CENTREPOINT ALLIANCE

Prepare for Life

Spring 2022

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TIME TO spring CLEAN YOUR FINANCES?

Spring is a time of renewal and regrowth, a time to dust off the cobwebs and let the sunshine in, and it's also a good time of year to take a look at your finances.

It's been a challenging year on many fronts and spending a day getting on top of the state of your finances, putting some measures in place to make some savings, could be time well spent.

Try to arrange your financial spring clean on a weekday so you have scope to call banks, credit card issuers, health insurers, and other financial services providers who are easier to contact during office hours. And you will also need all your tools — financial records, current tax return, mortgage, credit card and bank statements — close at hand. Internet access is also important as there are many things you can do on line.

Hitting the target

So, what are your objectives? Well, there are two sides to this coin. The first objective is to put more $$ in your pocket by saving a little more of and spending a little less of your income, without making your life a penny-pinching misery in the process. The second is to discover some cheaper ways, if they exist, to pay for some of life's essentials.

Start at the beginning by reviewing your monthly budget — or constructing one, if necessary — so you can pinpoint the big expenses before trying to pare them back. Take your power bills, for example. Some power companies will not only reward you with a discount for combining your gas and electricity, they will also allow you to pay them with a pre-set monthly direct debit, avoiding the shock of that big quarterly hit and smoothing your cash flow.

Monthly payments or saving targets can be an excellent budgeting tactic. In fact, you can even create your own monthly debit system for major expenses such as school fees, annual holidays and Christmas by estimating the cost and transferring monthly instalments to a separate savings account. You'll most likely be able to setup automatic transfers with your bank so your savings build over time, without a second thought.

If you can manage it painlessly by cutting one or two unnecessary expenses, one good outcome of a budget review would be to save an extra 1 per cent of your salary — just $1 out of every $100 you earn — for a major objective like a renovation or even pumping up your rainy day fund. The best budgets can be ruined by unexpected emergencies, whether it is a burst water heater or a change in your financial circumstances.

Smart moves

Once you have your budget review completed and have set up new direct debits and/or opened one or two new dedicated savings accounts, you should still have a few hours of your Financial Spring cleaning day left to look for some significant savings on financial services.

Credit cards are a black hole in many budgets. Could you save by switching to a cheaper card? Are you paying off your card within the interest-free period? What about rewards programs — if you are paying for them, are you using them? Some supermarket reward programs now offer a "double reward" so it may pay to investigate your options. You can compare cards on line at several sites such as www.creditcards.com.[i] And if you do decide to change card companies, you might find one that will give you an interest rate holiday for the first 3–6 months as a reward for switching.

A recent Choice survey found 82% of Australians are concerned about health costs, making it the main household cost concern.[ii] Your current health insurance plan may be worth reviewing because your family circumstances might have changed since you took out the plan, or the market may have newer, more flexible options providing better value. There are many sites that allow you compare plans, including a Government comparison website www.privatehealth.gov.au.

Planning ahead

And finally, have a think about your goals and dreams and make sure that any decisions you are making in the present are not at the expense of your future financial security.

All done? Congratulations on a day well spent!

i http://www.creditcards.com.au/compare/
ii https://www.choice.com.au/money/insurance/health/articles/health-insurance-costs-consumer-concerns

Easing *into retirement*

If the thought of retirement gives you mixed feeling you're not alone. For those who have spent most of their lives at work and derived a lot of their sense of self from what they did for a living, it can be a challenge to contemplate stepping away from work. At the same time, for many there is a sense of anticipation of greater freedom in terms of how you choose to spend your time.

The good news is that retirement is no longer an abrupt departure with the gold watch. These days, retirement is far more fluid.

You might simply want to wind back your working hours to give your mind and body room to breathe. Or you may want to leave your full-time job but keep your career ticking over with part-time or consulting work. Others may dream of leaving the nine to five to run a B&B or buy a hobby farm.

Changing retirement patterns

There are already signs that people's retirement plans are changing.

In 2019, the average retirement age for current retirees was 55 (59 for men and 52 for women[i]), but the age that people currently aged 45 intend to retire has increased to 64 for women and 65 for men.[ii]

There are many reasons for this gap between intentions and reality. Only 46 per cent of recent retirees said they left their last job because they reached retirement age or were eligible to access their super. Substantial numbers retired due to illness, injury or disability (21 per cent) while others were retrenched or unable to find work (11 per cent).[iii]

Retired women were also more likely than men to retire to care for others. But for people who can choose the timing of their retirement, there can be good reasons for delay.

Reasons for delaying retirement

As the Age Pension age increases gradually from 65 to 67, anyone who expects to rely on a full or part pension needs to work a little longer than previous generations.

We're also living longer. A man aged 65 today can expect to live another 20 years on average while a woman can expect to live another 22 years.[iv] So the longer we can keep working and building a nest egg the further our retirement savings will stretch.

Whatever shape your dream retirement takes, you will need to work out how much it will cost and if you have sufficient savings to make it happen.

Sourcing your retirement income

The more you have in super and other investments the more flexibility you have when it comes to timing your retirement.

If you plan to retire this year, you will need to be 66 and six months and pass assets and income tests to apply for the Age Pension. If your birthdate is on or after 1 January 1957, you'll have to wait until you turn 67. This will be the Age Pension age from 1 July 2023. But you don't have to wait that long to access your super.

Generally, you can tap into your super once you reach your preservation age (between age 55 and 60 depending on the year you were born) and meet a condition of release such as retirement. From age 65 you can withdraw your super even if you continue working full time.

But super can also help you transition into retirement, without giving up work entirely.

Preservation age

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
From 1 July 1964	60

Source: ATO

Transition to retirement

If you're unsure whether you will enjoy retirement or find enough to do to fill your days, it can make sense to ease into it by cutting back your working hours. One way of making this work financially is to start a transition to retirement (TTR) pension with some of your super.

Case study

Ellie, a teacher, has just turned 60. She wants to reduce her workload to three days a week so she can explore other interests and gradually ease into retirement. Her salary will drop but if she starts a TTR pension she can top up her income with regular monthly withdrawals.

Most super funds offer TTR pensions, or you can start one from your self-managed super fund (SMSF). You decide how much to transfer into a TTR pension account, but there are some rules:

- You must have reached your preservation age
- Money can only be withdrawn as an income stream, not a lump sum
- There is a minimum annual withdrawal amount, the federal government temporarily reduced this minimum to 2% (for those aged under 65) for the 2020/1, 2021/22, and 2022/23 financial years. At the time of publication, the rate was expected to return to a 4% minimum from 1 July 2023. The amount changes according to age group.
- The maximum annual withdrawal is 10 per cent of your TTR account balance
- Income is tax-free if you are aged 60 or older; if you're 55-59 you may pay tax on the TTR income, but you receive a tax offset of 15 per cent.

One of the benefits of this strategy is that while you continue working you will receive compulsory Super Guarantee payments from your employer. A downside is that you will potentially have less super in total when you finally retire.

Retirement is no longer a fixed date in time, with far more flexibility to mix work and play as you make the transition. If you would like to discuss your retirement options and how to finance them, give us a call.

i https://www.abs.gov.au/statistics/labour/employment-and-unemployment/retirement-and-retirement-intentions-australia/latest-release
ii https://newsroom.kpmg.com.au/will-retire-data-tells-story/
iii https://www.abs.gov.au/statistics/labour/employment-and-unemployment/retirement-and-retirement-intentions-australia/latest-release
iv https://www.aihw.gov.au/reports/life-expectancy-death/deaths-in-australia/contents/life-expectancy

Managing BIG life changes

You've probably heard the saying 'change is as good as a holiday'. And sure, in some situations, altering your circumstances can be refreshing. But not all major life changes make you feel immediately clear, secure, and ready to take on the world. When everything you know is turned upside down, moving forward successfully is not a quick snap – it's a transitional process.

Navigating through the darkness before the dawn is tough. Conversely, many people struggle with sudden good fortune. The good news is, countless people like you have been there before. They've struggled with decisions and made mistakes so that you don't have to.

The most stressful life (and financial) events

According to the Holmes Rahe Stress Scalei, the biggest life events you may have to overcome include:

1. Buying a home
2. Involuntary unemployment
3. Divorce or separation
4. Retirement
5. Estate planning
6. Pregnancy or gaining a new family member
7. Major changes to business

How to deal with sudden changes

So what do all these life events have in common? Basically, they induce psychological states where you're more likely to be emotional and reactive than logical and rational. This can lead to poor outcomes which only fulfil your short term needs, or worse, cause further detriment to all involved.

There's only one way to remove yourself from that reactive state – mindfulness. Mindfulness means being self-aware, having the ability to see your situation from an outsider's perspective, and thinking before you act. Here's how you get there:

- Get a mentor. A friend, family member or amenable acquaintance who has been through what you're going through. They'll be able to give you a fresh perspective and (evidence-based) hope for the future.
- Take it one day at a time. And if you don't think you can get through a day, try a shorter time period. As a wise TV comedienne recently said, "You can stand anything for 10 seconds. Then you just start on a new 10 seconds."
- In a similar vein, concentrating on small tasks, one at a time, can help make a seemingly impossible task seem much more manageable. For example, take income insecurity. You may be feeling anxious because you don't know how to pay for all of the expenses you currently have. But listing your expenses in priority order can help clarify just how little you have to spend to get by.
- It's a good idea to have scheduled 'down time' while you're going through a major change. Whether it's meditation, exercise, a massage, shopping, or a good old snooze, mark it in your diary – and don't let anyone cross it out. This can help prevent you from feeling overwhelmed at other times – such as when you're making an important financial decision.
- Take action. Putting off work involved with a major life change just means the stress snowballs. Even taking a small step can help take the pressure off. For example, if you're feeling a bit restless about being retired, enquire about a volunteering position. You don't have to make a commitment, but you've opened yourself up to the possibility of contributing your skills to a cause.
- Ask yourself how much of your situation you can really control. Try to be objective – pretending you're giving advice to a loved one can help. Letting go of what you can't control allows you to spend mental energy on what really matters.

Hindsight is 20/20 – when to reassess after change

After you've made it through to the other side of a major life event, it's important to reassess your financial situation. You may think that you've dealt with all the financial implications. But doing a review of your finances can still yield benefits...

If you've recently been through a big change, get in touch with us to help reassess and plan for a prosperous future.

i https://en.wikipedia.org/wiki/Holmes_and_Rahe_ stress_scale

About us

Centrepoint Alliance is Australia's leading community of financial advisers. We help build trust in financial advice, because good advice promotes wellbeing.

Our purpose is to help financial advisers provide great advice and succeed in business. We provide world class technology, services, education, on the ground training, and integrated compliance monitoring to help our advisers build strong prosperous businesses focused on meeting clients' needs.

We are a contemporary advice service firm, creating a new breed of advisers, and setting a new standard of quality and advice Australians can trust. We are leading the future of advice.

CENTREPOINT ALLIANCE

ABN: 72 052 07 507
Level 8, 309 George Street, Sydney NSW 2000
P 1300 557 598
E centrepoint@cpal.com.au
www.centrepointalliance.com.au