connect

Spring 2018

Economic update

International share markets experienced major fluctuations during the June quarter owing to ongoing trade-tariff tensions. The Australian economy grew strongly, driven by strong Government spending on infrastructure and increased demand for Australian mining exports.

International shares

International shares swung between strength and weakness owing to ongoing trade tensions between the US and its trading partners, particularly China. The US has used harsher rhetoric surrounding trade tariffs with the EU, Canada and Mexico and tensions rose. This weighed on business sentiment, particularly in the manufacturing industry, which is more exposed to direct tariffs.

The US dollar continued to rise during the quarter, appreciating against major trading partners. This can be linked to the underlying strength of the US economy and the growing gap between interest rates in the US and other developed nations. The US Federal Reserve hiked interest rates a further 0.25 per cent to two per cent at the end of June.

Despite these issues, the underlying economic backdrop has remained positive during the quarter. This was led by the US, where strong GDP growth is expected for the June quarter as jobs growth continues at high levels. Global manufacturing and service indexes continue to remain in expansionary territory. However, points of softness can be found. In Europe, the economic momentum visible in January has tapered off and inflation remains subdued despite stimulatory monetary policy.

The Chinese economy showed some signs of slowing as industrial production and retail sales data fell below market expectations. Surveys of businesses have highlighted that trade tensions have negatively affected sentiment and this could cause China's economy to slow. China's economy continues to grow strongly – with the latest Gross Domestic Product (GDP) showing growth of 6.7 per cent – which is a positive sign for continued strong demand for Australian exports, particularly mining and education.

Australian economy

The Australian economy grew strongly, up 3.1 per cent in the year to March 2018, driven by strong Government spending on infrastructure as well as demand for Australian mining exports. Despite this, the outlook looks weaker for growth in the future owing to stagnant consumer incomes.

Wage data highlighted this situation with annual growth of only 2.1 per cent, in line with inflation at 2.1 per cent. This means individual incomes are just keeping up with general inflation leaving less capacity for additional spending. The Reserve Bank of Australia (RBA) is optimistic this situation will change given strong demand for workers and high business confidence. The demand for workers has not yet turned into sustained wage increases indicating there is a lot of 'slack' in the labour market. Underemployment, which is a measure of the amount of people that would work more hours if they could, remains at elevated levels. This points to a surplus of manpower that businesses can still use without having to offer more money to attract new hires, thereby keeping wages

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lower for longer. The RBA has said it expects any shift towards higher wages to be gradual, taking place over years rather than immediately.

Low wage growth does not necessarily mean low mortgage rates as banks need to borrow from overseas markets to fund their lending in Australia. In recent weeks, the cost of overseas funding has risen and this has flowed onto Australian borrowers. Several banks have raised mortgage rates in response to their higher funding costs.

The Australian dollar has depreciated substantially over the last three months. A few factors are responsible – the strength of the US economy relative to our own, the growing interest rate gap with US rates, currently 0.5 per cent, and concerns over trade tariff disputes and the negative implications for our major trading partner, China.

Source: IOOF

Insurance: making sure what you have fits your individual needs

Whilst we all dream of retirement and look forward to the time when we can reap the rewards of a lifetime of hard work, we need to be realistic and consider the possibility of an untimely death or disablement prior to retirement.

But while insurance in super can represent good value, it is important that individuals know what insurance cover they have to make sure it fits their needs and to keep track of insurance cover included with default superannuation.

Duplicate insurance policies

During your working life you are likely to have several employers pay compulsory superannuation contributions on your behalf to a number of default funds, and consequently you may end up with duplicate insurance cover.

According to the recent Productivity Commission draft report *Superannuation: Assessing Efficiency and Competitiveness*, an estimated 17 per cent of members have duplicate policies across multiple super accounts. Additionally, some members are being defaulted into insurance products they are ineligible to claim on (sometimes referred to as 'zombie' policies). The chief and costly culprit for such 'zombie policies' is income protection, which can typically be claimed against only one policy and only when members are working.

The impact of duplicate insurance policies are worse for members on low incomes, especially those with intermittent participation in the labour force who continue to have premiums deducted from their accounts while not contributing to their super.

To address this, the Government, in their recent Federal Budget, announced plans[1] for insurance in default superannuation plans to be offered on an opt-in basis (instead of an opt-out basis) for:

- members with balances of less than $6,000;
- members under the age of 25 years; and
- members whose accounts have not received a contribution in 13 months and are inactive.

These proposed changes are intended to protect the retirement savings of young people and those with low balances by ensuring their superannuation is not unnecessarily eroded by premiums on insurance policies. The changes will also reduce the incidence of duplicated cover so that individuals are not paying for multiple insurance policies.

Importantly, these changes will not prevent anyone who wants insurance from being able to obtain it – low balance; young and inactive members will still be able to opt-in to insurance cover within super.

It is important to keep in mind these changes will only apply to default insurance, and not insurance that you have taken out based on advice received from your financial adviser.

Speak to your financial adviser today to discuss your insurance options

1 Subject to legislation being passed.
Source: Zurich

Paving your path to financial security in retirement

Generally speaking, financial security is peace of mind that comes from having confidence you can attain all of your financial goals both now and in the future.

Prepare for the road ahead

Retirement isn't a one-stop destination – it's a phase of life. The priorities, challenges, and resources you have at the outset of your journey may change over time, so be prepared to follow a winding path.

There's no universal route to financial security in retirement, but there are common steps in the journey.

1. **Determine goals.** Identify and prioritise the things you want to accomplish.
2. **Understand risks.** Be aware of potential risks that could get in your way.
3. **Assess financial resources.** Take inventory of your present and anticipated future assets. Most of us will rely on several financial resources in retirement. Different resources can meet different needs.
4. **Develop a plan.** Create a long-term strategy that takes your highest-priority goals, biggest risk factors, and available resources into consideration.

The key elements of retirement planning

Goals

Retirement isn't a single goal. It's a combination of multiple goals that vary in importance. Generally, you'll want to allocate your assets toward your goals in order of priority, using reliable, easily accessible resources to achieve your highest-priority goals.

Here are 4 main goals, prioritised from the highest order:

1. Living expenses
2. Contingency reserve
3. Discretionary spending
4. Legacy

Risks

Retirees face several risks, which can be grouped into five categories:

- **Market and investment risk:** The risk your portfolio will lose purchasing power due to market variables, including investment returns, inflation, and interest rates. Your lower-priority goals (such as discretionary spending or legacy) may be able to withstand greater levels of market and investment risk.
- **Health risk:** This risk is twofold. It's the risk you'll need care because your health is declining plus the risk you won't be able to afford care. You can determine your health risk by evaluating three factors: your overall health, available coverage, and desired level of care.
- **Longevity and mortality risk:** Longevity risk is the risk you'll live longer than expected and potentially outlive your savings. Mortality risk is the opposite – it's the risk that you'll live shorter than expected, potentially widowing a spouse or leaving behind more wealth than anticipated.
- **Event risk:** The risk you'll face an unexpected event with a large financial impact, such as an extensive home repair or relocation. Roughly 72% of current retirees report having experienced at least 1 such "shock" in retirement[1].
- **Tax and policy risk:** The risk that rules about public health coverage, retirement benefits and pensions, and taxation of retirement benefits and estates will change. This can be lessened by controlling your asset allocation, asset location, and spending plan.

Resources

Your retirement resources include more than your portfolio. We categorise the resources you may have in retirement into three groups:

- Guaranteed income (Social Security, pensions, annuities).
- Liquid assets (investment accounts that you control).
- Other resources (insurance policies, employment income, property).

Forge your path

Retirement is complex. You may have competing objectives that require you to make difficult choices.

Speak to your financial adviser to discuss your retirement options

1 Risks and Process of Retirement Survey from the Society of Actuaries, 2015

Source: Vanguard

How to become superhuman

A balanced diet and regular exercise have long been the bastions of good health, but more than ever, people are focused on raising the bar beyond simple living.

Peak performance is increasingly the goal of ordinary people seeking to gain a competitive edge at work or to live longer. To reach those lofty ambitions, a holistic approach is required.

Here are five hacks you can try today

1) Drink yourself to sleep

Conditioning your mind for rest at the end of the day is challenging, particularly after the stress of a work day and with the distractions of the TV and our mobile devices. To assist, author and lifestyle biohacker Tim Ferriss advocates drinking decaffeinated tea with apple cider and a spoonful of honey an hour before bed.

2) Wake up slowly

We all know sleep is important, six to nine hours is the recommended dose, but what you may not know is that sleep is cyclical, with each cycle lasting about 90 minutes according to research-based app Sleep Cycle. The app uses motion detection to monitor your sleep patterns, so it can wake you up gradually and get rid of that groggy feeling we experience first thing.

3) Meditate don't hibernate

In the midst of winter, we typically find ourselves indoors a lot more and chances are that Netflix and other streaming services are the go to sources to beat the winter blues. Whilst this may feel comforting, research from Harvard University shows you would be happier doing a short meditation. The study shows that a regular meditation practice is linked to better brain function and to slowing down the aging process.

4) Fast

Research suggests that eating within a specific window of time each day has a range of preventative and enhancement health benefits. For example, recent studies have shown that eating within an 11-hour window was associated with a decreased breast cancer risk and reduction in recurrence by as much as 36%, while eating within a 12-hour window improved sleep and increased weight loss in people with a normal weight.

5) Eat broccoli sprouts

Research has identified that broccoli sprouts contain 50 to 100-times more of a compound called sulforaphane than mature broccoli. Sulforaphane activates a special genetic pathway in our cells known as Nrf2. Nrf2, a master regulator, controls other genes that affect our anti-inflammatory and antioxidant processes, and even has the ability to deactivate potentially harmful compounds we're exposed to each day like benzene from air pollution.

Making changes to the way we live can seem daunting, particularly when we have comfortable habits and routines. However, it is never too late to take control. Start with one sustainable behaviour that improves how you live. The path to super-heroism begins with one small hack.





Source: Zurich

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