Poynter Hargraves
Personalised Wealth

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QUARTERLY INSIGHT

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Spring Update

Welcome to the Spring edition of our Quarterly Insight Newsletter! As the season begins with an unusually warm and windy start, we invite you to explore ways to embrace this opportunity for a little metaphorical spring cleaning. In our featured article, *Freshen Up Your Personal and Professional Life*, we offer tips to help you reset and refresh.

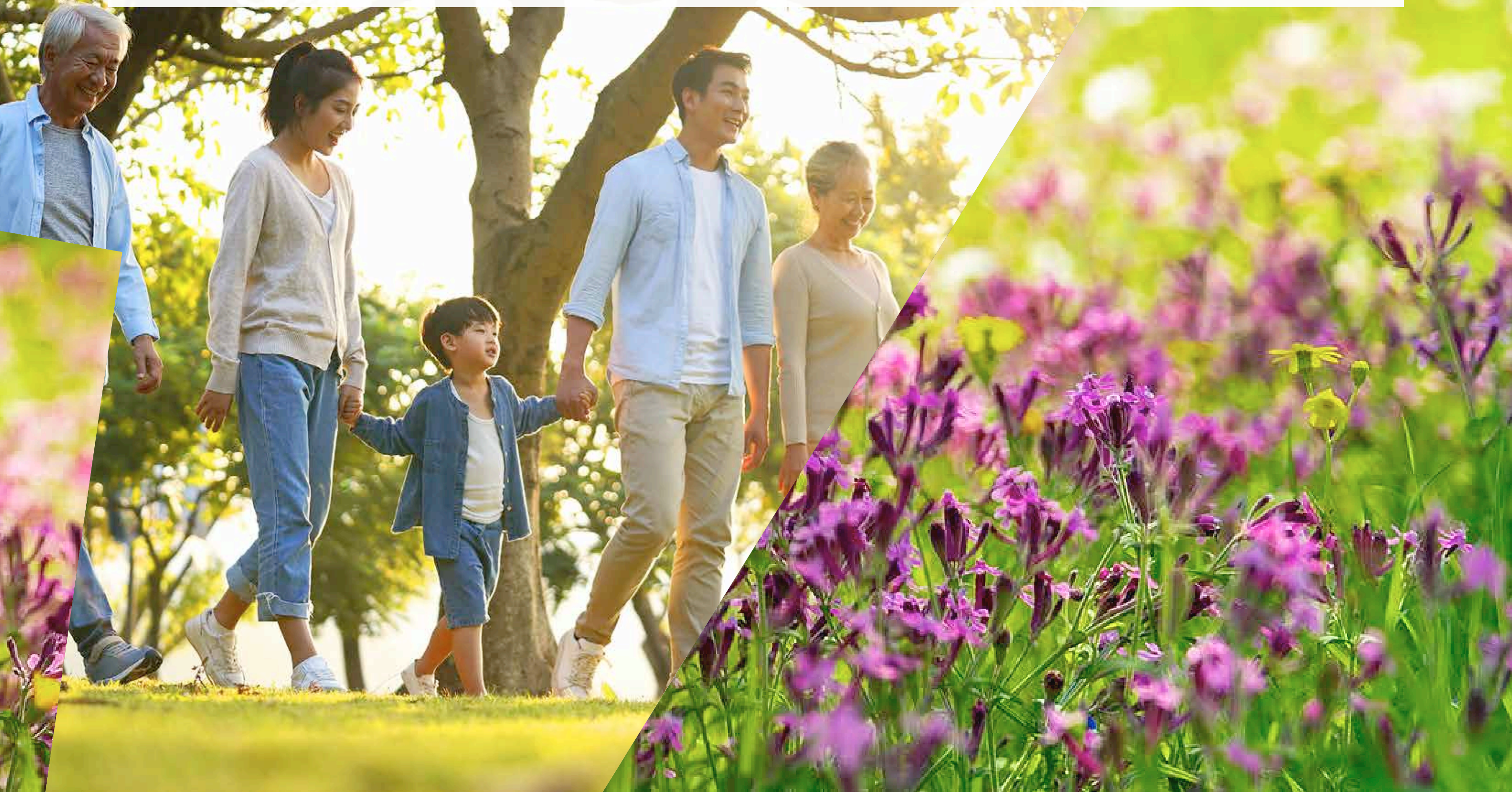
For our readers who are retired and feeling uncertain about their superannuation balance, we have insights on how to increase cash flow. Our article on releasing equity from your home offers strategies to help ensure financial stability throughout your later years.

While we often prioritise insuring our cars, homes, and pets, it's easy to overlook the protection of our most important asset: our ability to earn an income. In this issue, we delve into why safeguarding your earning capacity is a critical part of sound risk management.

As retirement approaches, you'll have important choices to make regarding how to draw down from your nest egg. In *How Do Retirement Income Options Compare?*, we explore various ways your superannuation can support your lifestyle after your working years.

Finally, we take a closer look at the growing DIY trend in *When DIY Does Not Pay Off*. While there are plenty of projects you can tackle on your own, some are best left to professionals. We'll help you recognise when it's time to call in expert help to avoid costly mistakes.

We hope this edition provides valuable insights for you. If you have any questions or would like to discuss any of the topics further, please don't hesitate to reach out to our office.



Freshen Up Your Professional and Personal Life

As the seasons change and the air fills with the promise of renewal, it's the perfect time to have a clean out—not just for your physical space, but for your life and career as well.

Spring cleaning isn't just about dusting shelves and organising files; it's about refreshing your mindset, optimising your processes, and ensuring that both your personal and professional worlds are in top shape. Here are some ideas to help you revitalise your life as we move into the warmer months.

Declutter your physical and digital environments

Start with your physical workspace. Clear out the clutter that has accumulated over months of hard work. A tidy workspace not only improves productivity but also clears mental clutter, allowing for better focus and creativity. Organise your files, shred unnecessary documents, and create a system that makes everything easily accessible.

Extend this decluttering to your digital life. Clean up your email inbox by unsubscribing from unnecessary emails and set up rules to automatically organise emails into folders. Streamline your phone by deleting unused apps, grouping them by categories as well as reviewing your contacts and deleting old ones. Make sure everything you need is being backed up properly.

Streamline your life and get organised

Next, it's time to look at where you spend your time. Spring cleaning your life means being ruthless with your time management. It's said that a small portion of our time and effort (20%) generates a significant part of our results (80%) so focus your efforts on those activities that yield the most effective outcomes. Evaluate your commitments and activities—are they truly adding value to your personal or professional growth? Learn to say no to tasks or obligations that don't align with your goals or values. This will free up time for activities that truly matter.

Then it's time to get organised. Allocate time for the important stuff. Review your calendar and update it with both personal and professional commitments. Prioritise self-care and relaxation alongside business meetings and deadlines. This balance ensures you remain productive without burning out and it's vital to have time in your life for the things and people that you care about.

Polish your skills and connections until they shine

Investing in yourself is key to staying competitive. Commit to ongoing professional development by planning to attend workshops, webinars, or conferences relevant to your field. Think about what areas you need to work on and update your skills and knowledge to stay ahead of industry trends and innovations. This can be as easy as listening to a regular podcast on your commute.

Networking is also crucial. Refresh your professional network by reconnecting with contacts, attending industry events, and actively building new relationships. Your network can provide valuable support, advice, and opportunities for growth.

Taking the first step to transformation

Spring cleaning your life is not just a seasonal chore; it's a transformative process that sets the stage for success throughout the year. By decluttering your physical and digital spaces, streamlining your life, honing your processes at work, and committing to ongoing growth, you set yourself up for greater productivity, efficiency, and personal fulfillment.

Take the first step today. Start small with one area—whether it's organising your desk or updating your LinkedIn profile. Each step, no matter how small, contributes to the bigger picture of a rejuvenated business and a balanced life.

Remember, spring cleaning is not just about tidying up—it's about creating space for new opportunities, ideas, and experiences. Embrace this time of renewal and watch as your life flourishes.

Releasing the Value In Your Home

Rising property prices have led many people to look for ways to unlock the increased equity in their homes so they enjoy a comfortable lifestyle in their golden years.

For most of us, our homes represent the biggest or most significant portion of our wealth. But it's an asset that can't necessarily be realised quickly. It might take some time to sell your home and, in any case, you still need somewhere to live. And, if you're selling in a rising market, you're also buying in a rising market.

There are a number of ways to access the equity in your home, although be mindful of the consequences for your particular circumstances. With such a big decision and the complex financial products available, it's best to get independent financial advice, we can help clarify how you might be affected now and in the future.

Reverse mortgages

Reverse mortgages are more popular than ever, allowing you to borrow money using the equity in your home as security.

Following the introduction of tougher regulatory requirements, today, reverse mortgages are provided by a number of small bank and non-bank lenders.

The highest amount you can borrow, using your home as security, varies according to your age. At age 60, it's likely you will be able to borrow around 20 per cent of the value of your home. This amount usually increases as you get older so by 65, you may be able to borrow about 20-25 per cent.[i]

The advantage of a reverse mortgage is that, while you're living in your home, you don't make any repayments on the loan. The loan, including interest and fees, is repaid when you move out or sell your home. Interest charged on the loan is usually higher than for standard mortgages. Currently, rates average just over 8 per cent to just under 10 per cent.[ii]

The Australian Securities and Investments Commission MoneySmart website provides a reverse mortgage calculator to help you decide if it's the right course of action for you.

A Government scheme

The Federal Government's Home Equity Access Scheme is a popular alternative to private reverse mortgages products, with the scheme growing by about 60 per cent a year.[iii]

The Scheme provides loans to eligible older people, secured against your home. You can choose to receive a lump sum or a fortnightly tax-free payment.[iv]

The loan and any costs must be repaid to the government but you can make repayments or stop them at any time. If you sell the property you can repay the loan on settlement or transfer the loan to another property.

If there's an outstanding loan after your death, the government will seek repayment from your estate.

The current interest rate is 3.95 per cent.

Home reversion

Slightly different to a reverse mortgage, home reversion is another way of accessing the equity in your home while still living in the property.

You don't pay interest because it's not a loan but there are transaction fees. The provider pays you a discounted amount for the percentage of the property you sell based on today's value. Then, when the property is sold, the provider receives the same percentage of the sale price, meaning that the more your home increases in value, the more the provider receives.

Other options

Another way of taking advantage of the equity in your home is to sell it and buy a smaller one. Downsizing could allow you to clear the mortgage and invest or spend anything left over.

Those aged 55 or older can contribute up to $300,000 (for each spouse) from the sale into your superannuation fund. It's considered a non-concessional contribution, but it doesn't count towards the contribution cap.[v]

You could also consider converting your home to a dual occupancy or, if you're on a large block, subdividing.

Get in touch with us for a review of the options available to you, so you can look forward to enjoying your golden years with confidence.

i https://moneysmart.gov.au/retirement-income/reverse-mortgage-and-home-equity-release

ii https://www.finder.com.au/home-loans/reverse-mortgages)

iii https://www.dss.gov.au/sites/default/files/documents/10_2023/dss-annual-report-published-version.pdf

iv https://www.servicesaustralia.gov.au/home-equity-access-scheme

v https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/super/growing-and-keeping-track-of-your-super/how-to-save-more-in-your-super/downsizer-super-contributions

Insuring Against Loss of Income

Protecting income from unexpected illness and injury is particularly important to anyone with a mortgage to service, small business owners and self-employed people with no sick leave available.

With income protection insurance, you can be paid some 70 per cent of your income for a specified period to help when you cannot work.[i]

The most common claims are for illnesses such as cancer, heart attack, anxiety and depression.[ii] Payments generally last from two to five years although you can take a policy up to a certain age, such as 65, and the amount is generally based on 70 per cent of your income in the 12 months prior to the injury or illness.[iii]

For some, income protection insurance may be part and parcel of your superannuation although more commonly this is limited to life insurance, and total and permanent disability cover. But, if you do have income protection insurance in your super, check the extent of the automatic cover as it can be modest.

Alternatively, you could take out a policy outside super where you will enjoy tax deductibility on the premiums. Income protection insurance is the only insurance that is tax deductible. Other life insurance products outside super such as trauma insurance are not tax deductible.[iv]

Work out a budget

There are many considerations when looking at income protection insurance and the best place to start is to work out your budget, thinking about how much would you need to maintain your family's lifestyle if you are unable to work. Then you are able to decide on the appropriate level of income protection insurance as well as other factors that affect premiums such as how quickly you might need the payments to start and how long these payments will last.

Many people think income protection insurance is expensive, but you can fine tune policies to suit your budget by changing the percentage payment amount, the length of time for which you would receive the payment and how soon you start getting a payment once you cannot work. Reducing these parameters can reduce your premiums.

Check the policy details

It is important to be mindful of a number of factors that might affect the success of any claim you might make. So, make sure you read the product disclosure statement.

Every insurer has a different definition as to what will trigger a payment, so you need to understand the difference between "own occupation" and "any occupation" for cover. For example, if you are a surgeon and lose capacity in one of your hands, you will receive a payout from your insurer if you have specified "own" occupation because you can no longer work as a surgeon. But if you opt for "any" occupation, then the insurer could argue that you could still work as a doctor just not as a surgeon and the claim may not be paid.

It is also wise to understand that if your policy does not seek your medical history, it is likely there could be limitations to what illnesses are covered.

Another consideration is whether you have stepped or level premiums. Stepped premiums start low and usually increase as you age. Level premiums begin at a higher rate but typically don't increase until you reach 65. In the long run, level may work out cheaper for some.[v] You must work at least 20 hours a week to take out income protection insurance and you can usually only buy a policy up to the age of 60. Also, if you receive a payout, you need to declare that income on your tax return.

If you want to check that you have sufficient cover to protect you and your family should you lose your income, then give us a call to discuss.

i https://moneysmart.gov.au/how-life-insurance-works/income-protection-insurance
ii https://aussieinjurylawyers.com.au/legal-news/the-most-common-tpd-claims-in-australia/
iii https://moneysmart.gov.au/how-life-insurance-works/income-protection-insurance
iv https://community.ato.gov.au/s/question/a0J9s00000019yD/p00014632
v https://moneysmart.gov.au/how-life-insurance-works/income-protection-insurancedownsizer-super-contributions

How Do Retirement Income Options Compare?

Retirement is filled with opportunities and choices. There's the time to travel more, work on long-delayed personal projects or volunteer your help to worthwhile causes.

You also have a host of choices to make when it comes to funding your new life away from paid work. Here are four different options to consider.

Account-Based Pension

An account-based pension (ABP) using your superannuation is one of the most common retirement income options. The amount you receive depends on the balance of your account and the drawdown rate you choose, subject to the minimum pension requirements set by the government.

Some considerations:

- **Tax benefits** – Investment earnings, capital gains and withdrawals are tax-free, unless you have an untaxed component within your super.
- **Payment flexibility** – Subject to pension minimums, most super funds allow you to adjust the payment amount and frequency, and even make partial or full lump-sum withdrawals if needed. You can also return to work and continue to receive a pension.
- **Longevity and market risks** – You might outlive your account balance, especially if your withdrawals are high or your investment returns are poor.

Transition to Retirement

A transition to retirement (TTR) strategy allows access to some of your superannuation while still working, if you have reached age 60 (based on current rules).

Some considerations:

- Flexible work options – You can reduce your working hours and supplement your income from your super.
- Limits on pension rates – Similar to an ABP, there is a minimum annual pension rate. However, there is also a maximum annual withdrawal of 10 per cent of your TTR account balance.
- Reduced retirement savings – Drawing on your superannuation while still working means your retirement savings might grow more slowly.

Annuities

An annuity is a financial product that provides a guaranteed income for a specified period or for the rest of your life. There are various types of annuities, including fixed, variable, and indexed annuities. You can purchase annuities or lifetime income streams using your superannuation.

Some considerations:

- Predictable income – Provides a stable income stream, which can be reassuring for financial stability and provide an income for as long as you live.
- Lack of flexibility – Once you purchase an annuity, the terms are generally fixed and you cannot alter the income amount. There's a restriction on capital withdrawals or in some instances no access to capital at all.
- Inflation risk – Fixed non-inflation-linked annuities may not keep pace with inflation unless specifically indexed to inflation.

Innovative Retirement Income Stream

An Innovative Retirement Income Stream (IRIS) is provided by a newer range of products. These were introduced after changes to regulations designed to deliver more certainty to retirement income by paying a pension for life without running out of funds.

Some considerations:

- Age Pension benefits – Centrelink only counts 60 per cent of the pension payments received as assessable income and only 60 per cent of the purchase price of the product counts as an assessable asset until age 84 when it is reduced.
- Certainty – Some IRIS products offer a stable guaranteed income stream, providing financial security.
- No minimum requirements – IRIS products do not require an annual minimum amount, instead just requiring at least one annual payment.
- Complexity – Features vary widely between different IRIS products and may involve complex terms or conditions.

Next steps

How do these different options suit your personal needs and how would they affect your retirement income? Consulting with a financial advisor can help you navigate these choices and tailor a plan that best suits your needs. Speak to us to so we can help you structure a plan to fund you the retirement lifestyle you've worked so hard for.

i https://www.ato.gov.au/individuals-and-families/jobs-and-employment-types/working-as-an-employee/leaving-the-workforce/planning-to-retire#ato-Afteryouretire

ii https://www.ato.gov.au/individuals-and-families/jobs-and-employment-types/working-as-an-employee/leaving-the-workforce/transition-to-retirement

When DIY Does Not Pay Off

“If you want something done right, you’ve got to do it yourself”

Not necessarily! The appeal of doing it yourself is understandable. There is a great feeling that comes with doing something that challenges you, with being resourceful and learning a new skill, but there are some pitfalls to DIY and benefits from getting an expert involved sometimes.

We tend to be proud of what we create and place greater value on things we have made ourselves. There is a statistical difference between the dollar value someone places on something that they have built, compared to what another person would pay for it (this is for good reason known as the “Ikea effect” as it even applies to putting together flat-pack furniture).

Making DIY look easy

With all the information we have at our fingertips, encouraged by the appeal of learning a new skill and guided by the power of Google and YouTube videos, we are emboldened to give things a go. Whether it’s fixing that dripping tap, troubleshooting the laptop that’s playing up or even investing your hard-earned dollars, DIY has never looked so easy.

The growth in DIY

The DIY mindset seems to be one that is on the increase. When we think of DIY we tend to think of home improvement. This market has increased by almost 10 million dollars in the last ten years. The statistics reveal more than half of us are taking up the tools, with 55 per cent of homeowners deciding to take on home improvement and repair jobs rather than seek professional help.[i]

DIY can be a lot more than just picking up a hammer though, and our love of DIY also extends to our financials. The search for additional income in the wake of a global pandemic has seen an increase in traders keen to take the reins and invest for themselves. Over the past decade there has been a steady increase in the share of retail investors, with equity trades by a retail investor nearly doubling the volume from a decade ago. Equally, when it comes to setting ourselves up for retirement the number of people setting up self-managed super funds (SMSFs) continues to rise, increasing by around 9 per cent over the past 5 years.[ii]

Reasons to be careful

There is a lot more to lose if there is a problem with your financial situation than a tap that's leaking, so it's important to think about what is at stake when you manage any aspect of your own financials.

The bottom line is you want to be getting the best outcomes and that does not always happen if you are taking a DIY approach. For example, when it comes to investing, a number of academic studies have shown that DIY investors tend to underperform and that underperformance ranges between 1% to 10% per year.[iii]

Getting an expert involved

The trick with any form of DIY is to do your research, understand the task and what's involved, and acknowledge when you might benefit from a helping hand. There are times when it's OK to have a go yourself and times when it makes more sense to leverage the skills of an expert. You can still learn and gain skills that you can apply to future situations but it can make sense to maximise your efforts, leveraging the skills of the experts.

When it comes to your financial life, whether it's investing and growing your wealth, protecting your wealth, retirement planning or estate planning, there is a lot to know and consider, and consulting with an expert can really add value and avoid help you avoid potential pitfalls.

Getting help does not mean being passive and not engaged though. The best outcomes are achieved when we actively work together in partnership to achieve your desired outcomes.

There is a world of difference between totally going it alone and maybe floundering a little, and getting advice and guidance to reach the best outcome. So, if you want something done right, sometimes it is best to call in the experts! We are here to help.

i https://blog.idashboard.com.au/2022/05/13/understanding-the-home-improvement-and-diy-market/
ii https://www.morningstar.com.au/insights/retirement/246207/smsfs-continue-to-thrive
iii https://occaminvesting.co.uk/do-diy-investors-underperform/

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