

# INSIGHTS

Winter 2017

## Inside...

- 3 Market update
- 4 Federal Budget 2017 – 6 things to consider
- 6 Make my retirement funds last the distance
- 7 'Voluntourism': how to make a difference in your retirement



STERLING PRIVATE WEALTH

# Welcome

In the winter edition of Insights magazine, we analyse what the proposed Budget changes mean for you.

BT Financial Group Investment Specialist, Riccardo Briganti, provides us with an investment update on local and international markets.

Celebrity renovator, Cherie Barber shares some handy tips on how to 'flip property' for a profit.

Finally, Dr Bryan Humphrey talks to us about his experiences 'voluntouring' internationally during retirement.

Until next time – happy reading.



**Sterling Private Wealth**  
**Cameron McAllister CFP® CPA BCom**

(03)9975-7200  
[cmcallister@sterlingprivate.com.au](mailto:cmcallister@sterlingprivate.com.au)  
<http://www.sterlingprivatewealth.com.au>

# Market update

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## Australian economy still focused on global politics

**Riccardo Briganti – Investment Specialist, BT Advice**

Politics played a significant role in fuelling investor concerns in 2016 with the key events being the Brexit vote and the election of Trump. Investors were left approaching 2017 with a sense of trepidation given the upcoming European elections peppering the calendar in the first half of the year. This unease appeared to be justified when the initial rounds of the French elections saw the major established parties eliminated from the presidential race and the UK Prime Minister Theresa May made the surprise announcement that the UK would hold a general election in June.

The focus has now shifted to the economic outlook and market fundamentals. The political landscape, while still uncertain, appears to be less destabilising than initially considered. The election of Macron in France and the likelihood Merkel will be re-elected has provided a measure of political certainty for the EU, while the potential economic impact of Brexit has been downgraded in the eyes of analysts.

Potential disruption in the US with Trump has been mitigated by the government measures in place. However, the government deciding not to back all Trump's promises has also obstructed the sought-after tax cuts, healthcare and infrastructure proposals.

Global economic data continues to be encouraging, if not as robust as earlier in the year. Strong manufacturing results have eased, but economic growth is continuing. This is a double-edged sword: central banks are likely to delay rate increases if growth expectations are wound back which could be seen as a positive for financial markets but any hint of faltering growth could also lead to disappointment if an overly optimistic view of growth has been factored into market prices.

In Australia, the Federal Budget dominated recent market news, particularly the bank levy introduced as means of budget repair and funding increased banking supervision. The published projections put the budget back into surplus by 2020-21 assuming all budget proposals are passed and economic forecasts are met. Recent history tells us this is unlikely given current composition of the Senate.

Real GDP growth expected to rebound to 2.75% in 2017-18 following a weather-impacted 1.75% increase in 2016-2017. The most contentious forecasts are for wages growth. The Budget Papers show expected wages growth of 2.5% in 2017-18, followed by 3% in subsequent years. This appears unlikely given wages growth has been stuck below 2.5% over the past two years with the latest data showing wages increased by 1.9% in the year to March 2017.

This has an impact on the household spending and the performance of retail companies. Retail sales fell by a seasonally adjusted 0.1% in March, following a 0.2% fall in February. However, over the past 12 months, retail sales have increased by 2.1% – the lowest growth rate in more than three years.

In this environment of subdued growth and restrained inflationary pressures, there is little reason for the Reserve Bank of Australia to increase interest rates. At the same time, with official rates at an historical low of 1.5%, there is little benefit from cutting further. As a result, official interest rates are like to remain on hold in the foreseeable future.



# Federal Budget 2017 – 6 things to consider

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The 2017 Federal Budget was about security and opportunity, with the Government focusing on guaranteeing essential services and ensuring the Government lives within its means.

Following extensive changes to superannuation in the 2016 Federal Budget, there was only a handful of new measures for superannuation this time around. It is important to remember that all of the measures outlined are still only proposals and will only become law once they are passed through Parliament.

Here are 6 announcements from the latest Budget which you may want to be aware of:

## **1) Incentive for older Australians to downsize their home**

From 1 July 2018, older homeowners, aged 65 years and over, will be able to make an after-tax contribution to their super of up to \$300,000 using the proceeds from the sale of their family home. The house must be their principal residence and must have been held for at least 10 years. This after-tax contribution will also be exempt from the normal super contribution rules that generally prevent older Australians being able to invest in superannuation.

## **2) First Home Super Saver Scheme**

From 1 July 2017, those looking to buy their first home will be able to make voluntary contributions into their superannuation of up to \$15,000 per financial year (\$30,000 in total) to save for their deposit. They will be able to withdraw these contributions plus their deemed earnings from 1 July 2018.

## **3) Small businesses claiming expenditure deductions on tax**

Small businesses with a turnover up to \$10 million will be able to claim a tax deduction for expenditure up to \$20,000 until 1 July 2018. The Government remains committed to cutting the company tax rate to 25% for all businesses regardless of size by 2026.

## **4) Medicare Levy cost increases**

The Medicare levy will be increased by 0.5% to 2.5% from 1 July 2019. This increase to the levy will assist in funding the National Disability Scheme in full, designed to support Australians with permanent and significant disability.


## **5) University degree may cost more**

Fees on university degrees will be increased by 7.5% to be phased in over four years at a rate of 1.8% each year starting from 2018. These fees can still be covered through the Higher Education Loan Program scheme. There will also be changes to the threshold when the loans need to start to be repaid. The income level at which repayments must start will be lowered from the current level of \$54,869 to \$42,000.

## **6) Changes to childcare**

Previous childcare benefits and rebates will be replaced with a single means-tested Child Care Subsidy from July 2018. There will no longer be an annual cap on rebates for families with an income of \$185,710 or less. Families with an income between \$185,710 and \$350,000 will have childcare subsidy rebates capped at \$10,000, with wealthier families unable to claim subsidies once combined income exceeds \$350,000.

Understanding how the proposed Budget announcements may impact your portfolio can be complicated. It is therefore important to speak to us to ensure your investment and retirement plans are in the best position possible if the changes were to take effect.



*"Homeowners aged 65 years and over will be able to make an after-tax contribution to their super of up to \$300,000 using the proceeds from the sale of their family home"*

# Make my retirement funds last the distance

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Australians are living longer and if you hang up your work boots at, say, age 65 and live to age 90, you need to plan for the possibility of a quarter of a century in retirement. That's a wonderful thought! But will your money last the distance?

## **Understanding your current financial position**

A good starting point is understanding your current financial position. That means adding up all your assets including your superannuation and then subtracting the total value of any debts you owe (your liabilities). The figure that's left is your capital and this is what you could invest to support what will hopefully be a long and rewarding retirement.

## **Cost your dream - budgeting for living expenses in retirement**

The next step to maintaining your retirement lifestyle is drafting a household budget. This will give you a firm idea of how much annual income you need to support your preferred lifestyle.

Bear in mind, as a senior you may be eligible for concessions and discounts on a range of regular expenses if you hold a Seniors Card or if you receive a full or part age pension.

## **Be mindful of your health**

While your health may influence when you retire and your life expectancy, it can also have a major impact on your finances in retirement.

As you age, you may find medical bills comprise a growing part of your household expenses. This is definitely something to consider when planning your retirement living costs.

## **Sources of income in retirement**

### *Returning to work for extra money*

One option to give your retirement income a boost, is returning to work on a part-time or casual basis or even doing some consulting or interim work.

### *Your super*

After years of growing your superannuation savings during your working years, retirement is the time when super really comes into its own.

You can access your super once you reach preservation age and retire, which is currently age 56, increasing to age 60 over the coming years. Otherwise you can access your super from age 65, even if you haven't retired. It can be received tax free once you turn 60 but there are some great tax concessions between preservation age and 60.

### *Purchasing an income stream*

Rather than take your super as a lump sum, you can also receive the money as a super income stream – often called an account based pension.

This means you receive a series of regular payments from your super fund and in this sense it can be just like receiving your regular wage or salary. This makes budgeting easier and you still enjoy the benefits of tax concessions that apply to superannuation, including tax free payments once you turn 60.

Planning for and managing the financial aspects of retirement can seem complicated and it is an area where good financial advice can make all the difference.

Speak to us for help deciding the sort of retirement you can comfortably afford, how to invest for your needs and the best way to put your superannuation savings to work.

# ‘Voluntourism’: how to make a difference in your retirement

When Dr Bryan Humphrey retired, he didn’t stop working. He simply shifted gears, concocting a plan to embark on his long-held dream of an international ‘voluntouring’ adventure.

After a career lecturing at Deakin University on education, criminology, and medicine, Dr Humphrey was ready to ply his many skills in an environment where he would make an immediate difference.

“I had studied sociology and development in my first degree and had also been active with Community Aid Abroad (now Oxfam). And when I retired I was ready and wanting to use my skills to make a contribution overseas,” he says.

An application to Australian Volunteers International landed him the role he’d been looking for. From November 2013 to November 2015, Dr Humphrey lived in Phnom Penh, Cambodia, where according to UNICEF<sup>1</sup>, only 26% of children make it to secondary school and nearly 5 million people live on less than US\$1 a day. He was deployed as a learning and development mentor tackling poverty and issues surrounding the protection of women and children.

“I worked with four NGOs. We ran a series of workshops and train-the-trainer sessions with a focus on developing sustainable and transferable skills,” he says.

As the former Director of Workforce Capacity with the Queensland Public Service Commission, Dr Humphrey had plenty to offer.

That said, the project was not without challenges. “When you arrive, you have your kit bag of knowledge but no idea what might be applicable in the new context. And it takes quite a long time to establish trust, get to know the cultural context and build relationships.”

Also crucial to success, he says, was putting a lot of time and energy into learning the Khmer language. By the second year, meetings became easier, and the locals respected his effort to speak in their native tongue.

Since returning to Australia, Dr Humphrey continues to use the freedom enabled by retirement to make a difference, and has made another trip to Cambodia, spending several months evaluating the effectiveness of two NGO programs. He’s also banded together friends and colleagues to raise \$29,000 for the Cambodian Women’s Crisis Centre.

Dr Humphrey says that to make the most from your ‘voluntouring’ experience, you need an open mind, a willingness to learn and adjust and a generous attitude towards sharing your skills and knowledge.

How would one go about organising the funding for the process? Australian Volunteers International, funded by the Australian Government, provides help in the form of an allowance but you will also need to draw on some of your own funds.



“The government funding was enough for living in Phnom Penh,” he says. “But I also drew on the minimum superannuation allowance, so that I had enough for additional travel and could rent a decent apartment.

As for future humanitarian efforts, he is heavily involved in a joint fundraising drive between the Cambodian Organisation for Children and Development, and Rotary International, to bring clean water to remote communities.

1- UNICEF: Cambodia at a glance, accessed 16 August 2016.



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