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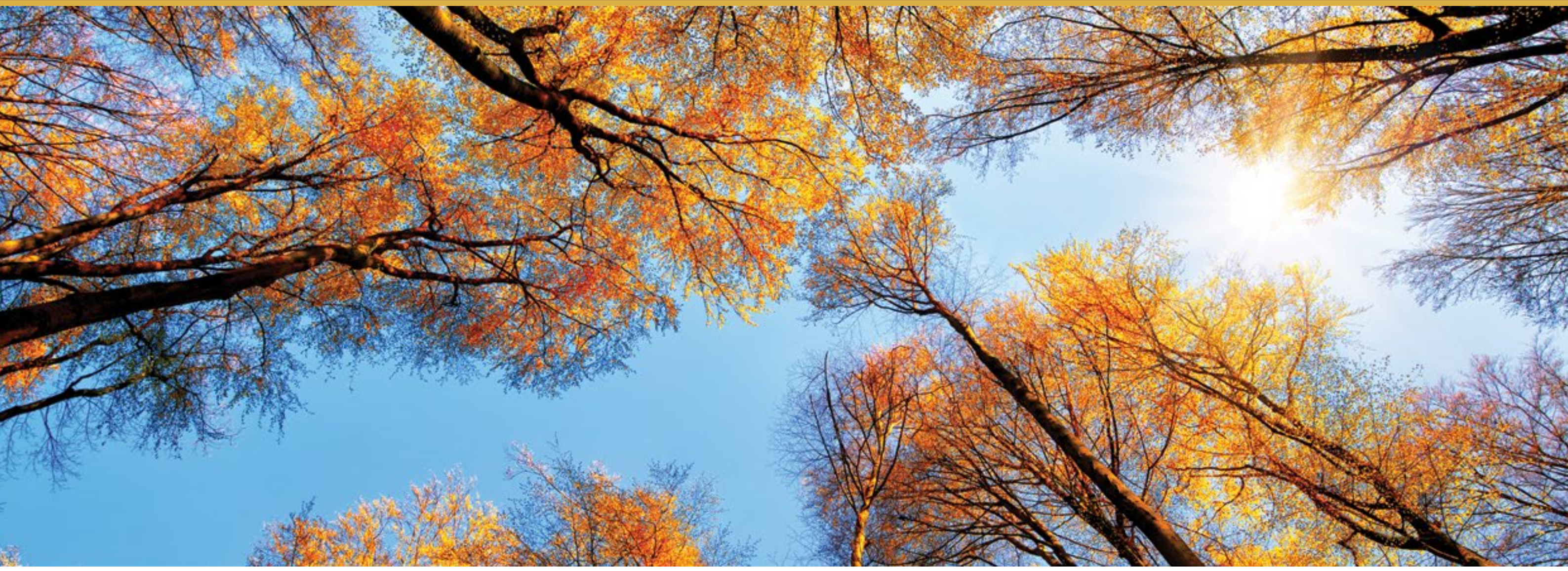
WEALTH ADVISERS



Autumn 2023

With Autumn underway, the changing season is a reminder to take stock and prepare for what's ahead as the financial year heads towards its final quarter and the May Federal Budget.

The gloomy prospects for economic growth, both in Australia and overseas, are occupying the minds of investors, businesses and political leaders.

The Reserve Bank of Australia believes global growth will remain subdued for the next two years and that Australia's economy will slow this year because of rising interest rates, the higher cost of living and declining real wealth. The RBA forecasts the unemployment rate, currently at a low 3.5%, to rise by mid year and inflation, which was 7.8% over 2022, to drop to by around 2-3% over coming years thanks to an easing in global prices that will eventually flow through to Australian prices. Oil prices fell almost 3% in February reversing the increase of the previous month.

There have been some economic bright spots recently such as the rebound in retail trade in January of 1.9% after a 4% plummet in sales figures in December. And, Australia's current account surplus increased $13.3 billion to $14.1 billion in the December quarter 2022 supported by sustained high commodity prices including $400 billion worth of mining commodity exports during 2022.

That positive news was enough to lift the Australian dollar slightly to just over US67c, halting a slow decline during February.

Australian shares were down by almost 3% during February, while US stocks were down by just over 2% for the month and more than 7% for the past year.

Lowe Lippmann Wealth Advisers
Level 7, 616 St Kilda Road
Melbourne VIC 3004

PO Box 130
St Kilda Vic 3182
P 03 9525 3777
E info@llwa.com.au
W www.llwa.com.au

FLEXING YOUR RETIREMENT PLANS

The concept of retirement is changing, with fewer people working towards a final retirement date and then clocking off for good.

Instead, those who have the flexibility to choose are often transitioning out of the workforce over several years, or even returning after a break.

Whether you simply want to wind back your working hours to explore other interests, or don't want to cut your ties with work completely, to make it work you need to plan.

Choosing your retirement date

There is no set retirement age in Australia, but most people will not be eligible to receive an Age Pension until they reach age 67.[i] This means you need enough savings to provide another income source if you retire earlier.

Although most of us have super, you are not permitted to access it until you reach your preservation age, which can vary.

Withdrawing your super also requires you to meet a condition of release. There are various conditions, but the most common one is reaching age 60 and permanently retiring from the workforce. Once you turn 65, you can access your super whether you are working or not.[ii]

Keep in mind, tax also affects your super, with different rates applying depending on your age. Most people can access their super tax-free once they reach 60.

Paying for your retirement

Unfortunately, there is no simple answer to how much income you will need in retirement. It depends on your current lifestyle and planned retirement activities, but a good place to start is the ASFA Retirement Standard.

For around 62% of the population aged 65 and over, the main source of retirement income is the Age Pension and government payments.[iii]

Eligibility for an Age Pension is assessed using your age, residency status and personal income and assets. These determine whether you receive the full fortnightly payment rate, which is currently $1,547.60 a fortnight for a couple.[iv]

As part of your planning, check for other potential sources of income from investment assets, contract work, or rent from investment or Airbnb properties.

Using your super savings

While you may dream of retiring early, many of today's retirees can expect to live well into their 80s, so your super may need to provide income for more than 20 years. If you are unsure whether your super is on track, we can help you check your progress and put strategies in place to achieve your retirement goals.

Most super funds provide online calculators to give a rough estimate of your likely retirement balance and how much income it will provide.

ASIC's MoneySmart Retirement Planner is another resource for working out your retirement income and potential Age Pension payments.

Transition-to-retirement (TTR) pensions

If you would like to ease into retirement, it can be worth investigating a TTR pension. These allow you to cut back working hours while using your super to supplement your income without compromising your lifestyle.

If you are aged under 60 you will pay some tax on pension payments, but they are tax-free once you reach age 60.[v]

TTR pensions also allow you to continue topping up your super through a salary sacrifice arrangement with your employer. You only pay 15% tax on these contributions, which may be lower than your marginal tax rate.[v]

Giving super a late boost

If you have income to spare as you move towards retirement, perhaps from an inheritance or downsizing your home, there are now additional opportunities to continue adding to your super.

You can make personal after-tax contributions of up to $110,000 a year until you reach age 75, even if you are not working. You may even be eligible to use a bring-forward arrangement and add up to $330,000 in a single year.

Once you hit 60, if are planning to sell your current home you can also make a downsizer contribution of up to $300,000 ($600,000 for a couple) into your super account.

Retiree concessions

When you are doing your retirement sums, don't forget some of the concessions on offer to older Australians. If you are aged 60 and over and working less than 20 hours per week, your state's Seniors Card can provide discounts on public transport and some goods and services.

You may also be eligible for the Commonwealth Seniors Health Card for cheaper prescriptions and medical appointments, or a Pensioners Concession Card for discounted public transport.

If you would like to discuss your retirement options and how to fund them, give us a call.

i https://www.servicesaustralia.gov.au/who-can-get-age-pension?context=22526
ii https://www.ato.gov.au/Individuals/Super/
iii https://www.aihw.gov.au/reports/australias-welfare/age-pension
iv https://www.servicesaustralia.gov.au/how-much-age-pension-you-can-get?context=22526
v https://moneysmart.gov.au/retirement-income/transition-to-retirement

8 retirement mistakes *and how to avoid them*

Retirement is a phase of life most of us look forward to. It's a chance to pursue other interests, travel and maybe do some part-time work or volunteering.

Thanks to more than 30 years of compulsory superannuation, we are retiring with more savings than previous generations but that also brings its challenges.

According to the government's Retirement Income Review, the average age of retirement in Australia is around the ages of 62 to 65.[i] On average men and women can expect to live to 85 and 88 respectively.

To make the most of your retirement your savings need to last. The best way to achieve that is to have a plan that will help you avoid some common and preventable retirement mistakes.

Mistakes people make

While it's impossible to predict what financial challenges lie ahead, these eight common retirement mistakes remain the same:

1. Not knowing your living costs – When you earn a regular income, you may be less focussed on keeping a track of your living costs. When the regular income stops at retirement, you can be unaware of whether your investment income and/or pension payments will support your lifestyle costs. Know what your living costs are before you retire to help manage expectations.

2. Not looking at your super until just before retiring – Investing too conservatively when you're working could mean you don't have enough super to fund your retirement. Review your super account regularly to ensure it is appropriate for each stage of your life.

3. Underestimating the impact of inflation – Australia's rate of inflation hovered below 3 per cent per year between June 2012 and early 2020. Since the onset of the global pandemic in March 2020, inflation has jumped to more than 7 per cent.[ii] The cost of living may require you to reassess your retirement planning.

4. Not understanding your government entitlements – If you're age 66 or older, you may be eligible for a full- or part-Age Pension. However, if you are not eligible for the Age Pension, you may still be eligible for other entitlements including the Seniors Card, Pensioner Concession Card, income tax offsets or pensioner stamp duty exemption/concession.

5. Letting the noise affect your investment decisions - Negative news headlines can create uncertainty during market volatility. History has shown, over the long run the market trends upwards. All this noise can make it difficult to stick your long-term strategy.

6. Trying to time the financial markets - "We haven't the faintest idea what the stock market is gonna do when it opens on Monday — we never have," said legendary share investor Warren Buffett. Say you invested $10,000 in the ASX 200 index by trying to time the market and missed the 40 best days between October 2003 to October 2022, your investment would be worth $9,064, whereas if you remained fully invested it would be worth $46,099.[iii] Trying to time the markets is never a good idea.

7. Being asset rich and cash poor – You may have built up a strong balance sheet of assets, but in retirement you need income. For many Australians, their family home could be their biggest asset. You may have other assets but are they generating enough income? This could include rent from an investment property, share dividends or managed fund distributions. If the income is insufficient, downsizing into a smaller home could free up enough money to live on.

8. Not consulting professionals – Financial advisers, accountants and other financial professionals can help set you on the right path by navigating the complexities of superannuation, investments, constant rule changes and other factors that affect your retirement. A good retirement plan, implemented correctly, can set you up for life.

Start Planning

Whether it's due to lack of time or awareness, too many people tend to make these same mistakes when entering retirement which can lead to unwanted financial surprises.

A phase of life you have looked forward to for so long deserves careful planning. So please get in touch if you would like to review your retirement income needs.

i Retirement Income Review Final Report, July 2020 page 63 Retirement Income Review Final Report (treasury.gov.au)

ii https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release

iii From 31 Oct 2003 to 04 Oct 2022, Fidelity AustraliaTiming the market | Fidelity Australia

Star ratings for Aged Care *help make family choices easier*

Moving into aged care can be a challenging time, both for those making the move and families supporting their loved ones. It's understandable that everyone wants to find the most suitable accommodation and the appropriate standard of care, however, it can be confusing to make that choice.

A new star rating system for aged care is giving existing and potential residents and their families helpful insight into the quality and staffing levels of an aged care facility.

Four key performance areas covering residents' experience, staffing levels, compliance and quality measures are each given an individual star rating. These ratings are then combined to provide an overall rating which is made public on the My Aged Care website.

For many people this will be the most consistent measure of whether aged care accommodation meets independent requirements for a good, average or poor facility.

A one-star rating indicates significant improvement needed; two stars indicates improvement needed; three stars indicates an acceptable quality of care; four stars indicates a good quality of care and a five star rating indicates an excellent quality of care.

There has been one round of ratings revealed since the system was launched in December 2022, with about one-third of the 2,700 aged care facilities in Australia receiving four or five stars, two thirds receiving three stars and one-in-10 receiving one or two stars.

How care is measured

Staffing levels in aged care are always of interest. With no staff ratios in aged care, the focus is on 'care minutes' provided by registered nurses, enrolled nurses and personal care workers.

A new funding model – in place from 1 October 2022 – requires aged care facilities to meet a minimum average care minute target of 200 minutes a day, including 40 minutes registered nurse time. This target will become mandatory from 1 October 2023, and increase to 215 minutes, including 44 registered nurse minutes, from 1 October 2024.

Quality measures

The five crucial areas of care that go into determining the quality star rating include pressure injuries, physical restraint, unplanned weight loss, falls and major injury, and medication management.

The data is collected quarterly, with zero-star ratings given to providers who fail to report on each area.

The compliance rating, which is the responsibility of the existing Aged Care Quality and Safety Commission, provides information on the extent to which a residential aged care service is meeting its responsibilities.

A service that receives a one star compliance rating (which would occur if it was sanctioned or found to be punishing anyone who complained to the Commission) will receive an overall one star rating, regardless of how they perform in other sub-categories. Services that receive a two star compliance rating (if they were issued a compliance notice under the current system) cannot receive an overall star rating higher than two stars, regardless of how they perform in other sub-categories.

Resident experiences

A resident's experience of a facility carries the highest weighting towards the overall star rating.

To understand the lived experience of residents, 12 questions are asked, for example – 'do staff treat you with respect', do you feel safe here', 'do you get the care you need', and 'are the staff kind and caring'. Responses can vary from never to always.

At least 10 per cent of older Australians living in residential aged care will be interviewed face-to-face about their overall experience at their residential aged care home by a third-party vendor each year.

Anyone currently living in or considering a facility with a low rating should feel empowered to ask what management is going to do about improving things.

Be informed

The star ratings are a recommendation of the Aged Care Royal Commission to better inform people living in or considering moving into residential aged care and to provide greater transparency in an effort to lift the overall standards.

They will become an increasingly important tool in the planning and decision-making process.

Give us a call to help you or a loved one plan for current and future needs.