March 2020

Welcome to the latest edition of our newsletter,

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition we discuss

* What the coronavirus stimulus package means for you and the Australian economy
* Holding your nerve - why retirees fear a market plunge
* Money challenges women face

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.

In the meantime we hope you enjoy the read.

All the best,

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What the coronavirus stimulus package means for you and the Australian economy

With the COVID-19 coronavirus crippling the Australian economy and affecting livelihoods, the Australian Federal Government has announced a range of measures to support both businesses and individuals.

The total stimulus announced to date is worth $189 billion, or 10% of the size of the Australian economy, and the government has said more financial support will be announced over the coming months.

Here are some of the benefits you may be eligible for.

Support for retirees

To assist those in retirement the government is temporarily reducing minimum super drawdown requirements for account-based or allocated pensions, annuities and similar products by 50% for the current financial year and the 2020-21 financial year. This should reduce the need for retirees to sell investment assets in the current soft sharemarket conditions to fund their minimum drawdown requirements.

In addition, the upper and lower social security deeming rates will also be reduced by 0.25% from 1 May in recognition of the impact of persistent low interest rates on retirees' savings. This comes on top of a 0.5% reduction announced earlier in March.

The government says the change will benefit around 900,000 income support recipients, including around 565,000 people on the Age Pension who will, on average, receive around $105 more from the Age Pension in the first full year that the reduced rates apply.

Minimum payment rates for account-based and allocated income streams

Age	Current rates	Reduced rates 2019-20 & 2020-21
Under 65	4%	2%
65-74	5%	2.5%
75-79	6%	3%
80-84	7%	3.5%
85-89	9%	4.5%
90-94	11%	5.5%
95 or more	14%	7%

Household stimulus payments

The government is providing two separate, tax-free $750 payments to social security, veteran and other income-support recipients, including those on the Age Pension, and eligible concession card holders.

The first payment will be made from 31 March 2020 and the second payment from 13 July 2020. However, people eligible for the coronavirus supplement (detailed below) won't be entitled to the second payment.

It's expected that up to 6.6 million people will be eligible for the first payment and around five million for the second payment, with around half of these pensioners.

Coronavirus supplement

For the next six months, the government will establish a new coronavirus supplement worth $550 per fortnight. This will be paid to both existing and new recipients of JobSeeker Payment, Youth Allowance Jobseeker, Parenting Payment, Farm Household Allowance and Special Benefit, doubling the payment for those currently on these benefits to $1,100 per fortnight. Students receiving Youth Allowance, Austudy and Abstudy will also be eligible.

Asset tests and waiting periods that typically apply to these types of payments will be waived, and eligibility will be extended to permanent employees who are temporarily stood down.

Sole traders, the self employed, casual workers and contract workers whose volume of work has been affected may also be eligible, provided they're earning less than $1,075 a fortnight. These payments will begin from 27 April 2020.

Temporary access to super

The government will allow some people affected by the coronavirus to access up to $10,000 of their super between now and 1 July 2020, and a further $10,000 in the first three months of the 2020-21 financial year, tax free.

Those who are eligible include the unemployed, people receiving JobSeeker Payment, Youth Allowance Jobseeker, Parenting Payment, Farm Household Allowance and Special Benefit. And also people who've been made redundant, had their work hours reduced by 20% or more or sole traders whose turnover has reduced by 20% or more since 1 January this year.

Applications can be made online from mid-April by using myGov. Upon application you will need to self-certify that you satisfy the eligibility criteria.

Outlook for the Australian economy

AMP Capital Senior Economist Diana Mousina says that while the government stimulus is welcome, it's unlikely to be enough to keep Australia from falling into recession.

Ms Mousina says that the combined economic impact of the summer bushfires, lower Chinese tourism and education spending, global coronavirus shutdown and recessions in the US and Europe will all take a toll, however the government's spending measures should help to limit the severity of the downturn.

Due to the uncertainty around the country's economic position, the Federal Government has also announced that it will postpone the next Federal Budget. The budget is usually handed down in May, but has been postponed until 6 October 2020.

Source: Australian Government's Economic Response to the Coronavirus: treasury.gov.au/coronavirus

Holding your nerve – why retirees fear a market plunge

The spread of coronavirus has been followed by some of the biggest plunges in share markets since the global financial crisis (GFC), both here in Australia and around the world.

There's nothing new about a market correction, but for those close to retirement it can be a nerve-wracking experience. If you've checked your superannuation balance over the last week, you may need a stiff drink.

For investors, or anyone with super, the general advice is to hold your nerve. Selling out at a low will lock in losses. Market corrections are quite normal and share market pullbacks provide opportunities for investors to buy cheaper stocks that will rise in value over time.

Yet "hold tight" may be easily said to younger or middle-aged Australians accumulating wealth in the super system; but what about our ever-increasing pool of retirees? Do they have the luxury or the option to weather corrections such as this?

1. Sell-offs impact retirees more

For younger Australians currently making regular contributions to super, the impact of large sell off is minimised for two key reasons. Firstly, there is plenty of time to wait until markets recover, and secondly, they also may benefit from buying cheaper assets at the bottom of the cycle.

Yet for retirees there are no such luxuries. While markets are down, every dollar of income drawn on from super is crystallising the loss at a market low point, this is commonly referred to as 'sequencing risk' and is the reason why retirees need to be more careful than those in accumulation phase.

We as a species have evolved with embedded natural instincts to flight or fight in times of crisis. The tendency for retirees to watch their investments closer and have a greater care-factor for their investment outcomes makes a lot of sense-they are less capable of replacing these savings. However, as a result, there can be a flight to safety at the worst possible time. Known as 'behavioural risk' this is the observation that investors tend to switch out of risky assets near the lows of the market cycle.

2. Should retirees be reducing risk now?

The spread of coronavirus and the resulting fall in markets highlights the importance of investors understanding how much risk they are holding in their super or pension account. Australians in or approaching retirement, who have sat up and taken notice of the recent market plunge, may now be wondering, what is the right amount of risk to hold in their investments?

The decision to reduce risk needs to be traded off with the impact of potentially lower long-term returns. With record low interest rates and bond yields, the future return expectations on traditional safe-haven assets is lower than ever, strengthening the concept that if risk equals return, no risk equals no return!
And with our life expectancy ever increasing with advances in medicine, science and technology, our retirement savings need to support our lifestyle longer.

3. 5 ways for retirees to balance risk and return

Investors looking to reduce downside risk, but concerned about the impact on long term returns, could consider some of the following options:

- Diversifying into non-traditional income generating assets, such as infrastructure assets
- Remaining in equities, but adding protection
- Checking investments are being optimised for retirement tax treatment
- Remaining in growth assets but increase diversification into growth-alternatives
- Considering a strategy that dynamically adjusts the asset mix based on the environment.

But most of all, with any of the above, right now is most likely not the right time to make a reactionary switch. Let the dust settle and move gradually over time.

Retirement is about enjoying life without the obligation to work. For your investments, retirement is also about considering your own personal appetite and capacity for risk, the cost of suffering large portfolio losses, and the impact of not earning sufficient return.

It's a balancing act, but with the right help, in my view, entirely achievable.

Darren Beesley
- Head of Retirement Solutions, AMP Capital

Money challenges women face

Knowledge is power.

Financial knowledge is particularly powerful when it comes to securing your future. Women and men alike can benefit from acquiring financial knowledge and skills. But when it comes to money, women face unique challenges.

The last few years have seen the spotlight shining brightly on women's issues globally with calls for political and social change, and exciting progress has been made to close the gender gap. However, there are still a number of problem areas. It may come as a surprise that one of these areas is financial literacy.

What is financial literacy?

Financial literacy is not simply numeracy. The OECD International Network on Financial Education defines financial literacy as a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve financial wellbeing.

Being financially literate is essential when it comes to retirement planning, wealth accumulation and economic empowerment.

The financial literacy gap

One of the most striking findings from the latest Household, Income and Labour Dynamics in Australia (HILDA) report[i] is there is a clear gender divide in financial literacy. The data revealed that women exhibit much lower levels of financial literacy than men. The HILDA survey measures basic financial literacy by asking 5 key questions and only 35% of women answered all five questions correctly, compared with 50% of men.

Ultimately, for women to be truly empowered, it's essential to be financially literate and plan for the long term. Here's why:

Lower lifetime earnings

Women are more likely to have taken time out from work to care for children or parents and are more likely to have earned less than men. Also, factors such as divorce, the loss of a partner, an illness or even financial abuse can leave women in a precarious financial position, particularly later in life.

Lower super balances

Data from the Australian Bureau of Statistics[ii] released in November 2019 revealed the median superannuation balance remains lower for women than men. In 2017–18, the median superannuation balance at, or approaching, preservation age (55-64 years) was $119,000 for women and $183,000 for men. While these figures are well up on the equivalent figures from 2015/2016, ($158,700 for men and $105,400 for women) a significant gap between men and women still exists.

Longer life expectancy

Lower lifetime earnings need to stretch for longer, as women tend to live longer than men (80.7 years for men and 84.9 years for women)[iii]. That's an extra 4.2 years to plan for living and medical expenses.

Closing the gap

Thinking about the long term when it comes to money can help make sure women are prepared for retirement, protected during emergencies and are making the most of their money.

The good news is, there are many resources available to women to help close the gap. Added to that, data tells us women are generally more likely to want to learn about managing money better.

Set up the next generation for success

To help close the gap for the next generation, it's particularly important to raise financially literate children. The first place kids learn about money is in the home from their family. It's where their financial habits are formed at a young age, and where they develop their attitudes and beliefs about money that they carry into adulthood. Parents and grandparents can have a powerful, positive impact on their children's wellbeing in the future by helping them form good money habits for life.

Financial literacy is essential for women and men to feel secure about their financial future and be truly empowered. We can help.

i https://melbourneinstitute.unimelb.edu.au/__data/assets/pdf_file/0011/3127664/HILDA-Statistical-Report-2019.pdf

ii https://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/4125.0~Nov%202019~Main%20Features~Economic%20Security~4

iii https://www.abs.gov.au/ausstats/abs@.nsf/mf/3302.0.55.001