Insights and Investment Solutions Magazine

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Welcome

In this edition of Insights and Investment Solutions magazine, read about the latest on local and international markets in our market update.

We take a look at how you can contribute more to your super through downsizing. Finally, we share the importance of having the money talk with your partner.

Until next time – happy reading.

Michael Huynh

Wealth Protect Financial Services
08 9200 2799
admin@afsg.net.au
www.wpfs.net.au/

Market update

Markets continue to push upwards to new record levels, whilst closer to home, Governor Lowe indicated rates may move lower in the New Year. With the UK election weeks away, both major parties are promising unprecedented spending initiatives in what many see as a vote (again) on Brexit. In Asia, the pro-democracy protests continued in Hong Kong leading into and after their local elections.

Over November, the S&P 500 returned 3.4%, delivering the best monthly performance since June, and being up 25.5% for the year. Technology was the best performing sector, gaining 5.2% and helping drive the NASDAQ up 4.5%.

Domestically, Australian shares closed higher, supported by growing speculation after RBA Governor Lowe made a speech on unconventional monetary policies during which he stated that quantitative easing may be considered at “a cash rate of 0.25%, but not before that”, though he did not expect this in the “near future”. Rates were kept on hold in November, following three cuts to the cash rate this year to 0.75% due to a persistently above forecast unemployment rate.

In the UK, Jeremy Corbyn has announced a spending spree of $158bn to support his party’s election hopes at the December polls, funded by raising taxes and extra borrowing, along with vowing to bring forward a net zero emissions target and to renegotiate a new Brexit deal.

The Bank of England’s Board decided to leave the cash rate unchanged at 0.75%. UK house prices rose 0.5% in November – the largest gain since July last year. The reduced uncertainty over Brexit, and lower prospects of a “no deal”, is likely bringing some confidence back into the market despite the upcoming election. The first release of the third quarter UK GDP figure indicated the economy narrowly avoided a technical recession. Real GDP growth was 0.3% – the slowest annual rate in a decade.

Sweden’s central bank sold off bonds from emissions-intensive issuers including the oil-rich Canadian province of Alberta and parts of Australia. The European parliament declared a climate emergency, pressuring member states to pass more decisive legislation to curb emissions.

Data released by the Conference Board revealed US consumer confidence fell in November for the fourth month in a row, reading 125.5. The Trump Administration’s 16-month trade war is impacting American households who are pulling back on spending amid the global slowdown and resultant lowering of business sentiment. Despite this, US GDP increased at a 2.1% annualised rate, up from a 1.9% last month.

Asian shares were modestly lower towards the end of the month after President Trump signed a bill expressing support for human rights in Hong Kong, to which China reacted with indignation. China stated that they are striving to reach an initial trade agreement with the US on the basis of equality and mutual respect of each other’s core concerns. Completion of a phase one deal could slide into 2020, with Beijing asking for more extensive tariff rollbacks and Washington countering this with increased demands of its own.

Information current as at 30 November 2019.

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Having the money talk with your partner

Discussing your finances with a long or short-term partner, can save you uncomfortable conversations down the track, especially when you start to manage money together.

Their debts

If your partner is in debt, it's important to know what you may be inheriting. While it might be a tough one to discuss, one in six consumers struggle with credit card debt in Australia alone[1], which means it's a common conversation to be had. According to psychotherapist and couples therapist, Melissa Ferrari, one of the major money issues in a relationship is the perception of dishonesty.

"When we have a situation where one partner has racked up some credit card debt, without any disclosure, you're dealing with more than money. The fact that this information was withheld, suggests that your relationship may be facing issues around trust and security."

Regardless of how hard the conversation might be, Melissa believes that honesty is the only policy. "If you have overspent or perhaps made a poor decision around finances, then be up front, open and honest. It's an issue that you will have to work through together, and for the person who is carrying the secret, the release of stress in sharing is important for their own mental health.

"Get support as well, so you do not have to go through this alone, and working through the issue with a qualified counsellor you're both comfortable with, can help work through these threats in your relationship."

Keep in mind, however, that you are not legally responsible for repaying your partner's debts, assuming they aren't joint debt and you haven't agreed on being a guarantor.

Defaults or bankruptcy

The reality is defaults or bankruptcy could impact you, or your partner's credit score and cash flow, not to mention, your future plans with them. If you have joint accounts, then one partner's credit rating can affect the other, which may determine how you manage money together.

Your financial goals

Do you both have the same financial vision for the future? Having the money conversation early, and knowing whether or not you do could help you compromise down the track.

Melissa believes that creating a safe space for financial conversation is key. "When we come together as a couple, we bring with us baggage from a previous life, particularly our childhood. If someone comes from a background of financial disadvantage, then you are likely to be more frugal with money. The key to every successful relationship is how we communicate with each other, having each other's backs and creating a loving and supportive environment where no topic is off limits.

"Keep in mind, that having difficult conversations is a key part of a relationship – being open and able to speak freely on a topic, such as how your partner's spending could cause distress, is very important.

Joint finances

To combine or not to combine – that is the question.

Deciding whether or not to combine assets and finances, or apply for joint loans, can be quite complicated, which is why it's important to identify the benefits of both:

Pros for combining

1. Knowing the complete picture for your joint finances, and allowing you to strive to achieve joint financial goals
2. Equal access to funds, particularly in the case of an emergency

Cons for combining

1. One partner's credit score, could affect the other, especially in joint asset or financial applications
2. Some people might see combining finances as a loss of independence
3. May cause strife in situations where each partner manage money differently, and there's yet to be agreement on a budget both are comfortable with.

In situations where you partner has existing debts or has previously declared bankruptcy, it might be valuable to seek advice from lawyers, accountants and financial advisers on managing this.

All is fair in love and war

Having practical conversations about finances upfront, can help you find a fair and comfortable way of managing your future with your partner – for better and for worse. "As a relationship evolves, and you begin living together, not having mapped out a plan on how you will deal with the bills and the sharing of finances is asking for trouble," Melissa adds. "My advice is simple; if you are looking at moving in together and sharing a life, then coming to an agreement on money should be a priority."

1. https://asic.gov.au/about-asic/news-centre/find-a-media-release/2018-releases/18-201mr-asic-s-review-of-credit-cards-reveals-more-than-one-in-six-consumers-struggling-with-credit-card-debt/

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Downsizing – do you want fries with that?

From 1 July 2018, a new opportunity has been available to let you contribute more to your super.

Commonly referred to as the "downsizer strategy", a range of measures in the 2017-18 Budget announced by the Government to help people purchase property encouraged those aged 65 and above to consider downsizing their homes.

More importantly though, the downsizer strategy is opening up opportunities for people to top up (or in some cases even commence) their super, and has fast gained traction as one of the most exciting strategies available. A recent release from the Australian Taxation Office[1] has confirmed that over 5,000 individuals have used this strategy since its commencement, with 55% of those being females.[2]

With average superannuation balances at the ages of 60-64 ($270,710 for men and $157,050 for women) still below ASFA's $640,000 projection for a comfortable retirement for a couple, an opportunity to top up your super is an important consideration, particularly as you near or enter retirement.

Who would suit a downsizing strategy?

In order to utilise the downsizer strategy to make contributions to super, you need to be at least 65 years of age.

Despite existing opportunities for super top ups between ages 65 and 74 (provided you meet the work test or work test exemption), this doesn't suit everyone. It also doesn't consider the challenges involved in finding a suitable role from the age of 65 if you aren't currently working, so it's important to keep that in mind.

The benefit of the downsizer contributions strategy is that there is no requirement to meet a work test for this contribution, which makes it ideal for those aged between 65 and 74. It is even more appealing if you are aged at least 75, as generally outside of a downsizer contribution, you are oitherwise no longer able to make voluntary contributions.

The total superannuation balance threshold of $1.6 million that would normally prevent an individual making further non-concessional contributions to super doesn't apply for downsizer contributions.

Who is eligible?

In addition to the current age 65 threshold, there are a number of other important criteria to be met.

First, you must sell a property that is located in Australia, and you must have owned the property for at least 10 years.

Next, when you sell that property, you need to be eligible for at least a partial exemption from capital gains tax (CGT) on the sale of the property under the "main residence" provision. Basically, this means the property needed to be your principal place of residence for some time during its ownership. If you purchased the property before 20 September 1985 (pre-capital gains tax), you still need it to have been your principal place of residence at some stage during ownership. Keep in mind, it also doesn't matter if the exemption from CGT is a full or partial exemption, which means the property could have been an investment at some stage during your ownership.

How much can be contributed to superannuation under this opportunity?

If you qualify as a "downsizer", you may be eligible to make an additional contribution of up to $300,000 into super. It's an after tax contribution so no tax is paid on the way in, and because you are over 65, it is returned tax free when you seek to withdraw these funds in the future. Note, that if you are eligible to make other contributions to super, you can still do this.

The opportunity for couples is even greater. If your spouse qualifies, then they can also contribute $300,000 (which equates to $600,000

in total), even if only one member of the couple has owned the property.

To do this, however, the sale price is key, as your couple contributions cannot be more than the total sale price of the property.

What else do downsizers need to be aware of?

If you are hoping to qualify for the Age Pension, the impact of selling an asset needs to be considered. The value of your main residence is excluded from the assets test, however if it is sold, and some of the proceeds added to your super, that value will then be assessed and may reduce your age pension benefits.

Perhaps the most important issue to be aware of is the timing of the contribution to super under the downsizer contributions strategy. There is a time limit of 90 days from receiving the sale proceeds to putting money into super. Because of this, you need to notify the superannuation fund at the time of the contribution (or earlier) that the contribution is a downsizer contribution. If you forget to notify the fund in advance, then you could be deemed to have made contributions in excess of what is permitted, which could result in the amount being returned to you, or, penalties applying.

Does the downsizer contributions strategy suit everyone?

For many, the attachment to their principal residence is an important factor which means the downsizer contribution is not an option, even if you qualify in all other respects.

Given many Australians have their savings invested in their home, this opportunity to contribute more to super may offer a welcome relief. Like all things with super and finance in general, getting it right is important and you should seek professional guidance when considering what to do next.

1. https://www.ato.gov.au/Tax-professionals/Newsroom/Superannuation/Super-Downsizer-Measure---eligibility,-take-up-and-common-errors/
2. https://www.ato.gov.au/Tax-professionals/Newsroom/Superannuation/Super-Downsizer-Measure---eligibility,-take-up-and-common-errors/

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Wealth Protect Financial Services P 08 9200 2799 W www.wpfs.net.au/

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