# inTouch

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**Welcome to our quarterly magazine – in this edition:**

- What do new 'disruptive' industries mean for investors?
- Federal Budget – a summary
- Help your finances survive redundancy
- Get your finances ready for retirement
- Federal Budget – an overview for retirees
- Stepped or level premiums: know the difference
- Are you getting enough sleep?

Welcome to the latest edition of inTouch magazine. This quarter we focus on topical articles that are relevant for many of our clients, no matter what stage of life they are in. Whether you are just starting out and getting your financial future on track early, or you are heading towards the golden days of retirement and beyond, our articles provide useful information that we are pleased to share with you.

Our cover article, on disruptive industries, highlights how fast things change in the modern world and how having a long term financial plan, that you regularly review with your adviser, can help you take advantage of new opportunities and steer clear of threats. If any of these articles raise questions or you want to discuss further, your financial adviser is well equipped to have these discussions with you, so get in touch with them today! Until next quarter….

## A faster pace – what do new 'disruptive' industries mean for investors?

By Mark Rider, Chief Investment Officer, ANZ Wealth

It feels like the world is spinning at a faster pace than ever and we don't need to look far into the future to see even more 'disruption' ahead. But what does this tremendous technological momentum mean for investors?

"Technological advances mean that there's potential for companies and industries across the globe to be ousted by more innovative start-ups" says Mark Rider, Chief Investment Officer.

We have become used to new entrants revolutionizing a number of markets and industries.

Online shopping companies such as Amazon are said to be "eating the retail world[1]" with many of the traditional 'bricks-and-mortar' retail players reporting slipping sales.

When Netflix started, Blockbuster thought it seemed insignificant but once Netflix tapped into streaming it was too late to change their business model. Today Netflix is worth billions and Blockbuster is bankrupt.

Some are forecasting that driverless cars will be on the road in Australia by 2025[2] which has the potential to threaten large car manufacturers. Uber turned the taxi industry upside-down. So how do we deal with the lightning speed of change?

"Investors and fund managers should research the potential value in 'disruptors' and what it means for the incumbents. It's not as simple as just avoiding those companies that are being disrupted because the market at times can overestimate, as well as underestimate, the impact on well established companies" says Rider. "Don't dismiss the 'incumbents' – disruption isn't just for 'hip' startups."

Longstanding companies are responding to change and we've seen examples such as insurance companies using artificial intelligence (AI) to support underwriting and power companies moving into green technologies. "If you know about a disruption story, the market has probably heard it too, so the critical investment point is how much bad news is priced – this is something that active fund managers spend most of their time thinking about" says Rider.

In the healthcare sector the possibilities are amazing. The AI that Google uses to identify cats in YouTube videos is also very good at identifying skin cancers[3].

While the investment opportunities look tremendously exciting, picking the next 'winner' is incredibly hard, even more so when it comes to disruptive technologies. Choosing the next Google is a risky strategy.

This sector has also corrected recently, in part reflecting Facebook's privacy breach revelations as well as generally lofty valuations.

While disruption will no doubt be a cause of varying performance across stocks going ahead, a balanced investment strategy is a prudent approach to plot a course through the fast-paced investment landscape.

While active fund managers can look to navigate the upside and downside of any 'disruptive' forces at play, your adviser is well placed to assess the investment style and portfolio mix suitable to your financial strategy.

1. MKM Partners (Rob Sanderson) in note to investors – 'This chart shows how quickly Amazon is 'eating the retail world', CNBC article 7 July 2017

2. The Future of Car Ownership, NRMA, August 2017

3. 'Deep learning algorithm does as well as dermatologists in identifying skin cancer', Stanford University News, 25 January 2017

# FEDERAL BUDGET UPDATE 2018/19

**The announcements in this update are proposals unless stated otherwise. These proposals need to successfully pass through Parliament before becoming law and may be subject to change during this process.**

## SUPERANNUATION

Additional contributions opportunity for recent retirees aged from 65 to 74 whose balance is less than $300,000. Exit fees banned, a 3% passive fee cap for accounts with balances of less than $6,000.

## SOCIAL SECURITY

The Pension Loans Scheme is to be extended to all older Australians including self-funded retirees, enabling retirement income to be boosted up to $17,800 per couple without losing the pension or other benefits. An increase in the work bonus from 1 July 2019 to try and encourage more Australians into paid employment.

## TAX RELIEF

Income tax relief for low-income and middle-income earners – up to $530/pa via a tax offset – for 4 years starting 1 July. Address income tax bracket creep – as part of a seven year plan to ultimately eliminate the 37% tax bracket.

## THE MEDICARE LEVY

This will not be increased to 2.5% as proposed in the 2017/18 Federal Budget, instead it stays at 2%.

## SMALL BUSINESS

The $20,000 instant asset tax write-off to be extended another year to 30 June 2019.

## AGED CARE

Seniors will be encouraged to continue living at home rather than going into care with the help of $1.6bn allocated to providing 14,000 home care places over the next four years.

**WHAT'S NEXT?** Most changes must be legislated and passed through Parliament before they apply. If you think you may be impacted by some of the Budget's proposed changes, you should consider seeking professional advice.

# Help your finances survive redundancy

## Losing your job doesn't have to wreak havoc on your finances. You can stay on top of things with good planning and budgeting.

Being made redundant can throw you and your family into financial difficulty, but by planning ahead you can avoid the worst of the fallout.

### Knowing your financial status

It's difficult to deal with unexpected life events if you don't know your financial situation. Seek your adviser's guidance in finding out where you stand by looking at:

- your savings
- the size of your redundancy payment
- your total expenses over the next few months.

You should be entitled to severance pay if your job is made redundant. Genuine redundancy payments may include:

- payment in lieu of notice
- a severance payment consisting of a number of weeks' pay for every year of service
- a gratuity.[1]

You may also receive payment for unused annual leave and accrued long service leave and salary or wages for work you have already done.

If you have redundancy insurance, check with your financial adviser if you can claim, how much you can claim, and for how long. Your adviser can also help you estimate your total redundancy payments and understand the tax implications they may have.

### Setting a budget

Once you know your total available funds, you and your adviser can see how they stack up against your expenses for the next two to three months and then set an appropriate budget.

This may help you avoid any shortfall, assuming you don't earn any income during this period.

*If you know your funds won't cover your outgoings, it's important to plan how you can make up the deficit.*

Your adviser can help you look at your discretionary and variable expenses to see if you can reduce your non-essential expenses.

### Find other ways

If you can't make up the shortfall with cutbacks, your adviser may suggest other ways you can manage your finances, including getting a part-time job.

Additionally, check your eligibility for government assistance. Seek professional advice on the income support payments you may be eligible for.

### Get back on track

*Getting back on your feet is just as important as staying on top of your finances. Think of redundancy as a temporary setback and try to find a new job as soon as you can.*

Remember, you can always seek the assistance of an adviser not only in managing your finances but also in ensuring you remain financially protected.

1 Australian Taxation Office, 'Redundancy payments'. Accessible at: https://www.ato.gov.au/Individuals/Working/Working-as-an-employee/Leaving-your-job/Redundancy-payments

# Get your finances ready for retirement

Book a holiday, prepare for a sea change – but don't forget your finances. Here's what to consider when planning for your retirement.

## Getting advice

When approaching retirement, it's helpful to get advice as early as possible. Navigating tax obligations, social security entitlements, superannuation and government policies can be difficult on your own. An adviser may be able to help you set up a retirement plan that takes these aspects into account.

This plan will depend on what lifestyle you want in retirement. Do you want to travel, move or study? Go on a cruise then settle down in a retirement village? Or simply downsize your home and live comfortably? Your adviser can help you work out how much money you'll need to achieve your goals.

## Long-term planning

Based on current life expectancy in Australia, a male who is 65 years old today could live 19 more years; a female, 22 more years.[1] But you may live even longer. Determine how much super you will have by the time you'd like to retire, when you'll be able to access your super and whether you'll be eligible for the Age Pension. This will help you create a plan ready for the long term.

## Transition to retirement pensions

You may wish to discuss setting up a transition to retirement pension with your adviser.

A transition to retirement pension allows you to keep working while accessing your super. By continuing to work after you reach your preservation age (generally between 55 and 60, but it depends on when you were born), you can boost your retirement savings as your employer will continue to make contributions to your super and they will be taxed at a lower rate.

This type of pension could also be suitable if you are self-employed, but you would build up your super through personal deductible contributions rather than salary sacrifice.

With a transition to retirement pension, you can continue to work full time, or you can reduce your working hours and supplement your income with super withdrawals.

However, there are restrictions on how much you can take out, which your adviser can help you understand.

Individuals younger than 65 can draw down a pension income of between 4 and 10 per cent of their pension account balance each financial year. But withdrawing a lump sum isn't allowed.

There is also tax to consider. Pension payments are typically tax-free for people aged 60 and over. However, since July 2017, the investment returns on transition to retirement pensions are taxed at up to 15 per cent.

If you're eligible for the Age Pension, it's also possible to continue working to supplement your savings, but doing so may reduce how much of the Age Pension you're entitled to.

## Managing your super

If you would like to retire and access your super once you reach your preservation age, there are several ways to manage your finances. One possibility is to set up a retirement income stream. This enables you to withdraw certain amounts from your super fund at intervals, so you don't spend your savings too quickly.

Tax on retirement income streams are quite complex, so it's a good idea to talk to an adviser if you're considering one.

Another option is to withdraw your super in cash or transfer it to a non-super account. This may be an appealing way to immediately clear debts, invest in assets outside super or make a significant purchase quickly. However, it may also reduce your future income and attract higher tax rates.

**Incentives and entitlements** If you do work past your pension age, you may be able to take advantage of government incentives such as the Work Bonus. Under this scheme, the first $250 of employment income in a fortnight isn't assessed in the pension income test, increasing the amount you may be able to earn without potentially affecting your social security entitlements.

Retirees can also access numerous entitlements such as travel concessions, discounted medicine and other benefits that holding a Pensioner Concession Card or Commonwealth Seniors Health Card provides. If you're eligible, the Age Pension will also provide payments that can supplement your savings.

## Enjoying what's ahead

Retirement can be an exciting time of transition – but there's a lot to consider. By speaking with an adviser about your finances early on, you can help keep it stress-free and look forward to what's ahead.

1 Australian Institute of Health and Welfare (2017). Life Expectancy. Accessible at: https://www.aihw.gov.au/reports/life-expectancy-death/deaths-in-australia/contents/life-expectancy

FEDERAL BUDGET UPDATE 2018/19

# HOW THE BUDGET MAY AFFECT RETIREES AND PRE-RETIREES

**The announcements in this update are proposals unless stated otherwise. These proposals need to successfully pass through Parliament before becoming law and may be subject to change during this process.**

### SUPERANNUATION CHANGES

From 1 July 2019, if you're aged between 65 and 74 and your super balance is less than $300,000 you will be exempt from the work test that otherwise applies to voluntary super contributions. This applies only to the first financial year in which you fail to meet the work test requirements, but if you qualify you may be able to make substantial additional contributions to super.

### TAX RELIEF

Income tax relief for low-income and middle-income earners – up to $530/pa via a tax offset – for 4 years starting 1 July. Address income tax bracket creep – as part of a seven year plan to ultimately eliminate the 37% tax bracket.

### EXPANSION OF THE PENSION LOANS SCHEME

From 1 July 2019, the maximum rate an eligible individual can receive under the PLS will increase from 100% to 150% of the Age Pension. Full rate pensioners will be able to increase their income by up to $11,799 (singles) or $17,787 (couples) per year by unlocking the equity in their home.

### AGED CARE

**New high level home care packages**

The Government will deliver an additional 14,000 new high level home care packages over four years from the 2018/19 financial year

**Further aged care proposals**

A national legal framework and National Register of Enduring Powers of Attorney will be established.

**WHAT'S NEXT?** Most changes must be legislated and passed through Parliament before they apply. If you think you may be impacted by some of the Budget's proposed changes, you should consider seeking professional advice.

# Stepped or level premiums: know the difference

Deciding on which type of life insurance premium to sign up for can be difficult. Looking beyond the differences in how much you have to pay now and talking to your financial adviser may help you decide which suits you.

Choosing between stepped and level life insurance premiums isn't as straightforward as it seems. You need to understand the differences between the two.

If you take the cheaper option now, you may end up paying significantly more when you're older. But if you choose to pay more now, you may not have enough left over for life's necessities.

To make an appropriate choice, it's important to speak to your financial adviser to help you understand the differences between stepped and level premiums – not just in how much you pay now, but also changes to your premiums years down the road.

## Stepped premiums

Stepped premiums allow you to start paying for life insurance at a lower rate, with your premium calculated on each policy anniversary based on your age.

This type of premium saves money over the short term while giving you and your family insurance protection. Instead of paying higher premiums, you can redirect some of your money to income-generating investment activities or to settling debts early.

However, over the long term, this payment structure requires you to pay much higher premiums when you are older. Your premiums could rise at a time when you have reduced financial capacity, due to having either a lower income or increased liabilities.

If you are thinking of signing up for stepped premiums, your financial adviser can help you decide by considering the following factors:

- how long you're planning to keep your insurance
- how prepared you are for changes in your financial circumstances
- how well you've planned for future increases in premiums.

Your adviser can also show you how much your premiums will likely increase, and help you assess your ability to pay over the long term.

## Level premiums

Upfront, level premiums don't look that attractive for the obvious reason that they are more expensive than stepped premiums in the beginning. But the premium that you must pay is calculated based on your age when you first took out the policy.

Keep in mind that level premium rates are not guaranteed to remain the same as insurers can change their premium rates.

Speak to your financial adviser to understand how this premium structure can work to your advantage, particularly when you're older.

## Get good advice

As with any long-term financial purchase, it's important to get professional advice before taking out an insurance policy. A financial adviser may help you decide which type of premium suits you, based on your current and potential future circumstances.

# Are you getting enough sleep?

Sleep is neither a luxury nor a waste of time. It is vital to your health and helps you think and function well.

A growing number of apps, gadgets and pillows promise to lull you to sleep. Meditation classes offer the allure of deep sleep and nap pods are popping up in workplaces, offering much-needed rest.

Why all the fuss about sleep? Well, many people are not getting enough of it. A study by the Sleep Health Foundation found that 33–45 per cent of Australian adults either sleep poorly or not long enough on most nights.[1]

The University of Adelaide researchers involved in the study warned that Australia is in the grip of a sleep deprivation epidemic.

## Why does getting enough sleep matter?

### 1. It's good for your health

Sleep is as crucial to your health as diet and exercise. It supports your immune system, lowers your blood pressure and helps balance your hormone levels.[2]

Lack of sleep increases your risk of hypertension and heart problems, according to researchers at the University of Warwick. They found that if you sleep less than six hours a night and your sleep is disturbed, you have a 48 per cent higher chance of developing or dying from coronary heart disease, and a 15 per cent greater chance of having or dying from a stroke.[3]

### 2. It helps your brain function well

Sleep is equally important in healthy brain function. Studies have shown that getting enough sleep helps you concentrate and think clearly.

It also improves learning and problem solving and helps you control your behaviour and emotions.[4]

Depriving yourself of sleep adversely affects your cognitive performance. One study found that total sleep deprivation impairs not only your attention, but also your working memory.[5]

### 3. It's important for your safety and productivity

Good sleep is also important for your safety, particularly if your job or regular activity requires a high level of concentration.

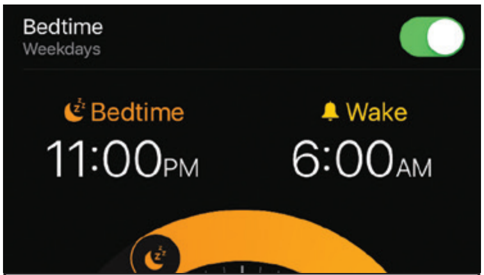
Sleep deprivation can cause workplace and road traffic accidents. Safe Work Australia has identified sleep loss as a cause of fatigue among workers, which can affect the health and safety of those around them.[6]

With good sleep, you may function better and, as a result, be more productive at work. Studies have shown that sleep-deprived individuals tend to make more mistakes and spend more time finishing their work.[7]

## How can you improve your sleep?

You must get at least seven hours of sleep each night to avoid the risks of chronic sleeplessness.[8] But if you want to enjoy the benefits of a healthy sleep, you need more than that.

You also need proper timing, regularity, quality of sleep and the absence of sleep disorders, according to the American Academy of Sleep Medicine and Sleep Research Society.[9]




It sounds like a tall order, but you can start by setting a good bedtime routine. It can include setting an alarm on your phone to start getting ready for bed, ensuring your room is cool and quiet, and spending time meditating and relaxing – without screens.

Sources

1 The University of Adelaide, The Adelaide Institute for Sleep Health, 2016, Report to the Sleep Health Foundation: 2016 Sleep Health Survey of Australian Adults. Accessible at: https://www.sleephealthfoundation.org.au/pdfs/surveys/SleepHealthFoundation-Survey.pdf

2 US Department of Health & Human Services, National Heart, Lung, and Blood Institute, 'Sleep Deprivation and Deficiency – Why is Sleep Important?'. Accessible at: https://www.nhlbi.nih.gov/node/4605

3 University of Warwick, Warwick Medical School, 2011, 'Sleep duration predicts cardiovascular outcomes: a systematic review and meta-analysis of prospective studies', European Heart Journal. Accessible at: https://academic.oup.com/eurheartj/article/32/12/1484/502022

4 US Department of Health & Human Services, National Heart, Lung, and Blood Institute, 'Sleep Deprivation and Deficiency – Why is Sleep Important?'. Accessible at: https://www.nhlbi.nih.gov/node/4605

5 Paula Alhola and Päivi Polo-Kantola, 2007, 'Sleep deprivation: Impact on cognitive performance'. Accessible at: https://www.ncbi.nlm.nih.gov/pmc/articles/PMC2656292

6 Safe Work Australia, 'Fatigue'. Accessible at: https://www.safeworkaustralia.gov.au/fatigue

7 US Department of Health & Human Services, National Heart, Lung, and Blood Institute, 'Sleep Deprivation and Deficiency – Why is Sleep Important?'. Accessible at: https://www.nhlbi.nih.gov/node/4605

8 American Academy of Sleep Medicine, 2015, 'Seven or more hours of sleep per night: A health necessity for adults'. Accessible at: https://aasm.org/seven-or-more-hours-of-sleep-per-night-a-health-necessity-for-adults

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