behaviour in relation to the acquisition of the property.

For example, if the trustee invests in a property where there is a significant likelihood that the investment in the property will not increase any return for the SMSF and the trustee simply purchased the property because the members always dreamed of retiring to a lovely coastal home, then the ATO may take a sceptical view and rule the transaction a breach of the sole purpose test.

If, on the other hand the trustee has supporting documentation such as valuation reports which shows that the investment property is likely to provide an increase in return for the SMSF, then the sole purpose test may be satisfied, notwithstanding the ancillary purpose.

Issue 2: the property remaining in the SMSF

A SMSF will fail to meet the 'sole purpose' test if the SMSF provides a pre-retirement benefit to a member of the SMSF.

If Garry and Betty decide to reside in the property once they have both met a condition of release, they should transfer the property from the SMSF to the members in their personal capacity.

This is to avoid potentially breaching the 'sole purpose' test in the event that Garry and Betty residing in the property is treated as a present-day benefit or personal use of an SMSF asset.

Issue 3: capital gains tax and land tax

As a general principle, there is no capital gains tax on a transfer of property between a SMSF and the members of a SMSF in their personal capacity if the property is solely supporting the payment of one or more pensions for the members (i.e. if the property is a segregated current pension asset under the segregation method or under the proportional method if all members interest are in pensions).

If an SMSF sells a property before the members retire, the SMSF is charged 10% capital gains tax.

If an SMSF property is sold whilst all members of the fund are solely in retirement phases, any capital loss realised would be disregarded for tax purposes and cannot be carried forward to offset future capital gains.

In most states and territories, a principal place of residence will not be subject to land tax. As the property will be Garry and Betty's principal place of residence when acquired, they will not have to pay land tax.

Transfer duty on the transfer from the SMSF to Garry and Betty in their personal capacity will result in transfer duty or nominal duty being paid except in Victoria, the ACT, and South Australia where transfer duty on this type of transaction is exempt.

Full ad valorem ('according to value') transfer duty is likely to be charged in NSW, Qld and the NT. In Western Australia, nominal transfer duty of $20 applies in respect to a transfer of, or an agreement for the transfer of, dutiable property from the trustee of a SMSF to a member of the SMSF.

The trustee must still ensure that the in-specie transfer is permitted under the trust deed. If the trust deed is silent on any in-specie transfer, then the trust deed will need to be updated to allow the in-specie transfer to occur.

In summary, while it may seem advantageous to acquire a retirement property through your SMSF with the hope of residing in the property once you retire, there are issues to consider with this type of transaction, particularly ensuring that the SMSF satisfies the sole purpose test.

Elizabeth Wang, Townsends Business & Corporate Lawyers. This article is for general information only as it does not consider the individual circumstances of any investor. Consult with a legal or financial adviser before acting on any information in this article.

MARKET REVIEW

Economic News

Australia

With a string of zero daily cases the Victorian Premier, Daniel Andrews, announced an easing of restrictions, including the removal of the 25km 'ring of steel' around Melbourne and a further relaxing of rules around social gatherings and businesses. NSW Premier Gladys Berejiklian announced the reopening of the NSW-Victoria border on 23 November, with all requirements for border permits and quarantine removed. South Australia is set to open its border with Victoria, allowing Victorians to travel into the state after self-isolating for two weeks.

The RBA lowered interest rates to an all-time low of 0.10% and committed to the purchase of $100 million worth of 5- and 10-year government bonds over the next six months.

The Australian economy is expected to contract by 4.0% in 2020 before increasing by around 5.0% in 2021 and 4.0% in 2022. Retail sales fell 1.1% in September, following a 4.0% fall in August, while headline inflation jumped 1.6% in the September quarter, largely in line with expectations of a 1.5% rise. The key driver of the increase was the ending of free childcare in all states except Victoria, however childcare is still 26% below pre-COVID levels, meaning further inflation pressures are expected in the coming quarters.

Labour force data showcased a resilient jobs market, despite the stage four restrictions imposed in Victoria. Employment rose 111,000 against expectations of a fall of 45,000, with the unemployment rate falling from 7.5% to 6.8%, despite the participation rate lifting from 64.7% to 64.8%. Full-time employment decreased by 20,100 to 8,540,300 people, and part-time employment decreased by 9,400 to 4,031,700 people.

The AiG Performance of Manufacturing Index rose 9.6 points to 56.3, hitting the first expansion reading since July. Strong expansionary readings were recorded in New South Wales (56.1) and South Australia (68.4), while Victoria (47.3) and Queensland (47.5) remained in contraction despite notable improvement. Production rose 5.0 points to 55.1, New Orders rose 13.3 points to 58.4, and Employment rose 7.6 points to 55.3.

The Westpac-Melbourne Institute Index of Consumer Sentiment surged by 11.9% to 105.0 in October from 93.8 in September. Credit must be given to the federal budget, with its singular focus on maintaining employment and supporting businesses, while Australia's relative success in containing COVID-19 was also undoubtedly a factor. Retail sales fell 1.1% in September, following a 4.0% fall in August, with weakness led by household goods retailing (-3.6%), food retailing (-1.5%), and clothing, footwear, and personal accessories retailing (-1.1%).

Global

Data from the World Health Organisation showed confirmed COVID-19 cases worldwide were above 45 million at the end of October and global deaths were 1.2 million. According to the IMF, the global growth rate is forecast to be a significantly negative figure of-4.4% for 2020, bouncing back to 5.2% in 2021, although recovery is expected to be "uneven and uncertain".

The economic data point to ongoing strength in the US recovery but record daily cases of COVID-19 are dragging on sentiment. After a tense presidential election race, Senator Biden is the projected winner, while President Trump's dwindling chances hinge on legal challenges in Pennsylvania and other battleground states.

US GDP growth was 33.1% in the September quarter, the biggest expansion ever recorded, beating expectations of 30.9% and rebounding strongly from the 31.4% contraction in the previous quarter. Household demand led the recovery with personal consumption expenditures growing by 40.7%, ahead of the 38.9% expected increase. Nonfarm payrolls came in at 638,000 in October, above expectations of 600,000 but down from the upwardly revised 672,000 in September, while the unemployment rate improved 1.0% to 6.9% (7.7% expected).

October's ISM Manufacturing PMI came in well ahead of expectations, rising from 55.4 in September to 59.3 (55.8 expected), while construction spending rose 0.3% in September, less than the expected 0.9% gain. Durable goods orders in September reported a 1.9% increase (0.5% expected), marking the fifth straight month of growth. Orders rebounded for transportation equipment, largely motor vehicles, which lifted 1.5%, while orders for capital goods and computers and electronics continued to rise.

New coronavirus cases continued to rise across Europe, prompting countries to implement new restrictions. The UK broadened the number of cities under the highest tier restrictions, while Germany and France announced heightened restrictions to prevent an uncontrolled outbreak. Eurozone GDP for the September quarter came in stronger than expected at 12.7% (9.4% expected), the steepest pace of expansion on record as activity rebounded following the easing of lockdown restrictions.

The unemployment rate across the eurozone was unchanged at 8.3% in September, unchanged from the upwardly revised 8.3% in August, while the year-on-year core inflation rate held steady at 0.2%. The European Central Bank kept interest rates on hold at 0.0% as expected, with policymakers waiting on a fresh round of economic projections in December. The economic sentiment index was flat in October at 90.9, beating expectations of a fall to 89.6.

UK GDP growth missed expectations in August, with monthly growth of 2.1% undershooting expectations for a 4.6% rise and below July's 6.4% increase. October's final PMI Composite Index came in at 52.1, down from 56.5 last month and below expectations of 52.9. The Bank of England increased its quantitative easing program by £150 billion as it grapples with an economy expected to fall by 11% in 2020.

China unveiled its 14th five-year plan, outlining its economic and social priorities for 2021-25. The plan is centred around maintaining economic growth, with technology and innovation again a key focus, especially strategic emerging sectors like biotechnology, semiconductors and new energy vehicles. China aims to be a "moderately developed" country by 2035, which would mean a GDP per capita of around US$30,000 (nearly three times its current level).

The Chinese economy continues to bounce back from the pandemic-induced slump. Compared to the same quarter last year, GDP rose 4.9% in Q3 2020, lagging the 5.2% growth expected, but still leading the world in terms of the strength of the recovery. Yearly industrial production surpassed expectations of 5.8% in September, rising 1.3% to 6.9%, while yearly retail sales improved to 3.3% in September (versus 1.8% expected).

Australia-China relations, which were already fraying, deteriorated further in November when Chinese authorities ordered traders to stop purchasing certain Australian commodities, including coal, barley, copper ore and concentrate, sugar, timber, wine and lobster. The move came shortly after Beijing imposed tariffs on Australian barley. China's Foreign Ministry spokesman said China hoped that Australia would "do more to enhance mutual trust and bilateral cooperation".

Commodities

Oil markets moved lower through October on the back of back of surging coronavirus cases globally and the impact on demand as many nations moved to impose tighter restrictions once again. The Brent crude price fell 9.9% to US$36.33 per barrel and the WTI crude price fell 11.0% to US$35.64 per barrel. Oil prices reacted favourably to vaccine developments in November, with Brent and WTI both gaining early in the month.

Metals moved higher in October, with gains in Zine (+5.0%), Aluminium (+4.6%), Nickel (+4.4%), Tin (+1.3%) and Copper (+0.7%) while Lead (-0.3%) was down. The Gold spot price was down over the month by 1.0%, finishing October at US$1,878.81 per ounce.

Currencies

The Australian dollar weakened slightly against the US dollar in October, falling 0.9% to US$0.70 as the RBA hinted strongly at more easing. If additional US fiscal spending occurs in coming months, this will likely see the US dollar depreciate due to the widening fiscal deficit. Over October the Australian dollar was down against other major currencies including the British pound (-1.5%), euro (-0.5%), and Japanese yen (-2.0%).

SOURCE: Extract from Lonsec Month in Review, October 2020

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