HANMOORE
FINANCIAL SOLUTIONS

September 2023

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

* How do interest rates affect your investments?
* Why an emergency fund delivers peace of mind.
* Will these super changes affect you?

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

All the best,

The Team at Hanmoore

Hanmoore Financial Solutions
10-12 Chapel Street Blackburn VIC 3130
P 03 9878 4444
E info@hanmoore.com.au
W www.hanmoore.com.au
Facebook hanmoorefinancialsolutions

58-60 Napier Street Essendon Vic 3040
P 03 9370 4088

Hanmoore Holdings Pty Ltd ABN 45 006 327 671 trading as Hanmoore Financial Solutions is a Corporate authorised representative of Charter Financial Planning Limited ABN 35 002 976 294, Australian Financial Services Licensee Licence number 234665.
This information is provided by AMP Financial Planning Pty Limited (AMPFP) ABN 89 051 208 327 AFSL 232 706 and Charter Financial Services Limited (Charter) ABN 35 002 976 294 AFSL 234 655 Ph. 1800 021 466, both wholly owned subsidiaries of AMP and members of the AMP Group. Any advice contained in this document is of a general nature only and does not take into account the objectives, financial situation or needs of any particular person. Before making any decision, you should consider the appropriateness of the advice with regard to those matters. If you decide to purchase or vary a financial product, your advisers, AMPFP, Charter its associates and other companies within the AMP Group may receive fees and other benefits, which will be a dollar amount and/or a percentage of either the premium you pay or the value of your investments. Ask us for more details. Any general tax information provided is intended as a guide only and not to be relied upon. If you no longer wish to receive direct marketing, please call your adviser. To view our privacy policy visit AMP group privacy policy. AMP Advice is a trademark registered to AMP Limited ABN 49 079 354 519.

How do interest rates affect your investments?

Interest rates are an important financial lever for world economies. They affect the cost of borrowing and the return on savings, and it makes them an integral part of the return on many investments. It can also affect the value of the currency, which has a further trickle-down effect on other investments.

So, when rates are low they can influence more business investment because it is cheaper to borrow. When rates are high or rising, economic activity slows. As a result, interest rate movements are also a useful tool to control inflation.

Rising steadily

For the past few years, interest rates have been close to zero or even in negative territory in some countries, but that all started to change over the last year or so.

Australia lagged other world economies when it came to increasing rates but since the rises began here last year, the Reserve Bank of Australia (RBA) has introduced hikes on a fairly regular basis. Indeed, the base rate has risen 4 per cent since May last year.

The key reason for the rises is the need to dampen inflation. The RBA has long aimed to keep inflation between the 2 and 3 per cent mark. Clearly, that benchmark has been sharply breached and now the consumer price index is sitting at 6 per cent for the quarter to June 2023.

Winners and losers

There are two sides to rising interest rates. It hurts if you are a borrower, and it is generally welcomed if you are a saver.

But not all consequences of an interest rate rise are equal for investors and sometimes the extent of its impact may be more of a reflection of your approach to investment risk. If you are a conservative investor with cash making up a significant proportion of your portfolio, then rate rises may be welcome. On the other hand, if your portfolio is focussed on growth with most investments in say, shares and property, higher rates may start to erode the total value of your holdings.

Clearly this underlines the argument for diversity across your investments and an understanding of your goals in the short, medium, and long-term.

Shares take a hit

Higher interest rates tend to have a negative impact on share markets. While it may take time for the effect of higher rates to filter through to the economy, the share market often reacts instantly as investors downgrade their outlook for future company growth.

In addition, shares are viewed as a higher risk investment than more conservative fixed interest options. So, if low risk fixed interest investments are delivering better returns, investors may switch to bonds.

But that does not mean stock prices fall across the board. Traditionally, value stocks such as banks, insurance companies and resources have performed better than growth stocks in this environment.[i] Also investors prefer stocks earning money today rather than those with a promise of future earnings.

But there are a lot of jitters in the share market particularly in the wake of the failure of a number of mid-tier US banks. As a result, the traditional better performers are also struggling.

Fixed interest options

Fixed interest investments include government and semi-government bonds and corporate bonds. If you are invested in long-term bonds, then the outlook is not so rosy because the recent interest rates increases mean your current investments have lost value.

At the moment, fixed interest is experiencing an inverted yield curve, which means long term rates are lower than short term. Such a situation reflects investor uncertainty about potential economic growth and can be a key predictor of recession and deflation. Of course, this is not the only measure to determine the possibility of a recession and many commentators in Australia believe we may avoid this scenario.[ii]

What about housing?

House prices have fallen from their peak in 2022, which is not surprising given the slackening demand as a result of higher mortgage rates.

Australian Bureau of Statistics data showed an annual 35 per cent drop in new investment loans earlier this year.[iii]

The changing times in Australia's economic fortunes can lead to concern about whether you have the right investment mix. If you are unsure about your portfolio, then give us a call to discuss.

i https://www.ig.com/au/trading-strategies/what-are-the-effects-of-interest-rates-on-the-stock-market-220705

ii https://www.macrobusiness.com.au/2023/02/inverted-yield-curve-predicts-australian-recession/#:~:text=Since%20the%20great%20bond%20yield,the%20shape%20of%20the%20curve.

iii https://www.abs.gov.au/statistics/economy/finance/lending-indicators/latest-release

Current as at Sep 2023

Why an emergency fund delivers peace of mind

When life tosses up an unexpected event – such as retrenchment, a medical emergency or even just a big bill to fix the car – it can be nerve-wracking worrying about how to deal with the crisis. And, if funds are short, that just adds to the stress.

But imagine that you have a secret cash stash – an emergency fund – that will cover the costs, giving you the mental space to deal with the problem.

In fact, an emergency fund is the basis for a strong financial strategy and provides a crucial safety net. It makes sense regardless of your age or income because the unexpected can happen to anyone.

Without a cash reserve, you may have to rely on credit cards or loans, which can put a further strain on your financial situation and your mental health.

An emergency fund gives you the peace of mind to be able to weather the storms that come your way without racking up unwanted debt and interest payments.

How much is enough?

Of course, it can be tough to save when inflation is eating away at your income. Rising interest rates, rents and the cost of groceries is putting a big strain on households.

The Australian Bureau of Statistics reports that household savings have been declining for more than a year as people contend with increased mortgage payments among the other rising costs.[i]

Nonetheless, by putting aside even a small but regular payment into a separate fund you will slowly accumulate enough to cover emergencies.

The size of your emergency fund depends on your own circumstances but an often quoted target is enough to cover between three and six months of living expenses.

It may differ if say, you are planning on starting a family and need funds in reserve to cover the difference between parental leave payments and a salary; you have children in school and want to be able to cover school fees for a year or more, no matter what happens; you need to take time off work to care for a family member; or you need to make an unplanned trip.

On the other hand, if you have retired, it can be helpful to have a buffer against market volatility. If there is a downturn in the markets and your superannuation is not providing your desired level of income, a year's worth of living expenses in an emergency fund can make all the difference to your lifestyle.

The main thing to remember is that if you need to raid your emergency fund, start work on rebuilding it as quickly as possible.

Building your fund

Putting together a budget can help you to analyse how much you can afford to put away every week, fortnight or month. Then, consistently saving until you reach your goal is the key, no matter how small the amount.

It is best to keep your emergency fund separate from your everyday transaction account to reduce the chance of you using your saved funds for regular expenses. One option is to pay yourself first by setting up a direct debit, so your emergency fund grows automatically with no extra action needed from you, and to avoid the temptation to withdraw your savings.

The type of account you choose for your emergency fund is important. It should be readily available so, while shares and term deposits may offer higher returns, they are not quickly accessible when required. Shop around for a bank account that offers the highest interest to get the most out of your hard-earned income.

Building an emergency fund is an essential component of a strong financial plan, providing a safety net should something unexpected arise. If you are unsure of the best way to set up an emergency fund, we encourage you to reach out to us. We can provide guidance on the best options for your unique financial situation and help you take steps towards building a strong financial foundation.

i https://www.abs.gov.au/media-centre/media-releases/economic-activity-increased-05-cent-december-quarter

Current as at Sep 2023

Will these super changes affect you?

As our superannuation balances grow larger, it makes more sense than ever to keep track of the many rules changes that have recently happened or are coming up soon.

Australians are investing more in super - almost $151 billion dollars in the year ending March 2023, an increase of 11.3 per cent.[i]

Those extra contributions, plus the rebound in the financial markets, have resulted in super assets of around $3.5 trillion.[ii]

And it is being put to good use. We took out lump sum payments totalling $53.5 billion dollars during the 12 months and pension payments of $42.3 billion.[iii]

Quarterly rate of return

To keep your super on track for a comfortable retirement, check out these latest changes in case they affect you.

Super bonus for workers

For employees, the new financial year kicked off with an increase in the Superannuation Guarantee paid by employers. It is now 11 per cent of eligible wages.

This rate will increase by 0.5 per cent each year until it reaches 12 per cent in 2025.[iv]

The Australian Tax Office will also be cracking down on employers who don't pay on time or at all. From 1 July 2026, super must be paid at the same time as wages rather than at the end of each quarter.

The recent Federal Budget also provided funds to help the ATO enforce super payments and recover unpaid amounts.

Minimum pension drawdown increased

A COVID-19 measure to reduce the minimum drawdown required on super pensions ended on 1 July 2023.

Investors receiving super pensions and annuities must withdraw a minimum amount each year. The federal government reduced this amount by 50 per cent over the last four financial years to help those wanting to protect their capital as the markets recovered from the chaos of the pandemic.

You can find out more by visiting the ATO's minimum pension standards.[v]

Transfer balance cap to be lifted

The maximum amount of capital that can be transferred to your super pension increased to $1.9 million from 1 July 2023.[vi]

The transfer balance cap limits the total amount of super that can be transferred into a tax-free pension account. This is a lifetime limit.

The cap is indexed and began at $1.6 million when it was introduced in 2017. Increases in the cap are tied to CPI movements.

You can see your transfer balance account and cap information in your online ATO account.

Extra tax for large balances

Investors with super balances of $3 million or more will lose the benefit of super tax breaks on earnings. From 1 July 2025, taxes on future earnings will be 30 per cent instead of 15 per cent although they will continue to benefit from more generous tax breaks on earnings from the funds below the $3 million threshold.

This change is expected to apply to around 80,000 people.

Other recent changes

A number of changes announced in both Federal Budgets last year have also been slowly introduced over the past 12 months.

In one major change, the minimum age was lowered for those able to invest some of the proceeds of the sale of their homes into super, known as a 'downsizer contribution'.

From 1 January 2023, if you are aged 55 or older, you can now contribute to your super up to $300,000 (or $600,000 for a couple) from the sale of their home.

The home must be in Australia and owned by you for at least 10 years.

In another residential property initiative, a scheme that allows investors to use their super fund to save for their first home has been expanded.

The First Home Super Saver Scheme was last year increased from $30,000 to $50,000.

The Scheme allows you to make contributions into your super then apply to release them when you want to purchase your first home, provided you meet the eligibility requirements.

Another significant reform for many has been the removal of the work test for those under 75, who can now make or receive personal super contributions and salary sacrificed contributions. (Although the ATO notes that you may still need to meet the work test to claim a personal super contribution deduction.)

Previously if you were under 75, you could only make or receive voluntary contributions to super if you worked at least 40 hours over a 30-day period.

A further change introduced last year was the removal of the $450 per month threshold for super contributions.

Employers must now pay the super guarantee to all employees regardless of their earnings however, employees who are under 18 still need to work more than 30 hours in a week to be eligible.

While caps have been lifted and programs expanded, at least one scheme has not changed. The Low Income Super Tax Offset (LISTO) threshold remains at $37,000. LISTO is a government payment to super funds of up to $500 to help low-income earners save for retirement.

If you earn $37,000 or less a year you may be eligible a LISTO payment. You don't need to do anything other than to ensure your super fund has your tax file number.

Finally, a project that may pay off down the track, the Federal Budget included continued funding for a superannuation consumer advocate to help improve investors' outcomes.

Expert advice is important to help navigate these changes. Call us for more information.

i,ii,iii https://www.apra.gov.au/news-and-publications/apra-releases-superannuation-statistics-for-march-2023

iv https://www.ato.gov.au/Business/Small-business-newsroom/Lodging-and-paying/The-super-guarantee-rate-is-increasing/

v https://www.ato.gov.au/Rates/Key-superannuation-rates-and-thresholds/?anchor=Minimumannualpaymentsforsuperincomestream

iv https://www.ato.gov.au/Individuals/Super/Withdrawing-and-using-your-super/Transfer-balance-cap/

Current as at Jul 2023