PREPARE FOR LIFE

Winter 2021

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2020 THE YEAR THAT WAS

12 months on from COVID-19 – the state of the market

By Daniel Stojanovski, Head of Research, Centrepoint Alliance

2020 will go down in the history books as the year of the global pandemic

The COVID-19 health crisis was a once in a century event, and so too was the economic and market fallout. Whole sectors went into hibernation, millions lost their jobs, and millions more were forced into lockdown.

The start of 2020 began relatively strong for markets, as they posted all-time highs. This was cut short towards the end of February when we started to pay closer attention to a new virus outbreak that appeared in China.

The first quarter of 2020 was dominated by two shocks to the global economy. COVID-19 was the first, which prompted a severe lockdown response across the world, with travel restrictions being implemented overnight. Businesses were also forced to shut down to limit the spread of the virus. Unemployment rose sharply, and markets began to correct quickly.

The second shock, less noticeable now, was to energy prices. A price war began between Saudi Arabia and Russia, when Saudi Arabia increased oil production and cut costs following Russia's unwillingness to agree to new production cuts. Risk assets, including equities and high-yield bonds (credit), were sold down by investors in a flight to safe-haven assets like government bonds and the US dollar. Both the US Federal Reserve and the Reserve Bank of Australia cut their interest rates. In Australia, rates reduced to 0.25%, and in the US, they went to the lowest range of 0-0.25%.

Markets fell from their peak on 20 February, with the US markets (S&P500) declining 33.7% on a price basis over that period. The S&P 500 index finished the quarter down 20%, while the tech-heavy NASDAQ index was down 14.2%. During the March 2020 quarter the Australian market (S&P/ASX 200 index) fell 24.1%.

While the COVID-19 crash witnessed in February and March was the fastest sell-down/correction that markets had ever seen, from June to September, the global markets started to recover. Government stimulus and monetary policies implemented by Central banks continued to soften the economic damage sparked by COVID-19 shutdowns.

Towards August/September, a second wave of COVID-19 cases in Europe saw a rise above early April highs. In addition to the pandemic, geopolitical risks emerged with the US Presidential and Senate races and the continued UK-EU negotiations around Brexit. Global manufacturing slowed over this period, and we saw the official confirmation of the first Australian recession in several decades, shifting attention towards hastening the recovery.

This negativity quickly turned around in the fourth quarter of 2020. Share markets rose strongly during this period, mostly attributed to vaccine development and rollouts, a Brexit deal, and President Biden winning the US elections. There was a rotation-trade away from growth/quality towards both value and smaller companies. These styles greatly outperformed over this period. Market darlings such as Zoom (a video conferencing software provider) and other tech names saw their share prices fall as investors continued to welcome a new normal environment. The Australian dollar continued to rise over this period against the US dollar as confidence in Australia grew with the continued management and control of the virus. The bounce back in economic activity following the Victorian lockdown continued over the December quarter. Outbreaks in Sydney and Brisbane disrupted the resumption of inter-state travel, but the measures taken to counteract these had not made a material effect on the economy to date with momentum remaining positive into 2021.

Rolling into 2021, the March quarter continued to see share markets rise, amidst the growing optimism at global economic recovery and rising energy and commodity prices. We saw the unwinding of government stimulus in Australia, but saw growing stimulus in the US. All these factors helped drive a selloff in bonds as investors sought out assets that would benefit from an expected global economic recovery for 2021.

We expect that throughout 2021, equity markets will continue to be driven by two major factors - the potential rise in interest rates and the economic reopening/vaccine success.

WHAT'S HAPPENING TO MY SUPER?

By Peter Kelly, National Technical Manager, Centrepoint Alliance

As we head towards the start of a new financial year, as happens every year, many thresholds and limits that apply to superannuation will change.

This year, there will be even more changes

Let's explore some of the changes that are due to come into effect from 1 July 2021, and the impact they are likely to have on us as super fund members.

Before we get into specifics, readers may recall the significant changes announced in the 2016 federal budget that came into effect in July 2017.

Changes were made to the amount a person could contribute to super and, for the first time since 2007, a limit was placed on the amount of super savings a person could use to commence a retirement income stream or, as they are more commonly known, a pension.

When legislators impose limits on the amounts we can contribute to super, or use to commence a pension, the limits are generally indexed to increase in line with movements in a defined metric such as average weekly ordinary time earnings, the consumer price index, or similar.

Superannuation limits are no different; however, for simplicity, indexation is usually rounded to a whole number.

As a result, limits may not be indexed each year, increasing only once the aggregate indexation over a number of years reaches a predetermined threshold. This year is the first time some caps, introduced in 2017, will increase.

There are two main types of super contributions:

1. Non-concessional contributions

These are personal contributions made to our own super account, or to an account held by our spouse. They are made from after-tax income and are not tax-deductible.

It is generally possible to bring forward up to three years of non-concessional contributions and contribute them in a single year.

The annual non-concessional contribution cap will be increasing from 1 July 2021.

Annual limit to 30 June 2021	Annual limit from 1 July 2021
$100,000	**$110,000**

2. Concessional contributions

Generally, any contribution that is not a non-concessional contribution is a concessional contribution.

Concessional contributions generally include contributions made by an employer for the benefit of their employees, contributions made under a salary sacrifice arrangement, and personal contributions a tax deduction is being claimed for.

From 1 July 2021, the annual concessional contribution cap will be increasing.

When a person has a total superannuation balance of less than $500,000, they can generally carry forward the unused portion of their concessional contribution cap that has accrued since 1 July 2018. The unused cap can be carried forwards for up to five years.

Annual limit to 30 June 2021	Annual limit from 1 July 2021
$25,000	**$27,500**

Total Superannuation Balance

The total superannuation balance was first introduced on 1 July 2017.

A person's total superannuation balance is the sum of all amounts they have in their superannuation, both in the accumulation and the retirement pension phases.

Additional amounts may also be included in the total superannuation balance where a person is a member of a self-managed superannuation fund that has a limited recourse borrowing arrangement in place.

The total superannuation balance is the balance calculated as at the end of the previous financial year.

A person's total superannuation balance may restrict their ability to make non-concessional contributions or access the three years bring forward rule.

Before 1 July 2021	
Total Super Balance	Maximum NCC[1]
$1,600,000+	**$0**
$1,500,000 – $1,599,999	**$100,000**
$1,400,000 - $1,499,999	**$200,000**
Less than $1,400,000	**$300,000**

From 1 July 2021	
Total Super Balance	Maximum NCC[1]
$1,700,000+	**$0**
$1,590,000 - $1,699,999	**$110,000**
$1,480,000 - $1,589,999	**$220,000**
Less than $1,480,000	**$330,000**

Superannuation Guarantee

Superannuation guarantee is the name given to the compulsory superannuation system.

Employers are generally required to contribute a set percentage based on an employee's salary to superannuation. The superannuation guarantee rate from 1 July 2014 to 30 June 2021 is 9.5%.

From 1 July 2021, this is scheduled to increase to 10%, and then progressively increase to 12% by July 2025.

Transfer Balance Cap

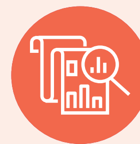
The transfer balance cap was introduced from 1 July 2017.

It represents the maximum amount of accumulated superannuation benefits a person may apply to a retirement income stream or pension without incurring personal income tax penalties.

The current maximum is $1,600,000. This will increase with indexation to $1,700,000 from 1 July 2021.

However, where a person has commenced a pension before 1 July 2021, their transfer balance cap may not receive the benefit of indexation. When an individual has already used part of their transfer balance cap, their indexation will be only applied to the unused portion of their transfer balance cap. For those that have fully exhausted their transfer balance cap, no indexation is available.

Where a person is receiving income from a defined benefit pension, such as a federal or state government superannuation scheme, special rules apply for managing their transfer balance cap.



Managing superannuation complexity

There is little argument that the superannuation system is an excellent investment structure to enable Australians to build wealth for their retirement and then draw down on their accumulated savings in a very tax-effective manner.

However, superannuation has its complexities, particularly as evidenced in the topics discussed in this article.

For many Australians, particularly those with higher account balances, those wishing to make sizable contributions, or those wanting to commence drawing money from their super in retirement, super can seem a daunting task.

In these and in other situations, where you are looking for the comfort of having an expert on your team, engaging with a qualified financial planner can be "worth its weight in gold".

[1] NCC – Non-concessional contribution

RETIREMENT – EXCITING AND A LITTLE FRIGHTENING?

By Mark Teale, National Technical Manager, Centrepoint Alliance

I recently went for a paddle before work. It was a glorious morning - no wind, the water was warm, and like glass. It was so clear I could count the fish under my board and see the stingrays lying in the sand as I glided above them.

When I finished my paddle I noticed several people enjoying their breakfast and the morning sun in front of their campervans. I thought to myself, 'Is that what retirement will be like?'

After 40 to 50 years of working, the thought of retirement can be a little daunting, even though it's a time in your life you should be looking forward to.

I am currently 64 and will turn 65 in a few months. I originally planned to retire at 60, but when the time came, I was not ready to leave; either from a financial or a personal perspective.

So, how do you know when you are ready?

I believe there are two parts to this question. Firstly, it's essential that you have a well thought out financial plan.

Do you understand how much you will need to survive in your retirement?

In retirement, you may be without a regular wage and may experience a fall in your income.

Before you retire, take the time to look at your daily, monthly, and yearly expenses.

Do you know how much you spend on food every week? Does this include the coffee, breakfast, or dinners that you may go out and pay for?

How much is your weekly electricity or gas bill? Your house and contents insurances, health insurance, car registration and other insurance? What about your telephone, internet, pay-TV and other maintenance costs for both house and car? How about children and grandchildren birthdays and Christmas presents. Importantly, how much will you need for travel, especially if this is part of your retirement plan?

Once you have summed up all these expenses, add an extra 10% to 15% to cover the unexpected.

As an example, in my case, my partner and I will need $62,900 to cover our annual living expenses.

You may feel $62,900 seems a little extravagant - or that I am very frugal. Everyone is different, and our tastes and needs are different as well.

Now that you have worked out all the financial aspects of your retirement move on to the second and more difficult part of the question – the personal perspective of your years in retirement.

To ensure your retirement is meaningful and you are content in your new role as a retiree, you still need to have a purpose - a reason for getting out of bed in the morning.

Everyone's purpose will be different. Learning new skills, volunteering, remaining active, writing a book, travelling, working on a part-time basis, the list is endless. For me, it will be more days like this morning only in different rivers and waterways throughout our wonderful country.

So yes, retirement can be a little frightening, but if you have a well thought out financial plan and you know that you are ready from a personal perspective, it can also be an extremely exciting part of your life.

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