LLWA

Lowe Lippmann
WEALTH ADVISERS

Summer 2024

Welcome to summer and, for many, an active season with last-minute tasks and celebrations with family and friends. We take this opportunity to wish you and your family a joy-filled and safe festive season!

While headline inflation eased to 2.8% in the September quarter, the Reserve Bank remains unmoved on interest rates. RBA Governor Michelle Bullock says the drop in the cost of living may be welcome relief for most of us, but the Board's measure to watch is trimmed mean inflation and that's still not "sustainably" in the desired target range of 2-3%. It's not likely to get there until late in 2026, the RBA predicts.

The sharemarket reacted sharply to the Governor's comments in the last days of a month that had seen several all-time highs. US President-elect Donald Trump's promise for 25% tariffs on Canadian and Mexican goods also contributed to the billion dollar shares sell-off. Nonetheless, the S&P ASX200 finished November 3.4% higher.

The Australian dollar is also taking a beating from the possibility of both the US tariffs and the RBA's rates forecast. It hit a seven-month low below 65 US cents near the end of the month.

And, in good news the ANZ-Roy Morgan Consumer Confidence Index, while down slightly has stayed above a mark of 85 points for the sixth week in a row for the first time in two years. Commonwealth Bank projections expect a boost in sales for small businesses thanks to the Black Friday and Cyber Monday sales and the coming festive period.

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SUPER VS PROPERTY

what works for retirement income?

There is no debate that Australians love investing in property.

The value of Australian residential real estate at the end of August 2024 was an estimated $10.95 trillion.[i]

Some love it so much that they believe property is a better option for providing a retirement income. They see a bricks and mortar investment as a more tangible and solid approach than say, superannuation, preferring to take their super as a lump sum on retirement to buy property. They may also choose to invest a windfall, such as an inheritance, or the proceeds from downsizing the family home, in property instead of their super.

So, given that a retired couple above age 65 needs an estimated yearly income $73,337 to lead a comfortable lifestyle, could a property investment do the job?[ii]

While it's true that a sizeable property portfolio could deliver rental income to equal a super pension, it might mean missing out on some useful benefits.

After all, super is a retirement savings structure with significant tax advantages. It also has the flexibility to provide investments in a range of different asset classes, including property.

Meanwhile, super fund performance has, generally speaking, outstripped house price movements over the past decade. Super funds (invested in an all-growth category) returned an annual average of 9.1 per cent during that time while average house prices in Australian capital cities grew 6.5 per cent per year over the same period.[iii, iv]

Not that past performance can give you any guarantees about what will happen in the future. Indeed, the average numbers smooth out the years of high returns and the years of negative returns. More important considerations in making an informed decision are your financial goals, your investment timeframe and how much risk you're comfortable with.

Liquidity

One of the most significant differences between super and property investments is liquidity, or how quickly you can convert your investment to cash.

With super, assuming you're eligible, funds can be accessed relatively easily and quickly. On the other hand, if your wealth is tied up in property it may take some time to sell or it may sell at a lower price.

Nonetheless, market cycles affect both property and super investments. They can be affected by volatile conditions and deliver negative returns just at the time you need access to a lump sum.

Long-term investing

Superannuation is designed for long-term growth, often spanning decades as you accumulate wealth over your working life. The magic of compounding interest can lead to substantial growth over time, depending on your investment options and the state of the market.

Property investments, on the other hand, can be invested for short, medium, and long-term growth depending on the suburb, the street, and the type of house you invest in. Of course, there are additional costs in buying a property (such as stamp duty) plus costs in selling (including capital gains tax). If there's a mortgage over the property, you'll need to factor in the additional costs of repayments and interest (bearing in mind that interest on investment properties is tax deductible).

Risk appetite

Investors' attitudes towards risk also play a role in choosing between super and property.

Superannuation funds can be diversified across various asset classes, which helps to reduce risk. But property investments expose investors to a single market meaning that while there might be a big benefit from an upswing, any downturn may be a blow to a portfolio.

Making an informed choice

Ultimately, any decision between superannuation and property should align with individual financial goals, risk tolerance, and investment strategies. And, of course, it doesn't need to be one or the other – many choose to rely on their super while also holding investment property so it's best to understand how super and property can complement each other in a well-rounded retirement plan.

We'd be happy to help you analyse your retirement income strategy to develop a plan that works for you.

i https://www.corelogic.com.au/news-research/news/2024/almost-30-of-suburbs-have-seen-values-fall-over-the-quarter

ii https://www.superannuation.asn.au/wp-content/uploads/2024/08/ASFA_Retirement_Standard_Budgets_June-24_quarter.pdf

iii https://www.chantwest.com.au/media/slnh0t1t/chant-west-media-release-17-july-2024-final.pdf

iv https://sqmresearch.com.au/asking-property-prices.iphp?avg=1&t=1

INSURING AGAINST LOSS OF INCOME

Protecting income from unexpected illness and injury is particularly important to anyone with a mortgage to service, small business owners and self-employed people with no sick leave available.

With income protection insurance, you can be paid some 70 per cent of your income for a specified period to help when you cannot work.[i]

The most common claims are for illnesses such as cancer, heart attack, anxiety and depression.[ii] Payments generally last from two to five years although you can take a policy up to a certain age, such as 65, and the amount is generally based on 70 per cent of your income in the 12 months prior to the injury or illness.[iii]

For some, income protection insurance may be part and parcel of your superannuation although more commonly this is limited to life insurance, and total and permanent disability cover. But, if you do have income protection insurance in your super, check the extent of the automatic cover as it can be modest.

Alternatively, you could take out a policy outside super where you will enjoy tax deductibility on the premiums. Income protection insurance is the only insurance that is tax deductible. Other life insurance products outside super such as trauma insurance are not tax deductible.[iv]

Work out a budget

There are many considerations when looking at income protection insurance and the best place to start is to work out your budget, thinking about how much would you need to maintain your family's lifestyle if you are unable to work. Then you are able to decide on the appropriate level of income protection insurance as well as other factors that affect premiums such as how quickly you might need the payments to start and how long these payments will last.

Many people think income protection insurance is expensive, but you can fine tune policies to suit your budget by changing the percentage payment amount, the length of time for which you would receive the payment and how soon you start getting a payment once you cannot work. Reducing these parameters can reduce your premiums.

Check the policy details

It is important to be mindful of a number of factors that might affect the success of any claim you might make. So, make sure you read the product disclosure statement.

Every insurer has a different definition as to what will trigger a payment, so you need to understand the difference between "own occupation" and "any occupation" for cover. For example, if you are a surgeon and lose capacity in one of your hands, you will receive a payout from your insurer if you have specified "own" occupation because you can no longer work as a surgeon. But if you opt for "any" occupation, then the insurer could argue that you could still work as a doctor just not as a surgeon and the claim may not be paid.

It is also wise to understand that if your policy does not seek your medical history, it is likely there could be limitations to what illnesses are covered.

Another consideration is whether you have stepped or level premiums. Stepped premiums start low and usually increase as you age. Level premiums begin at a higher rate but typically don't increase until you reach 65. In the long run, level may work out cheaper for some.[v] You must work at least 20 hours a week to take out income protection insurance and you can usually only buy a policy up to the age of 60. Also, if you receive a payout, you need to declare that income on your tax return.

If you want to check that you have sufficient cover to protect you and your family should you lose your income, then give us a call to discuss.

i https://moneysmart.gov.au/how-life-insurance-works/income-protection-insurance

ii https://aussieinjurylawyers.com.au/legal-news/the-most-common-tpd-claims-in-australia/

iii https://moneysmart.gov.au/how-life-insurance-works/income-protection-insurance

iv https://community.ato.gov.au/s/question/a0J9s00000019yD/p00014632

v https://moneysmart.gov.au/how-life-insurance-works/income-protection-insurance

Planning for what happens when you pass away or become incapacitated is an important way of protecting those you care about, saving them from dealing with a financial and administrative mess when they're grieving.

Your will gives you a say in how you want your possessions and investments to be distributed. Importantly, you should also establish enduring powers of attorney and guardianship as well as a medical treatment decision maker and/or advance care directive in case you are unable to handle your own affairs towards the end of your life.

At the heart of your estate planning is a valid and up-to-date Will that has been signed by two witnesses. Just one witness may mean your Will is invalid.

You must nominate an executor who carries out your wishes. This can be a family member, a friend, a solicitor or the state trustee or guardian.

Keep in mind that an executor's role can be a laborious one particularly if the Will is contested, so that might affect who you choose.

Around 50 per cent of Wills are now contested in Australia and some three-quarters of contested Wills result in a settlement.[i]

The role of the executor also includes locating the Will, organising the funeral, providing death notifications to relevant parties and applying for probate.

Intestate issues

Writing a Will can be a difficult task for many. It is estimated that around 60 per cent of Australians do not have a valid Will.[ii]

While that's understandable – it's very easy to put off thinking about your own demise, and some don't believe they have enough assets to warrant writing a Will – not having one can be very problematic.

If you don't have a valid Will, then you are deemed to have died intestate, and the proceeds of your life will be distributed according to a statutory order which varies slightly between states.

The standard distribution format for the proceeds of an estate is firstly to the surviving spouse. If, however, you have children from an earlier marriage, then the proceeds may be split with the children.

Is probate necessary?

Assuming there is a valid Will in place, then in certain circumstances probate needs to be granted by the Supreme Court. Probate rules differ from state to state although, generally, if there are assets solely in the name of the deceased that amount to more than $50,000, then probate is often necessary.

Probate is a court order that confirms the Will is valid and that the executors mentioned in the Will have the right to administer the estate.

When it comes to the family home, if it's owned as 'joint tenants' between spouses then on death your share automatically transfers to your surviving spouse. It does not form part of the estate.

However, if the house is only in your name or owned as 'tenants in common', then probate may need to be granted. This is a process which generally takes about four weeks.

Unless you have specific reasons for choosing tenants in common for ownership, it may be worth investigating a switch to joint tenants to avoid any issues with probate.

Having a probate is favourable if there is a refund on an accommodation bond from an aged care facility.

Rights of beneficiaries

Bear in mind that beneficiaries of Wills have certain rights. These include the right to be informed of the Will when they are a beneficiary. They can also expect to hear about any potential delays.

You are also entitled to contest or challenge the Will and to know if other parties have contested the Will.

If you want to have a final say in how your estate is dealt with, then give us a call.

i https://willandestatelawyers.com.au/success-rate-of-contesting-a-will

ii https://www.finder.com.au/news/australians-have-no-estate-plans