

# INVESTMENT SOLUTIONS

Summer 2016

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# Welcome

In this summer edition of Investment Solutions magazine, we feature the new super changes which have been implemented by the government and how these changes may affect you.

BT Financial Group Investment Specialist, Riccardo Briganti, provides us with an update on the world economy.

We also look at how the Trump presidency may impact Australian markets.

Finally, we provide 5 reasons why you should be taking your protection cover more seriously.

Until next time – happy reading.

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# Economic outlook

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## What's in store?

**Riccardo Briganti – Investment Specialist, BT Advice**

Economic data has taken a back seat in recent weeks as the US presidential race and the eventual election of Trump has dominated attention. Now that the election is out of the way, focus is likely to return to economic statistics to inform investment decisions including likely central bank decisions. The US Federal Reserve (the Fed) is due to meet on December 13–14 while the Reserve Bank of Australia (RBA) meets in early December.

US economic data has recently presented an economy where positive developments in some areas have been offset by weakness in other areas. This has seen overall growth struggle to break higher, but the risk of recession has been held at bay. The labour market has been the most consistent area of strength but even it has suffered its share of setbacks. Nevertheless, most recently the news has been positive. Non-farm payrolls increased by 161,000 in October with the unemployment rate at 4.9%, slightly below the rate seen a year earlier.

The closely watched ISM index – a measure of the strength of the US manufacturing sector – also pointed to further improvement, following a lull earlier in the year. The index

increased to 51.9 in October from 51.5 a month earlier. A reading above 50 suggests the manufacturing sector is expanding. The related measure for the non-manufacturing sector fell to 54.8 from 57.1 a month earlier.

In contrast, consumer confidence has faltered. The two main measures – the Michigan University survey of consumer confidence and the Conference Board Consumer Confidence index both tumbled in October to the lowest levels since September 2015. It should be noted that, despite the drop, sentiment remains slightly better than the long term average. Election uncertainty has likely played a part in denting confidence. As a result, it will be important to monitor upcoming readings for the post-election impact.

Another US Fed rate hike has been talked about, not least by the Fed, since the first increase in December 2015. US and global growth concerns often triggered by geopolitical events such as Brexit stayed the Fed's hand through most of 2016. Trump's victory was initially seen as another limiting factor, but the Fed futures market is now predicting a greater than 75% chance of an increase at the December meeting.

In Australia, the National Accounts released in September showed the economy grew 0.5% in the June quarter to be 3.3% above year ago levels. Private investment remains weak but consumption spending and exports supported the economy. The RBA has increasingly made clear that rate cuts in May and August this year were not prompted by concerns around growth, but rather reflected low inflation and a desire to ensure inflation expectations did not become too negative. There are few signs inflation pressures are substantially increasing in Australia with the headline and underlying inflation figures still below the RBA's 2–3% target range. The next official inflation reading will be available on 25 January 2017.

As in the US, other economic data remains mixed. While consumption provided a strong contribution to June quarter growth, more recent data has been less positive suggesting retail sales increases were largely due to price increases rather than increased sales volumes. Nevertheless, the unemployment rate continues to slowly trend lower reaching 5.6% in September compared to 5.7% a month earlier and 5.9% a year ago.

# Why super is still simple

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It may be hard to believe, particularly with all the discussions since the 2016 Budget announcements regarding changes to the system, but at its core, super still remains a relatively simple concept.

Superannuation remains a very tax effective investment vehicle, with a maximum tax rate within the fund of 15% when the relevant rules are complied with.

So what's all the noise about the changes then? There are some changes and it is important to be across them, but the above fundamentals still remain. The changes themselves can largely be categorised into two main themes – changes around contributions, and changes in retirement.

## **Contribution changes**

The changes to contributions don't take effect until 1 July 2017. From that time, there will be a reduction in the amount that can be contributed annually, and if you have (or are approaching) a total super balance of \$1.6 million, an additional restriction on your non-concessional (or after tax) contributions apply.

From 1 July 2017, the annual limit for concessional contributions falls to \$25,000. This limit applies for everyone eligible to make or receive these pre-tax contributions, which generally comprise Super Guarantee (SG) amounts from employers, amounts salary sacrificed to super

and, if you are eligible, personal deductible contributions. If all you receive is the minimum SG required from your employer, then the reduction in annual limits (from \$30,000 or \$35,000 this year depending on your age) won't have an impact on you. But if you also salary sacrifice, you may need to review your arrangements by 1 July 2017 to ensure you don't inadvertently exceed the cap. Of course, the flip side is that if you aren't maximising these contributions this year whilst the cap is higher, is there more you can do?

For non-concessional, or after tax contributions, from 1 July 2017 the annual cap will be reduced from its current \$180,000 to a lower limit of \$100,000. The three-year bring forward provision still applies, meaning you can do up to three years' worth of contributions in one year (provided you were under 65 at the start of the year).

With that limit reducing from 1 July 2017, the question again arises as to what you can do this year? If you were under 65 on 1 July 2016, and you haven't used the bring forward provision in the last 2 years, you actually have the ability to contribute

up to \$540,000 of after tax contributions this financial year and give your super a great kick before the limits reduce. Of course we know not everyone has the ability to contribute this much, but again it's worth thinking about how much you can actually afford to do.

## **Changes in retirement**

Despite all the talk of the changes to super in retirement, there have been no changes to the rules around when you can actually access your super or, if it comes from an accumulation style fund, the way the payments are taxed to you. The existing rules continue to apply.

In essence, only two things have changed. First, if you have commenced drawing on your super through a 'transition to retirement' (TTR) income stream, or look to commence one from 1 July 2017, from that date, earnings on the assets in your super fund that support that TTR will no longer be tax free. Rather, those earnings in the fund will be taxed at the standard 15% tax rate in super, rather than being tax free in the fund. Remember, there is no change to your personal tax on the amounts you receive from a TTR.




Second, for pension paid in the “retirement phase”, which essentially refers to pensions payable to you after retirement or age 65, there is a limit on how much you can actually start these pensions with. From 1 July 2017, that limit will be \$1.6 million. Amounts above that need to stay in accumulation phase, with the earnings on those accumulation amounts continuing to be taxed within the fund at the rate of 15%.

If you don't have, and don't expect to ever be in receipt of superannuation accounts in excess of \$1.6 million, these changes won't impact you, other than if you run a TTR.

### **Super is still a super option**

One of the major things that these recent super changes have shown is that it's really important to understand what the changes mean for you. Super, as a concept, remains unchanged. The Government estimates that no more than 4% of the population will be impacted by these changes.

Whether you are in that 4% or not, it's always worth contacting us just to see how you are placed in terms of your current plans, or if they should change.



*The changes can largely be categorised into two main themes – changes around contributions, and changes in retirement.*

# The Trump Presidency – what it means for you

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When news of Donald Trump's impending election victory started filtering through in the afternoon of 9 November 2016, markets were thrown into turmoil. The Australian sharemarket lost almost 5% in the space of a few hours, the US sharemarket pointed down 5%, oil plummeted and gold shot up. However within 12 hours, calm had been restored.

Sharemarkets rebounded, oil recovered losses and gold retreated. And in the following days, share and commodity markets surged as hopes of Trump-led economic growth gained currency. Gold recorded its worst week in three years, falling 6.1%.

Donald Trump's victory may have been a surprise for some, but the ensuing rise in markets caught almost everyone off guard. Most market commentators had forecast short term panic; one predicting sharemarket falls of between 5 and 10 percent, a plummeting Australian dollar and surge in the gold price. Like so many others before them, these predictions did not come to fruition.

So what are the likely medium to long term implications of Trump's victory for Australian investors? In short, the answer is uncertain. And in general, markets do not like uncertainty. Will Trump the President retain the more contentious policies of Trump the Election Campaigner? Will the Republican Congress allow these policies to become law? How will the world, particularly China, respond to Trump?

It will be some time before we know the answers to these questions. But early signs are far from the doom and gloom predicted.

There is a widespread perception that Trump's policies are good for growth. His policies include lowering corporate and personal taxes and increasing spending on infrastructure. These types of policies are generally stimulatory for the economy and good for sharemarkets. So while Trump's aggressive election rhetoric was largely destabilising on market confidence, his policies may end up building confidence in markets and creating more certainty.

And what is good for the US sharemarket is generally good for the Australian sharemarket as our market tends to take its lead from the US market. And infrastructure spending is generally positive for commodities which in turn is good for Australian shares (particularly miners) and our terms of trade.

However, Trump's policies tend to be more insular, nationalistic and populist – much like the increasing global political mood that produced

Brexit and the rise in populist parties around the world, including Australia. This mood is generally not conducive to global stability. Talks of tariffs and watering down trade agreements could hurt Chinese exports and lead to retaliatory trade policies – neither of which is good for Australia which may end up caught in the crossfire.

Trump's focus on growth is also likely to increase inflation which may be bad news for bond markets but good news for term deposit investors.

So what should investors do now? In short, resist the temptation to react to any panic in the markets. Panic selling in market busts and panic buying in boom times are two of the greatest destroyers of long-term wealth. Your best defence is to have very clear long-term goals with an investment portfolio that is well diversified across different types of assets and aligned to your attitude to risk.

# 5 reasons to take your insurance more seriously

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As we move through life, find a partner, raise a family, and maybe start a business, the importance of insurance in a long term plan increases. That's because insurance is all about providing a financial safety net that helps you to take care of yourself and those you love when you need it most.

Here are 5 reasons why insurance matters.

## **1. Protection for you and your family**

Your family depend on your financial support to enjoy a decent standard of living, which is why insurance is especially important once you start a family. It means the people who matter most in your life may be protected from financial hardship if the unexpected happens.

## **2. Reduce stress during difficult times**

None of us know what lies around the corner. Unforeseen tragedies such as illness, injury or permanent disability, even death – can leave you and your family facing tremendous emotional stress, and even grief. With insurance in place, you or your family's financial stress will be reduced, and you can focus on recovery and rebuilding your lives.

## **3. To enjoy financial security**

No matter what your financial position is today, an unexpected event can see it all unravel very quickly. Insurance offers a payout so that if there is an unforeseen event you and your family can hopefully continue to move forward.

## **4. Peace of mind**

No amount of money can replace your health and wellbeing – or the role you play in your family. But you can at least have peace of mind knowing that if anything happened to you, your family's financial security is assisted by insurance.

## **5. A legacy to leave behind**

A lump sum death benefit can secure the financial future for your children and protect their standard of living.

To ensure you've got the right cover for you and your family, please contact us today.





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