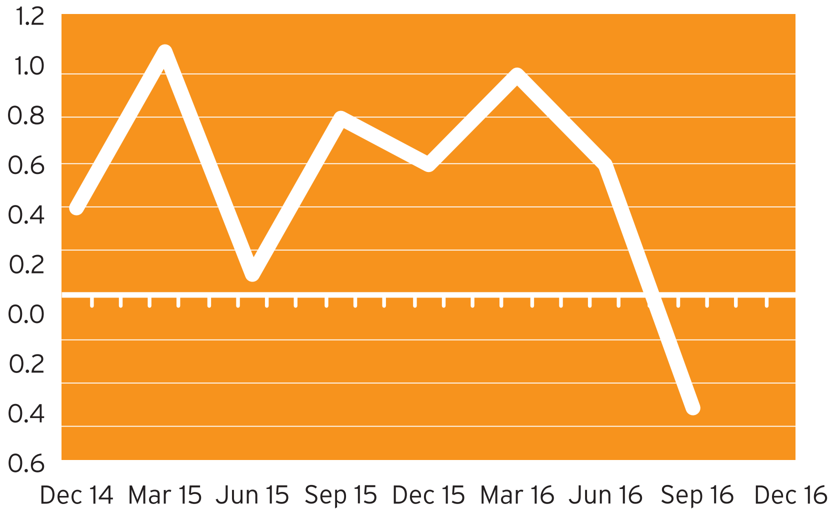
Economic update

Australia could have a technical recession

Up until December, the Australian economy appeared to be growing at a rate that was in-line with the expectations of the Reserve Bank of Australia (RBA). In December, however, data indicating relatively weak Gross Domestic Product (GDP) was released showing that Australia's GDP actually shrank by half a per cent in the September quarter – the first time it has fallen since March 2011. If GDP continues to decline over the next quarter, then Australia will have entered a recession, with the widely accepted technical definition of a recession being two consecutive quarters of declining GDP.



The significant drivers of the decline in GDP were reduced government consumption and reduced public capital expenditure. According to the Federal Government's budget, this reduction is unlikely to be reversed quickly. While the RBA forecasts 2016 GDP growth to be between 2.5 and 3.5 per cent, the weak result experienced in the September quarter will likely push GDP growth to the bottom end of that range. Despite some investors' concerns about Australia entering a technical recession, in March we expect the release of GDP growth data to show a rebound in the December quarter, when GDP, combined with a gradual rise in inflation, will likely see the RBA leave interest rates on hold during 2017.

European banks in focus

European banks have been in the limelight. One of Italy's largest banks, which is also the world's oldest surviving bank, Banca Monte dei Paschi di Siena, failed to raise €5 billion from investors to shore up its finances. This lack of interest from investors seems to stem from losses on non-performing loans as well as the level of investor caution about political risks in Italy. This was highlighted recently when the Prime Minister, Matteo Renzi, resigned after a referendum he proposed was defeated. The referendum aimed to make it easier to pass laws and sustain a stable government. In late December, the Italian parliament approved a €20 billion bail-out fund for Monte Paschi and other

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Italian lenders. However, investors remained concern and bought less risky German government bonds. In 2017, the general elections in France, the Netherlands and Germany, mean there are more political risks on the horizon for Europe which will increase the potential for volatility and significant market movements in the year ahead.

US interest rates begin to rise

At the outset of 2016, it was expected that the US Federal Reserve, commonly referred to as the Fed, would increase interest rates four times during the year. However, as 2016 drew to a close, December saw the Fed's only rate rise of 0.25 per cent. Being widely anticipated, and effectively already priced into the share market, investor reaction was limited while economic data was supportive - job growth continued and unemployment fell to 4.7 per cent.

The low inflation level has been one of the factors preventing a rate rise but, since September, the increasing inflation rate (as measured by the consumer price index) has allowed the rate to rise. The recent economic data, together with communications from the Fed, indicates rates are expected rise two or three times in 2017. By the end of the year, it's expected that the US interest rate will be between 1.25-1.50 per cent by the end of the year.

Trump victory propels share markets

Donald Trump's victory in the US presidential elections surprised both investors and political commentators alike. Share markets in the US rose strongly in the weeks following his victory as investors became more optimistic about the prospects for certain sectors of the US economy. President Trump has indicated he will aim to reduce banking regulations and increase infrastructure spending. Presuming that these aims are achieved, this could boost the prospects of some US companies.

Source: IOOF

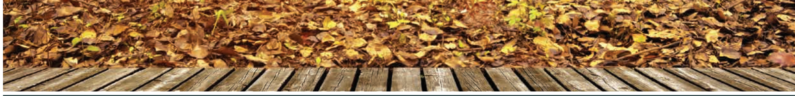
Speak to your financial adviser to discuss your investment options.

Are you prepared for the new superannuation changes?

In November 2016, the Federal Government passed into law superannuation reforms that were first announced in the May 2016 Federal Budget. Importantly, these changes include reductions in the amount that can be contributed to superannuation, as outlined below:

A lower pre-tax (concessional) contributions cap which includes the compulsory superannuation guarantee (SG) contributions made by your employer on your behalf as well as any salary sacrifice contributions you choose to make and, if self-employed, your personal deductible contributions.

A lower after-tax (non-concessional) contributions cap which includes any after tax contributions you choose to make to super (including any capital gains you have made as a result of selling an investment property or receiving an inheritance).



What are the new caps?

From 1 July 2017, new annual limits will apply to the level of contributions you can make to super, as outlined in the following tables:

Concessional contributions

Age	Current annual limit	Annual limit from 1 July 2017
Under 50	$30,000	$25,000
50 or over	$35,000	$25,000

Non-concessional contributions

Age	Current annual limit *	Annual limit* from 1 July 2017
Under 65	$180,000 or up to $540,000 if utilising the three year bring forward strategy	$100,000 or up to $300,000 if you utilise the three year bring forward strategy
65 or over	$180,000 each year if you meet the work test	$100,000 each year if you meet the work test

* If your superannuation balance is close to, or exceeds, $1.6million, there are additional rules so please speak to your financial adviser.

Although the existing limits have been reduced, there are strategies that can help you 'catch up'.

What are the 'catch up' strategies?

From 1 July 2018, if your super balance is under $500,000, and the concessional contributions you make each year are less than the allowable cap, you will be able to carry forward any unused portion to the next year, for up to five years.

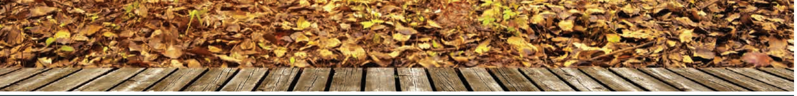
For example, you make $10,000 in concessional contributions during the 2018/19 financial year and $15,000 in concessional contributions during the 2019/20 financial year. Over these two years, you have accumulated an unused portion of $25,000 that, once added to your annual concessional contribution cap for the 2020/21 financial year, allows you to make a higher concessional contribution of $50,000 in that financial year.

While not a new strategy, the new limits that apply to the amount of non-concessional contributions you can make also change the amount you can contribute under the bring-forward rules. If you are under age 65, you can bring forward three years' of contribution limits to make a larger one-off contribution to your super. From 1 July 2017, these types of contributions will be capped at $300,000 and there are transitional rules that apply.

For example, if you receive an inheritance of $350,000 in the 2018/19 financial year, you could utilise the bring forward rules and make a $300,000 contribution to your super. In so doing, however, the next non-concessional contribution you could make would be in the 2021/22 financial year. Regardless of how close you are to retirement, strategies to maximise your superannuation can be used by everyone. Superannuation helps you to accumulate as much as you can towards your retirement nest egg while utilising the significant tax concessions that are available.

Source: IOOF

Speak to your financial adviser to discuss your superannuation options.



Easing the journey into aged care

Whether you're considering options for yourself, or deciding how best to help someone close to you, a transition into aged care is an emotional and life changing process.

It's a daunting move for anyone to make. On top of trying to figure out where to live and the costs involved, important decisions around your assets need to be made that can have a significant financial impact. Trying to navigate these issues at an already stressful time can be overwhelming.

While a financial adviser can't remove the emotional aspect of the process, they can help guide you through some of the complex financial elements so you can make an informed decision.

Some of the issues your financial adviser can help with include:

Upfront costs

Your adviser can help figure out the most cost-effective way to pay accommodation costs. This could involve a lump sum payment, regular instalments or a combination of both.

Ongoing care costs

It's possible to put strategies in place to minimise the ongoing care fees payable. A well-executed plan may result in a higher Age Pension and lower aged care costs.

Keeping or selling the family home?

Your financial adviser can help you understand the options you have regarding the family home. If kept, they can determine the best way to structure the accommodation payment to meet your goals. If sold, they can help with the best way to invest the proceeds and get the balance right between generating an income, maximising the Age Pension and minimising aged care costs.

Maximising cash flow

It's important to understand how the Income and Assets Tests apply, as the way income, assets and investments are structured will impact eligibility for social security benefits and aged care costs. Investments such as annuities may be able to provide additional cash flow benefits. Your adviser can determine a strategy, depending on the circumstances, to maximise these benefits.

Estate planning

Your financial adviser can help identify what assets can be included in the estate and look at investment options that can help provide control over estate planning outcomes.

Tax considerations

An overall financial review can help identify the tax consequences of different investments and the tax offsets that may be available, including the low income, seniors and net medical expense offsets.

Financial advisers are well positioned to support clients and their families through this stage of retirement, taking some of the financial stress out of the situation and making a difficult journey a little easier.

Source: Challenger

If you or a family member needs assistance in this area, speak to your financial adviser to find out how they can help.

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