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INTRODUCTION

Inflationary forces continued to intensify in key regions, which suggested interest rates could be raised more quickly and more aggressively than previously anticipated.

Government bond yields continued to rise sharply, resulting in negative returns from fixed income markets.

The likelihood of rising borrowing costs also appeared to spook equity markets, which performed poorly over the month. Central banks are essentially being forced to tighten policy settings to combat rampant inflation, but risk an economic slowdown or recession if borrowing costs are raised too substantially. Corporate earnings growth could slow in this environment.

Further Covid lockdowns in China also hampered sentiment towards risk assets, and could add to inflationary pressures. Various shutdowns and the likelihood of supply-chain interruptions seem likely to push prices higher.

The threat of energy and food shortages owing to the ongoing conflict in Ukraine caused further unease among investors.

Continued over...

FURTHER INFORMATION

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ECONOMIC UPDATE
CONTINUED

AUSTRALIA

Trimmed mean inflation – the Reserve Bank of Australia's preferred underlying measure of price increases – rose 1.4% in the March quarter; almost double the official forecast from as recently as February.

On an annual basis, inflation has quickened to 3.7%; up from 2.5% in the December quarter and well above the Reserve Bank of Australia's 2% to 3% target range.

NEW ZEALAND

The Reserve Bank of New Zealand raised official cash rates by a further 0.50 percentage points, to 1.50%. The move seemed understandable given the extent of inflationary pressures, but does risk dampening house prices and, in turn, consumer sentiment.

That said, the overall economic outlook brightened somewhat due to the imminent reopening of the country for tourists. From May, overseas visitors will be able to visit New Zealand for the first time in more than two years – good news for the country's tourism-related businesses. This development should be a welcome boost for the economy, which appears to have lost momentum recently.

US

Following the increase in interest rates in March, all eyes were on the next Federal Reserve Board meeting in early May to see whether borrowing costs will be raised again and, if so, by how much.

Consensus forecasts suggest US interest rates will be raised by 0.50 percentage points as policymakers continue to grapple with spiralling inflation. CPI has soared to an annual rate of 8.5%.

There was a surprise drop in GDP in Q1. Growth was -1.4% in the period, compared to expectations for a 1.0% increase.

More encouragingly, unemployment in the US fell to 3.6% in March, only a whisker above the pre-pandemic level of 3.5%.

Wage growth has picked up too, partly due to labour shortages in some sectors. Nationally, average hourly earnings are up 5.6% over the past year; double the average rate over the past 15 years.

EUROPE

Until recently the European Central Bank was not expected to amend monetary policy settings this year. Persistently high inflation, however, and the prospect of intensifying pricing pressures owing to the war in Ukraine has prompted investors to revise these forecasts.

With Eurozone inflation running at an annual rate of 7.5%, observers are now anticipating as many as four interest rate hikes in the remainder of 2022. The first could occur in May, following the European Central Bank's next meeting.

The conflict in Ukraine is affecting economic prospects for the broader region. Rising fuel costs and risks of energy shortages have dampened consumer confidence in both France and Germany, for example.

The inflation situation in the UK is being exacerbated by rising taxes. In real terms, wages could fall by as much as 4% this year; one of the worst outcomes since World War II. This prospect is dampening consumer confidence and clouding the outlook for discretionary spending.

ASIA

With virus cases increasing sharply, tough new Covid restrictions were implemented in several cities. This could have implications for global growth, given the associated impact on supply chains.

Economic activity levels in China in the March quarter were quite resilient and supported a better-than-expected growth outcome. The latest wave of infections has clouded the outlook for GDP growth, however, and prompted authorities to suggest stimulus will be ramped up to help support activity levels and investor sentiment.

Separately, data confirmed that energy demand has fallen sharply in China. Oil consumption is down the most since the initial Covid shock two years ago, owing to the latest shutdowns.

In Japan, the yen deteriorated to its lowest level against the US dollar for around 20 years.

Australian Dollar

The Australian dollar struggled in April, declining in value by 5.4% against the US dollar. By month end, the 'Aussie' bought just over 70 US cents.

Commodity prices edged higher, providing some support, but concerns over the global growth outlook hampered the currency.

As well as weakening against the US dollar, the Australian dollar lost ground against a trade-weighted basket of other international currencies.

Australian Equities

Australian equities were quite volatile during April and lost ground in the month as a whole. The S&P/ASX 200 Accumulation Index closed 0.9% lower.

Investors contemplated the potential implications of a longer conflict in Ukraine, China's zero Covid policy and associated lockdowns, as well as the release of higher-than-expected local inflation data.

March's recovery in the IT sector unwound in April, with the sector falling 10.4%. Stocks in the Materials sector (-4.3%) struggled as the impact of Shanghai's city-wide lockdown and new restrictions in Beijing cast doubt on Chinese demand for metals including iron ore – a key input in the manufacture of steel. Utilities (+9.3%) continued to benefit from elevated energy prices.

Similar to their large cap counterparts, the Information Technology sector was the biggest detractor from the S&P/ASX Small Ordinaries Index.

Listed Property

Like broader equity markets, global property securities struggled in April. The FTSE EPRA/NAREIT Developed Index declined by 0.1% in Australian dollar terms, although this outcome was assisted by currency moves. In local currency terms, the Index declined by more than 5%.

The best performing regions included Switzerland (+2.0%), Hong Kong (+1.0%), Singapore (+0.9%) and Australia (+0.6%).

Laggards included Sweden (-15.8%), Germany (-9.5%) and Canada (-5.0%).

Global Equities

Share markets performed poorly in April, as investor sentiment soured. The MSCI World Index declined 6.9%, extending falls in the calendar year to date to more than 11%.

Weakness in the US set the tone. The bellwether S&P 500 Index closed the month down 8.7%, with weakness extending across most areas of the market. This was the worst monthly performance since March 2020, following the initial Covid shock.

The tech-heavy NASDAQ performed even worse, falling 13.3%; its worst monthly return since 2008 in the midst of the Global Financial Crisis.

All major markets in Asia lost ground. The Japanese Nikkei, Hong Kong's Hang Seng and China's CSI 300 all declined between 3% and 5%, for example.

European stocks were the best performers, despite ongoing economic concerns in the region owing to the Ukraine conflict. Selected markets – including the UK and Spain – actually closed the month in the black, although collectively the region's equity markets declined by around 2.5%.

Global and Australian Fixed Income

Government bond yields continued to rise in major regions, resulting in another month of negative returns from global fixed income markets.

US Treasury yields rose particularly strongly, after Federal Reserve policymakers reaffirmed that taming inflation is "absolutely essential". Yields on 10-year securities rose by 60 bps over the month, to 2.94%.

Government bond yields rose in Germany and the UK too – by 39 bps and 30 bps, respectively – as investors priced in the likelihood of higher official interest rates in the region.

10-year Australian Commonwealth Government Bond yields closed the month 29 bps higher, at 3.13%; the first time they have traded above the 3% threshold since the middle of 2015.

Global Credit

The same themes that affected share markets hampered credit too. Central bank policy was front and centre of attention, particularly as higher interest rates will increase the cost of debt for companies when they refinance existing bonds or look to raise fresh capital.

The Covid-related lockdowns in China also dampened enthusiasm for credit, given anticipation of supply chain disruptions and the potential for earnings impairment in some industry sectors.

Source: Colonial First State

INVESTMENT MARKET OUTLOOK: VOLATILITY RISES, VALUE EMERGES

With war in Eastern Europe, inflation surging and Covid lockdowns inhibiting industrial production in parts of China, investment markets faced a rising tide of volatility over the past quarter.

Yet while this may feel like the worst of times, it may really be that the 14 or so years since the GFC are the outlier and the new market environment is more normal than it looks.

WHAT'S INFLUENCING THE OUTLOOK?

Ukraine and China

The cruelty of Russia's 'special military operation' has shaken the world but history tells us war does not always derail investment markets.

Strikingly, global shares fell over 30% when the world locked down for Covid (February 2020 to March 2020). But they've risen slightly since the fighting started in Ukraine.

There are more specific forces at play that will influence markets. There are widespread attempts to shun Russian energy sources, which constrains supply and means oil and gas prices are rising.

Higher energy prices are a major economic blow because they suck cash from consumers' pockets. Meanwhile, the loss of Ukraine's harvests will add to food costs.

Somewhat lost in the fog of war is another Chinese Covid crisis – as we write there are over 20 million people locked down in Shanghai as Chinese policymakers stick to a futile zero-Covid policy.

That has implications for Chinese industrial production, keeps the pressure on global supply chains and curtails Chinese consumer confidence and spending.

Inflation and interest rates

For investors today, inflation and interest rates are the terrible twins: inseparable and inexorably influencing investment assets. Hopes that supply chain pressures would ease as the world recovered from Covid have been dashed by the Ukraine crisis and China's decision to slam the doors on large chunks of its population.

That means inflation is now at rates unthinkable a year ago – 7.9% in the US, 6.2% in the UK, 7.5% in the Euro area. And around the world rates have started to rise in response. There are more rises to come, with the US response stretching to a potential seven rates hikes.

Who's going to drop the ball?

This confluence of events throws up another risk – major policy error by governments or central banks. A recent IMF bulletin sums it up: "There are already clear signs that the war and resulting jump in costs for essential commodities will make it harder for policymakers in some countries to strike the delicate balance between containing inflation and supporting the economic recovery from the pandemic."

What's normal anyway?

According to Andrew Garrett, Investment Director at Perpetual Private, markets are now dealing with geopolitical risks and inflation pressures they haven't experienced for over a decade.

Yet while Perpetual Private does expect higher volatility and lower overall returns, that doesn't mean well-diversified portfolios can't deliver solid results for investors. Instead, a more nuanced market environment places a premium on specific investment skills.

"The long-running, low-rate environment that's just ended inflated investment markets and made growth assets, especially 'promising young tech stocks,' more attractive," says Andrew. "To use a Buffetism, it lifted all boats."

By contrast, a rising-rate environment is one where active investors with a nose for quality can do well. We're likely to see better results from value stocks (ie profitable companies with predictable earning whose full potential is not built into their ticker price). And from value managers – like Perpetual – who specialise in the deep research needed to unearth those opportunities.

Recent results in Australia may be a sign of things to come in this growth/value shift. Value shares were up 11.7%. Growth shares lost 4%. (As measured by the MSCI Australia Value and MSCI Australia Growth indices for the March quarter).

Source: Perpetual

VOLATILITY BITES: HOW RETIREES CAN MANAGE JUMPY MARKETS

The 2020 COVID-19 share sell off and recent equity market volatility shows just how quickly share prices can move.

Volatility can have different meanings for different investors, those with a long-term horizon can be less concerned, knowing they have time on their side. But what about retirees? How can they manage the mental challenge of watching their hard-earned capital shrink before their eyes? And do it without becoming so conservative they have to downgrade their lifestyle?

It's a pertinent question right now because higher inflation, rising interest rates and the Russian invasion of Ukraine are making markets nervous.

Perpetual Private's Associate Partner, Daniel Elias says volatility is more tangible for retirees. "The numbers on your portfolio spreadsheet aren't theoretical – they pay your bills. Because that capital is so important, the challenge for retirees is reining in the fear and anxiety that can lead them to irrational decisions."

In the years around retirement, the risk that a market downturn occurs right before you retire, or soon after, is called sequencing risk.

To manage sequencing risk, having a diversified portfolio of assets can help dampen the effect on your portfolio when markets fall.

THAT'S WHEN THINGS GO V-SHAPED

When COVID-19 lockdowns first hit in March 2020, markets fell, quickly and sharply. As people stayed at home and started upgrading their Netflix accounts, economists and analysts were arguing about the shape of a potential recovery.

Would markets fall even further, then bump along the bottom before gradually rising again (U-shaped)? Or stay down for years (the dreaded L-shape)?

Ultimately, we surfed a dramatic V-shaped recovery. Writing in January 2022, Mano Mohankumar from superannuation researcher Chant West said, "Since the market low-point at March 2020, growth funds have surged an astonishing 31%, which now sees them sitting 16% higher than the pre-COVID-19 crisis peak."

Investors who looked through the dramatic market falls associated with COVID-19 were rewarded for sticking to their strategy. But many who reacted emotionally paid a price.

In May 2021, the McKell Institute estimate that those who redeemed via the Early Release of Super scheme at the nadir of the COVID-19 crisis gave up nearly five billion dollars in lost returns during the markets' rebound.

Remaining rational in times of crisis is a difficult challenge for all investors, but ensuring you listen to the financial advice and don't react with emotions is the key to not making the wrong decision during times of market stress.

ASK YOURSELF – HOW MUCH RISK IS RIGHT FOR YOU?

The key to investment selection and portfolio management is optimising 'risk efficiency' by choosing the right mix of assets to give you the maximum return for the level of risk you're able to absorb.

Before making any changes to your investment strategy, ask yourself, "Am I still comfortable with the level of risk I originally implemented in my portfolio."

Understanding your risk tolerance will help you find the right mix of assets that will have enough risk to grow your portfolio, but not so much that you can't sleep at night or you are led to sell at the wrong time.

As you approach retirement, you have fewer years of earnings to save and invest and may need to draw down on your savings. This shorter time horizon limits the ability to overcome a market downturn. As a result, the amount of investment risk in your portfolio matters.

DIVERSIFICATION – YOUR BEST DEFENCE

The other great weapon retirees can wield against market volatility is diversification. Whilst the volatility in January and February 2022 was felt in the majority of retiree portfolios, losses would have been lower than the broader equity market because many retiree portfolios are diversified across other asset classes including bonds, credit assets, property and increasingly, alternative assets.

Diversification helps to smooth returns across different economic conditions. This is because of the low or negative correlation between certain asset classes, so if one asset class falls in value in response to an economic or geopolitical event, another might rise.

Bonds can also play an excellent role in protection against equity market risk in times of market volatility and help to minimise sequencing risk.

THERE ARE ALTERNATIVES

In times of ultra-low interest rates and share market volatility, alternative assets can add another source of income and an additional layer of diversification to an investor's portfolio.

Alternatives include things like private equity, venture capital, opportunistic property and private debt. They can add returns to clients' portfolios but must be considered in context of each retiree's overall investment goals, portfolio size, time horizon and their appetite and tolerance for risk.

Investors must clearly understand the risks associated with investing in alternative assets as they can have long lock up periods, and are less liquid than more traditional assets, meaning they can't be sold as quickly and converted into cash.

BUILDING A RESILIENT PORTFOLIO

Volatility will persist while the world adjusts to a changing economic and geopolitical order. That could mean a wider range of returns – but not necessarily a poorer real-life outcome if you stick to a robust, diversified strategy that's attuned to your needs.

Remaining diversified across asset classes can help ensure you have the optimal blend of assets in your portfolio to weather a variety of market conditions. When it comes to ensuring you don't let your emotions influence your investment decisions, your financial adviser can really help.

Source: Perpetual

IS THIS THE END OF THE HOUSING BOOM?

Clearly the growth rates in the Australian housing market, particularly in Sydney and Melbourne, peaked some time ago – March last year.

But prices have mostly been still rising, albeit at a slower pace.

National average property prices now look likely to peak around mid-year and then enter a cyclical downswing. There's a number of reasons for that. Poor affordability is pricing more home buyers out of the market. Fixed rate mortgages are rising, up 75 per cent from their lows of last year, and they're still increasing.

The Reserve Bank of Australia (RBA) is likely to push variable rate mortgages higher, and we expect them to rise around one per cent by the end of the year. Also, higher inflation makes it harder to save for a deposit.

Sydney and Melbourne sellers are trying to take advantage of higher prices and solid construction after two years of zero immigration meaning there's more supply on the market, dragging on prices. And finally, the reopening of the economy means people can once again start to spend more on services, which could reduce housing demand. Homeowners have done well over the past 12 months, with Brisbane and Adelaide leading the way.

Houses have outperformed units and the regions have done better than capital cities and continue to do so as home buyers focus more on quality-of-life considerations.

	March 2022 % change	12 mths to March 2022 % change
Sydney	-0.2	17.7
Melbourne	-0.1	9.8
Brisbane	2.0	29.3
Adelaide	1.9	26.3
Perth	1.0	7.0
Hobart	0.3	22.3
Darwin	0.8	10.6
Canberra	1.0	21.6
Capital city average	0.3	16.3
Capital city houses average	0.5	18.6
Capital city units average	0.0	9.4
Regional average	1.7	24.5
National average	0.7	18.2

Average capital city prices are now more than 20 per cent above the previous record high in September 2017 and are up 25 per cent from their lows in September 2020. But there has been a wide divergence between capitals.

Sydney dwelling prices fell for the second month in a row in March this year, and Melbourne prices were also down. But Brisbane and Adelaide price gains remain strong. Both are playing catch up, having lagged the larger capitals - particularly Sydney - in the early part of the rebound.

Property demand in Brisbane is benefitting from strong interstate migration, and both cities are seeing less of an affordability constraint. Perth, the worst performing capital over the past 12 months in a large part due to lockdowns, is also picking up as the state border reopens.

Overall, the slowing in monthly price growth is seeing annual price growth roll over too. After a period of well above 10-year average growth, simple mean reversion suggests a further slowdown ahead.

It isn't surprising that the housing market is cooling, though this cycle is happening earlier relative to the timing of RBA rate hikes. That's because of the bigger role ultra-low fixed rate mortgage lending played this time around in driving the boom.

Normally fixed rate lending is around 15 per cent of new home lending but over the last 18 months it was around 40 to 50 per cent as borrowers took advantage of sub 2 per cent fixed mortgage rates.

However, fixed rates have been rising since the June quarter last year which has taken the edge off new home buyer demand well ahead of any move by the RBA.

After 22 per cent growth in national average home prices last year, average home price growth this year is expected to be around 1 per cent and we expect a 5-10 per cent decline in average prices in 2023.

Top to bottom the fall in prices into 2024 is likely to be around 10-15 per cent, which would take average prices back to the levels of around April last year.

This is likely to mask a continuing wide divergence though. Sydney and Melbourne already look to have peaked but laggard cities like Brisbane and Adelaide, and possibly Perth and Darwin which are less constrained by poor affordability, are likely to be relatively stronger in 2022 with gains likely to persist into the second half of the year.

The main downside risks to our forecasts could come from another big coronavirus setback to the economy, a serious deterioration in the Russian invasion of Ukraine affecting confidence, or alternatively faster mortgage rate hikes.

This is a significant risk given the jobs market has tightened more than expected, and inflation looks to be rising much faster than forecast with the consumer price index likely to be up by at least 5 per cent over the year to the June quarter.

The main risk on the upside is a rapid surge in immigration, although this is likely to show up initially in higher rents and then higher prices with a lag.

While the national average property downswing unfolding looks like just another cyclical downswing, it's worth noting that the 25-year bull market in capital city property prices is likely to come under pressure in the years ahead.

The 30-year declining trend in mortgage rates which has enabled new buyers to progressively borrow more and more, and hence pay more and more for property, is now likely over. Also, the work from home phenomenon and associated shift to regions may continue to take some pressure off capital city prices.

Source: AMP

CAN INFRASTRUCTURE PROTECT FROM INFLATION?

It's an important question as prices rise around the world fuelled by soaring energy and commodity costs, supply chain constraints and a geopolitical retreat from globalisation.

In Australia, headline inflation is expected to reach 5 per cent by the end of the year.

And while that's still low from an historical perspective, it is above the Reserve Bank of Australia's (RBA) target range and could likely trigger a lift in the cash rate to 0.75 per cent.

Both of these factors are in our view negative for investors.

Inflation eats away at the value of money and higher interest rates directly lift financing costs, so in our view it is critical that investors find a way to protect the value of their investments.

Is infrastructure the asset class that can provide the hedge that investors are looking for? The broad answer is yes — but the devil is in the detail.

Infrastructure is not a homogenous asset class. Assets that look similar on the surface can have very different drivers of risk and return and it is important that investors consider each individual asset's specific characteristics.

At a high level, infrastructure assets can be grouped into three categories.

Each has a slightly different and nuanced relationship with inflation, and each provides investors with a different level of protection from price rises.

Let's look at each in turn.

GROWTH-LINKED ASSETS

Growth linked assets are infrastructure assets where revenue is linked in some way to the health of the economy — like airports, ports and toll roads.

In some way, each of these businesses enjoys revenue linked to economic growth and this is the core of how in our view growth-linked assets can provide inflation protection: rising prices tend to be a result of strong economic growth which brings rising employment.

Australia's real GDP is forecast to grow 4.5 per cent this year, while nominal GDP growth will come in around 9.5 per cent. This kind of economic growth lifts the usage of many infrastructure assets.

Typically in a stronger economy, more people fly, more goods are imported, and more cars and trucks are on the move. This can result in rising revenues for these growth-linked infrastructure assets. In addition, these types of businesses can often lift their prices to keep pace with inflation.

Airports may have escalation factors built into their agreements with airlines that provide for annual price increases, while their retail tenants are under individual tenancy agreements that often come with regular rental reviews.

Similarly, toll road concessions usually provide for annual price rises.

And while agreements to lift prices are not always directly linked to inflation, they are usually in our experience set at a point that reflects inflation expectations, meaning they offer protection in rising price environments and can even help drive earnings when actual inflation undershoots.

Still, there are downsides for these businesses. Operating costs often rise as input prices escalate which can impact earnings. And higher interest rates as central banks respond to inflation can make debt servicing costs rise, although this can be mitigated through hedging.

REGULATED ASSETS

Regulated assets are the infrastructure associated with essential services like water and electricity.

Demand for essential services also rises as an economy expands and more people are employed, but generally in our view it does so to a lesser extent than for a growth-linked asset like an airport.

> **"AS THE WORLD IS SEEMINGLY HEADING INTO A NEW BOUT OF INFLATION, IN OUR VIEW INVESTORS NEED TO SEEK OUT ASSETS THAT CAN PROTECT THEIR SAVINGS FROM RISING PRICES."**

Importantly, these assets operate under regulated pricing models where their revenue is determined under a regulatory framework. In many jurisdictions these revenues are in most cases explicitly linked to inflation.

Again, there are downsides. Operating costs often rise in an inflationary environment for an essential utility just like they do for other businesses, which can put pressure on earnings. And they also face the challenge of higher interest rates which may need to be mitigated through hedging.

PUBLIC PRIVATE PARTNERSHIPS (PPPS)

The third group are PPPs, a category that includes assets like schools and hospitals built and owned by the private sector and provided for use by the public sector.

These types of assets usually have fixed, availability-based revenues. This means that as long as the asset is available for use, the owner gets paid — regardless of how many people actually use the asset.

This provides a high level of certainty and consistency around the cash flows the asset generates but comes with less scope to increase revenues.

From an inflation perspective, these types of assets often benefit from the ability to pass through costs as incurred to the end user, insulating the asset owner from input price rises.

Another positive is that the revenues are often explicitly linked to inflation, but with little scope to lift prices, the inflation protection is generally limited to the extent of this inflation-linkage.

As the world is seemingly heading into a new bout of inflation, in our view investors need to seek out assets that can protect their savings from rising prices.

In many cases, infrastructure assets can provide this hedge through a combination of mechanisms.

But with a wide variety of different types of infrastructure assets available for investors, each with its own unique characteristics, we believe that taking an asset-by-asset approach is important to understanding how effectively the sector may provide a hedge against inflation.

Source: AMP Capital

NEW OPPORTUNITIES TO GROW YOUR SUPER FROM 1 JULY 2022

Both older and younger Australians, as well as low-income earners, are set to benefit from some upcoming super opportunities.

From 1 July 2022, there will be some changes made to super to make it easier for people to grow their retirement savings.

These changes will create opportunities for both older and younger Australians, as well as low-income earners, by removing some of the barriers that currently exist in the super system.

Here's what's changing:

- The $450 Super Guarantee (SG) threshold will be removed, meaning that employers will start paying super for low-income earners.
- The SG contribution rate will rise to 10.5% p.a. for all employees.
- People aged 65-74 will no longer have to meet the work test to make voluntary contributions to super.
- The 'bring-forward' rule age limit will increase to 75, so more people can make lump sum contributions to super.
- The minimum age for downsizer contributions will reduce from 65 to 60, giving more flexibility to people who are selling their home.
- First home buyers can now save up to $50,000, and any deemed earnings, to use as a home deposit through the First Home Buyer Saver Scheme.

Here are some more details about how each of these changes will work, and how you can take advantage of these opportunities to boost your retirement savings.

EMPLOYERS WILL START PAYING SUPER FOR LOW-INCOME EARNERS

SG contributions are the mandated contributions that your employer puts into your super on your behalf. For a lot of people, these are the only super contributions that go into their account.

Until now, employers haven't had to make these contributions if an employee earns less than $450 in a calendar month. Because of this, if you work casually, or you work part-time across multiple jobs, you may not have received any contributions at all from your employment.

From 1 July 2022, the $450 threshold will be removed. Employers will have to make SG contributions regardless of how much the employee earns (unless they are under 18 and working less than 30 hours per week).

Of all the upcoming super changes, this one has the potential to make the most difference, because it means low-income earners will finally have super contributions going into their account without having to make voluntary contributions themselves.

These regular contributions can go a long way towards building up retirement savings.

For example, someone who currently works three jobs, earning $400 per month for each job, will now have $1,512 contributed to their super in 2022-23, which will then accumulate further earnings. Over a 40-year period, this could add up to over $84,000 or even substantially more, depending on how their super is invested.

SG CONTRIBUTION RATE WILL RISE TO 10.5% FOR ALL EMPLOYEES

The SG contribution rate is currently 10% p.a. of your wages or salary. This rate will increase to 10.5% from 1 July 2022, and it's scheduled to increase progressively to 12% by July 2025.

Each of these incremental changes is great news for people who are paid SG contributions by their employers, because it means your super balance will grow faster without you having to make any extra contributions.

People aged 65-74 will no longer have to meet the work test to make voluntary contributions to super

People aged 65-74 currently have to satisfy the work test (or qualify for an exemption) to be able to make voluntary contributions to super. This means proving you worked for a minimum of 40 hours, during a period of 30 consecutive days, in the financial year for which you want to make a contribution.

Contribution acceptance:

From 1 July 2022, you won't have to meet the work test for the super fund to accept any type of contributions you make to your super, or any contributions your employer makes to your super, while you are under age 75.

From age 75 the only type of contribution that can be accepted into your super account are downsizer contributions or compulsory employer superannuation contributions.

Personal deductible contributions:

From 1 July 2022, if you are aged 67 - 74 at the time you make a personal super contribution, you only have to meet the work test, or work test exemption, if you wish to claim a tax deduction for those contributions. A work test is not required to claim a tax deduction for personal contributions made while you are under age 67.

This change gives older Australians more flexibility to be able to contribute to super and boost your retirement savings, regardless of your employment status, in the years leading up to your 75th birthday.

'Bring-forward' rule age limit will increase to 75

The 'bring-forward' rule allows you to use up to three years' worth of your future non-concessional (after-tax) super contribution caps over a shorter period – either all at once or as several larger contributions – without having to pay extra tax.

The non-concessional contributions cap is currently $110,000 per year. So, if you use the bring-forward rule, you may be able to contribute up to $330,000 in a single year as long as you don't exceed the total cap over the three-year period. This strategy is mostly used by people nearing retirement, who want to contribute as much as possible to super before they stop working, or people who receive an inheritance or other type of windfall.

Currently, you need to be under age 67 at any time in a financial year to use the bring-forward rule. From 1 July 2022, the age limit will increase to 75. This is great news for people who want to put as much money as possible into their super before they retire, without being penalised for it.

Eligibility for the bring-forward rule will depend on your total super balance at the most recent 30 June, and the amount of your personal contributions over the past two financial years.

Minimum age for downsizer contributions will reduce from 65 to 60

The downsizer contribution is a strategy aimed at helping older Australians put all or part of the proceeds of the sale of one qualifying home into super to boost your retirement savings. You can only make this type of contribution, and the maximum amount you can contribute is $300,000. However, by combining it with the bring-forward rule, you could potentially contribute $630,000 to super (or $1.26 million as a couple) in a single year.

Currently, you can only make a downsizer contribution if you're 65 or older at the time of the contribution. From 1 July 2022, the minimum age reduces to age 60. This will provide more flexibility to people in their early sixties who are planning to sell their family home and want to move some or all of the proceeds into super.

Although the work test has never applied to downsizer contributions, other eligibility rules apply and it's important to submit a downsizer contribution form to your fund at the time you make this type of contribution.

First home buyers can now save up to $50,000 using the First Home Super Saver Scheme

People saving up for their first home can use the First Home Super Scheme (FHSS) to grow their deposit amount. It takes advantage of the favourable tax treatment of super contributions and earnings to help you save a deposit faster than if you save outside of super.

You can currently use this strategy to release up to $30,000 in eligible voluntary super contributions, along with any deemed earnings, for the purchase of your first home.

From 1 July 2022, the maximum amount of eligible contributions that may be released will increase to $50,000. However, the annual limit of voluntary contributions eligible for the scheme remains at $15,000 per financial year. This means it would take at least four years of maximum contributions to have the maximum $50,000 available for release.

Given the substantial rise in property prices we've seen all around Australia over the past year, this change will help first home buyers save a larger deposit using this strategy – albeit over a longer time period.

Source: Colonial First State

ALL ABOUT WILLS AND PROBATE

Probate is the legal process that occurs when dealing with a loved one's will after their death.

It can be difficult to know what's involved with the process and the questions to ask.

WHAT IS PROBATE?

Probate is the process that makes sure the instructions in a will can be followed. It involves proving and registering a will in the Supreme Court and, if successful, will result in a 'grant of probate'.

WHAT IS A GRANT OF PROBATE?

A grant of probate means the will is recognised as legally valid and enables the executor (the person dealing with the estate) to distribute assets to the beneficiaries named in the will. Most financial institutions require a grant of probate before they can release accounts and funds to anyone other than account holders.

WHAT TO DO IF A FAMILY MEMBER PASSES

When a family member passes away, if you're the next of kin then you need to determine whether they made a will. If they haven't, they are said to have died "intestate".

In this situation, an application needs to be made to the court for "Letters of Administration" authorising a person to distribute the assets of the deceased family member's estate, the law will set out how their estate can be distributed, if not, there's no guarantee that your loved one's wishes will be honoured.

WHAT'S A WILL?

A will is a legal document that outlines what happens to a person's possessions and assets when they die. However, a will isn't legally binding on its own — there are steps that must be taken to make sure the will is valid, just as there are steps that family members can take if they want to contest the will.

At its most basic a will must be:

- in writing
- signed by the will maker
- witnessed by at least two adults (a beneficiary should not witness a will. If they do, they may lose their entitlements under that will)
- made by someone of testamentary capacity.

Ensuring a will is properly made and signed can be very complex and it is always a good idea to ensure a lawyer is involved.

WHAT'S TESTAMENTARY CAPACITY?

Testamentary capacity means that someone's in a fit state of mind to legally understand what they're doing. If these things are all done, then the will can be used to help divide up the estate.

LIFE INSURANCE AND PROBATE

Provided you have a named beneficiary with your policy, your life insurance should be easily accessed by your loved ones when the time comes. Life Insurance should be paid directly to the beneficiary and avoid having to be distributed through the deceased's will.

Having your life insurance beneficiaries up to date can help ensure your loved ones are taken care of financially if something were to happen to you.

WHAT HAPPENS ONCE PROBATE OR THE COURT PROCESS ARE COMPLETED?

Once the court process, or probate, is completed and settled, there is then the process of the administration of an estate by the executor or administrator, after the grant of probate or letters of administration have been provided.

This process of administration is something that needs to happen when a family member passes away. This process starts when probate or letters of administration are granted, and finishes when the assets listed in the will are formally handed over to the executors of the estate and distributed. An estate can be made up of many things, including:

- Real estate
- Shares
- Loans
- Income or capital allocated by the will maker
- Cash investments
- Personal property

But doesn't usually include these items:

- Jointly owned assets that are held as joint tenants - e.g. family home (If the owners are tenants in common, the deceased person's portion can become part of the estate)
- Super pensions or annuities (except when directed by the member to be paid to the estate)
- Life Insurance where the benefit is paid directly to one or more nominated beneficiaries

Here's what you need to get started with probate:

- The current and original will

- Original death certificate from the relevant state registry
- The probate application
- Income or capital allocated by the will maker; and/or
- Lodgement fee

Probate runs through the court system in each state, and executors or administrators of the estate need to swear to the court that they'll distribute the will as instructed. It is important to consider getting a lawyer who can help you with the probate process.

WHAT HAPPENS IF SOMEONE CONTESTS A WILL?

If a family member wants to contest a will because they feel that it isn't fair or feel that something has been left out, they need to do it in the probate stage.

If someone challenges the will then the court will hold off on granting probate until the contest is sorted.

As the law in this area is very complex and can be different depending on where you live, when dealing with a will and estate planning it is always recommended to talk to a lawyer to make sure that the whole process is managed correctly, and the deceased's wishes are most likely to be fulfilled.

They can guide you through the process, ask questions you may not have considered, and recommend arrangements for a range of scenarios. They can help you prepare your own will, or manage the affairs of a family member.

It also ensures you are getting the right advice from a professional. Being prepared can really save you time and headaches down the line.

Source: TAL

HOW MUCH DO I NEED IN RETIREMENT?

How much you need to save for a comfortable retirement is a question many of us ask.

While we all hope for a simple answer, how much money you need in retirement differs for everyone. Additionally, a comfortable retirement is based on a whole range of factors including:

- When you retire
- How long you'll spend in retirement
- Whether you'll sell assets to fund your lifestyle
- How your assets are invested.

There are a number of guides that are useful to consider when working out how much you need to save for your retirement.

A MODEST OR COMFORTABLE RETIREMENT

The ASFA Retirement Standard is published each quarter by the Association of Superannuation Funds of Australia (ASFA).

It provides approximate figures for the level of income required for a modest or comfortable lifestyle, assuming you own your own home.

The current ASFA comfortable lifestyle standard is $45,962 per annum for a single person and $64,771 per annum for a couple, while the modest lifestyle standard is $29,139 for a single and $41,929 for a couple respectively.

A modest retirement lifestyle assumes you are able to afford basic activities . A comfortable retirement lifestyle enables an older, healthy retiree to be involved in a broader range of leisure and recreational activities and to have a good standard of living. You should be able to afford to buy household goods, private health insurance, a reasonable car, good clothes, electronic equipment and to travel overseas and in Australia.

DETERMINING WHAT YOU NEED AS A LUMP SUM

It's also useful to understand how much money you need to live a modest or comfortable retirement as a lump sum.

ASFA estimates that the lump sum needed at retirement to support a comfortable lifestyle is $640,000 for a couple and $545,000 for a single person. This assumes a partial Age Pension.

A different approach is to look at your pre-retirement income and consider how much of it you will need in retirement. Assume, for example, you will need 65 per cent of your pre-retirement income, so if you earn $50,000 now, you might need $32,500 in retirement.

ANOTHER METHOD TO CALCULATE A LUMP SUM

Another method is to take your current annual expenses and multiply this amount by the number of years that represent the difference between the age you retire and average life expectancy to calculate the lump sum you may require in retirement.

In Australia, average life expectancy is 83.5 years. If you take the $32,500 figure and assume you retire at age 65, this would equate to a lump sum target of $601,250. This is a guide only. Keep in mind the investment returns you generate and your actual expenses in retirement will impact the amount you need to fund your retirement.

No matter how much you assume you need, the more time you have to plan, the greater your chances of achieving your retirement income goal.

There are many steps you can take to help you achieve your retirement savings goal. First, understand your current financial position including your income and expenses, what you own and what you owe.

You may consider strengthening your financial position by repaying debt, building up your savings and investments or making additional contributions to super. Start considering how best to use your financial resources to support your income needs in retirement. Make sure you monitor your plan on an ongoing basis.

The idea is to make the most of the retirement planning opportunities available to you. And remember you don't have to go it alone. Seeking financial advice can help you achieve the retirement you hope to achieve.

Source: BT