A Guide to Financial Independence

Life begins at...

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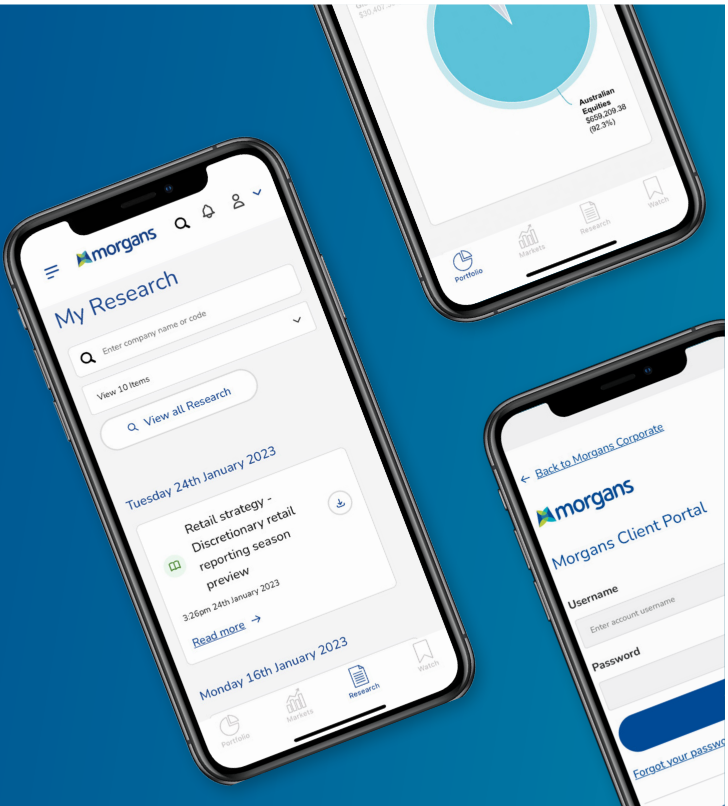

Awards and recognition

Morgans is proud to have been won the Best Retail Investor Access Award at the ARIA 2023 Best Practice Awards. This follows our previous recognition as the Best Australasian Retail Broker; an award we have won on six occasions.

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Life begins at...

It's never too early to start planning for retirement. Now is the time to start thinking about wealth preservation. You've worked hard, so it's time to reap the rewards.

Superannuation

Superannuation is much more of a focus with this age group than any other; for obvious reasons. These are the vital years where retirement planning should be well underway to ensure a comfortable lifestyle after you stop work.

Contributing to superannuation is more relevant for the over-50s as cash is generally more accessible compared with the other age groups. Debt is largely under control or gone, the children have (generally) moved out and in most cases salaries are higher relative to experience.

Additional contributions can be made via salary sacrifice for employees, or tax-deductible contributions for individuals under the age 75 with assessable income (if over age 67 the individual must meet the 40-hour work test to be eligible to make super contributions). Making contributions this way is tax effective for the individual and is an important part of any retirement strategy.

Talk to your adviser about strategies for maximising contributions into superannuation, and what the most appropriate way forward is for you.

Transition to retirement

A popular strategy for people over age 60 is the 'transition to retirement' strategy. Even if you are still working you can access your superannuation via a non-commutable pension, known as the transition to retirement (TTR) pension.

The reason for allowing you access to your superannuation from this age without having to retire or leave your job is so that you have more flexibility to develop strategies in your 'transition' to retirement. The benefit of this strategy is that you don't actually have to reduce your work hours; you can still work full time.

This TTR pension is popular for those over age 60 because pension income from the TTR is tax free to the person after age 60. This provides an opportunity for these individuals to manage their income tax and their superannuation savings concurrently in a tax-effective manner. A common strategy includes sacrificing additional wages into super, thereby reducing income tax and supplementing the reduced wage with TTR pension income.

Talk to your financial adviser if you would like to know more about this strategy.

Self-managed super funds

The popularity of self-managed super funds (SMSFs) is evident in statistics released by the Australian Tax Office. More Australians are establishing SMSFs each month and the rate just keeps growing. This is largely due to the control you have over your own superannuation. As Trustees, as well as members of your own super, you get to call the shots; as long as it is within the law.

SMSFs have largely been more popular with the over 50s age bracket, however, statistics now show people in their 30s and 40s are also looking at SMSFs.

If you have your own SMSF you have more flexibility with your investment planning than those who don't. This provides you with more opportunities to manage your funds through periods of uncertainty.

Some simple investment tips for your SMSF

- Review your investment portfolio asset allocation to make sure it remains in line with the fund's investment strategy. If necessary rebalance your portfolio as this will control risk in your portfolio.
- Make sure the assets you hold in your SMSF portfolio are quality assets, diversified across asset classes and market sectors.
- Surveys show that SMSF Trustees stick to their long-term investment strategy during volatile markets.
- Market movements are very random and so performance is random. Canny SMSF investors will take advantage of this.

For more information on self-managed super funds, ask your adviser for a copy of our SMSF brochure, which is an essential guide to taking control of your super.

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Retirement

The major issues facing retirees can be summarised as:

- Longevity – how long will I live for and will my capital last?
- Inflation – will my money be able to retain its spending power?
- Income – from where will my income be sourced?

Longevity

Our life expectancies are increasing over time. This trend is rapidly rising due to the amazing amount of medical breakthroughs we are experiencing, as well as our increased knowledge on better living through diet and exercise.

The problem is that as we live for a longer period of time we also need to support ourselves for longer in retirement. There are no guarantees on how long our assets will last.

Inflation

The second most important issue is whether our capital can keep pace with inflation. High-inflationary periods can erode capital over time if we have not allowed for sufficient exposure to growth assets. Having a large allocation of cash can actually be detrimental to an investment portfolio over the longer term.

To keep pace with cost of living increasing over time, it is imperative an investment portfolio has some exposure to growth-type assets (such as Australian and international shares and property). Just how much exposure will depend on each individual's aversion to risk.

Income

The three main sources of income in retirement are:

- superannuation in the form of a pension income stream and/or lump sum withdrawals
- non-superannuation assets in the form of returns from shares, property, cash and fixed interest
- Centrelink that is, age pension benefits.

The capital required to provide the income from these sources (excluding Centrelink) will vary depending on how much you need in retirement, your age at retirement and how long you think you will need the funds to last.

The latest ASFA Retirement Standard report shows that a couple would need to spend at least $70,806 a year to live comfortably* and a modest^ retirement for couples would cost at least $45,946 a year.

Superannuation balances required to achieve a comfortable retirement

Category	Savings at retirement
Comfortable lifestyle for a couple	$690,000
Comfortable lifestyle for a single person	$595,000

Source: ASFA Retirement Standard, 2023

All figures in today's dollars using 2.75% AWE as a deflator and an assumed investment earning rate of 6 per cent.

A single person would need to spend at least $50,207 a year to live comfortably or $31,867 to live modestly.

How long you continue to derive income from your saved capital will depend on how much you spend each year and how much you actually 'spend' could be different to what you had 'planned'.

Of course, Centrelink is there to supplement your other income if your financial position qualifies you for a full or part age pension payment.

However, many people's objective is to be self-funded, or largely self-funded, in retirement. The more you have saved in your superannuation and non-superannuation investments means a more comfortable standard of living in retirement, without relying on the government.

*A more comfortable lifestyle in retirement enables an older, healthy retiree to be involved in a broad range of leisure and recreational activities and to have a good standard of living through the purchase of such things as household goods, private health insurance, a reasonable car, good clothes, a range of electronic equipment, and domestic and occasionally international holiday travel. (Source: ASFA Retirement Standard).

^A modest lifestyle in retirement is a better lifestyle than that provided by the Age Pension, but limited to fairly basic activities. (Source: ASFA Retirement Standard).

Retirement portfolio strategies

Consider the following tips for how you can maximise your income and captal position.

Defensive assets

- Try to hold at least two to three years of income payments in cash, preferably in a higher yielding account. This should provide ample time to reflect on current markets and to ensure you do not need to draw down on capital to fund superannuation pension payments. It avoids having to sell down assets in low market periods.

- Within the three-year cash allocation, consider having two years of payments in short term money market investments. These pay slightly higher rates than normal 'at call' cash accounts.

- Maintain diversification of income assets with some potential for growth. There are a number of quality fixed interest investments available that pay reasonable income with some equity characteristics but without the same degree of risk.

- Try to draw down from defensive assets if extra funds are needed. Your aim is to preserve capital so if you need additional funds to cover larger lump sum expenses, draw from your defensive assets where possible.

Growth assets

- Maintain your growth assets for at least five to seven years without accessing them. Your objective here is to achieve reasonable growth to manage longevity issues.

- Maintain a good spread of growth assets. Diversification across various sectors is the key to minimising capital losses during volatile periods.

- Consider some capital protection strategies if required.

- Take advantage of shares that offer franking credits. The pension phase in super is a tax-free environment, which means franking credits are fully refunded back into the account. The long-term compounding benefits of this to your account balance can be significant.

- Review your portfolio and rebalance regularly as required to ensure your desired asset allocation is maintained. This is the best way to ensure your portfolio continues to meet your objectives for risk and return.

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Having a diversified portfolio is the essence of asset allocation. One of the most important decisions you will make is how much to allocate between the asset classes as your choice will fundamentally determine the long-term investment returns and fluctuations (volatility) of your portfolio.

Investing

Asset allocation

Time may not be a luxury for those who are close to retirement and have targeted a specific capital goal for when they stop work. This is where the asset allocation, that is, how your investment portfolio is allocated across the various asset sectors, will play a big role in the long-term performance of your fund.

Successful asset allocation means achieving your objectives with the least possible risk. To do this you need to understand the behaviour of asset classes and products. Establishing an asset allocation that is consistent with your goals and risk tolerance should be your top priority.

Borrowing to invest

Borrowing to invest, as with the '30s to 40s' investors, is a popular strategy for this age group. However, we would point out that due to the long-term nature and inherent risks of borrowing, it may not be an appropriate strategy if you are already in retirement.

Most investors in this age group understand market conditions more and have experienced the ups and downs that come with markets share. They are therefore more inclined to take a little more risk with their investment dollars.

Borrowing to invest is not without risk and when markets fall it is very important you keep in touch with your adviser so that you can manage your loans as effectively as possible.

Risk profiles can change over time

Getting your investment risk profile right is very important. When you meet with your adviser, they will generally discuss your attitude towards investing and how much risk you think you can tolerate. A risk profile questionnaire, answered honestly, helps determine this.

That is, you cannot base your answers on what you 'think' you might be, but rather on how you really 'feel'. It is common to see investors who previously believed themselves to be aggressive investors and able to handle risk during a rising market, suddenly become far more conservative when faced with market adversity.

Also remember that your risk profile may change over time, particularly as you near retirement. Your investment outlook could change from growth to more income-type investments. This is why it is important to re-assess your position on a regular basis.

Understanding the risk/return trade-off for the various asset sectors is very important. That is, the greater the returns, the greater the risk you take; and vice versa. Everyone wants nirvana, where risk is low and returns are high, but this is near impossible to achieve.

Putting risk/return trade-off into more perspective, you can see from the table on the next page how defensive assets such as cash and fixed interest pay relatively good income, but have no growth and therefore low risk. Shares on the other hand have high potential for capital growth and so the risk factor is also higher.

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Behaviour of Asset Classes

Asset class	Income	Capital growth	Tax effectiveness	Risk
Defensive assets				
Cash	Low	None	None	Low
Australian fixed interest	Med/High	None	None	Med
International fixed interest	Med/High	None	None	Med
Growth assets				
Australian shares	Med/High	High	High	High
International shares	Low	High	Low	High
Property	Med/High	Low	Med	Med

Source: Morgans

Debt management

At this stage of your life, most of your personal debt, your mortgage, personal loans and credit cards, would be under control or even eliminated.

For those who still have a mortgage or other personal debt, now is the time to pay it out. Or at least manage your debt within your retirement savings strategy.

As with any strategy, it is important you seek advice from your financial adviser, who will work out the best plan for your circumstances. In some instances it may still be better to stick with tradition and concentrate on repaying your debt sooner.

Wealth protection

In these later years you tend to find debts are paid off. There is also a focus on your retirement, health and having an adequate income.

If something happened unexpectedly, the main concern would be day-to-day living expenses and medical costs during recovery. Making major changes after illness, such as home modifications, may also be a financial outlay that would need to be covered.

What do you need?

People are living longer these days and medical technology is advancing at a rapid pace. Trauma and TPD cover remains a priority for this reason as the lump sum benefit can help if you have been diagnosed with a critical illness. This lump sum could be used to make alterations to your residence or car and to cover medical or remedial costs.

Life cover can supplement superannuation benefits or other income for a non-working spouse in the event of a death of the primary income earner.

Circumstances change with your stages of life so you should talk to an adviser about what product and features suit your needs.

Redundancies

Receiving a redundancy package for someone nearing 60 can be quite significant and in many instances stressful. The individual's first thought is usually 'will I be able to find another job due to my age?'. It is arguably harder for the over-50s to find employment compared to the other generations.

Another consideration for this age group is 'can I retire now with what I have? Do I need to continue working?'. This is a pertinent question for people nearing 60 and receiving a redundancy. However, ensuring that if you do stop work completely you have sufficient superannuation and other savings in place to last throughout your retirement period is very important. Due to the fact we are all living longer, this time period could represent another 30 years or more. You need to take this into account before making any decisions about retirement.

The final consideration for most people will be how the redundancy is paid and what tax will be due. Employees can no longer roll their redundancy payment into superannuation. All payments are paid net of tax.

Individuals over their preservation age receiving a redundancy payment receive better tax concessions than those under their preservation age, so speak to your adviser about how you can maximise your tax savings.

Part of any employer redundancy you receive will generally also include payments for unused annual leave and long service leave (if applicable). These amounts do not form part of your employment termination payment. They must be taken as a cash payment after tax has been deducted. Special tax rates apply if you are receiving a genuine redundancy. You may, however, contribute the net amount into superannuation (watching contribution limits). Individuals can contribute personal, after tax funds into super up to age 75 without having to meet the 40 hour work test (as long as a deduction is not being claimed).

Centrelink issues

Centrelink benefits are available for eligible seniors who have retired or are about to retire. Eligibility is based on two tests; the Incomes Test and the Assets Test. Your financial position (combined if a couple) is taken into account for these two tests and eligibility for benefit payments is determined by the outcome of these tests.

Health care cards may also be available following your retirement. The type of card you receive will depend on your age and whether you are self-funded or in receipt of some Centrelink benefits.

Aged care

Roughly four in every ten older people (aged 70 and over) are accessing some aged care services. This includes receiving care in their own home.

Entering an aged care facility, or assisting a family member to do so, can be very emotional for all concerned.

There are a number of publications and websites to help you sort through the noise, particularly when searching for an appropriate aged care facility. The government website (myagecare.gov.au) is perhaps the best website to consult when thinking about what services are available, what costs are involved and how payments can be made.

This area is very complex so you should seek further guidance from an adviser who specialises in aged care.

Estate planning

Estate planning is an area that can be easily neglected. Individuals often overlook the importance of having an up to date Will and Powers of Attorney.

Estate planning focuses on wealth preservation and wealth transfer so regardless of whether times are good or bad, your objective should still be to distribute your wealth to your nominated beneficiaries in the most effective way. Estate planning doesn't end with your Will and Powers of Attorney. You should also be thinking about:

- how testamentary trusts offer improved protection of the estate
- superannuation does not automatically come under the scope of your Will unless specifically nominating your Estate as the beneficiary. For this reason you need to establish additional nominations for your superannuation
- business succession planning if you have a business.

For more information contact your financial adviser and/or an estate specialist buyer.

Where to from here?

- Talk to your adviser about the strategies most appropriate for you to maximise your superannuation contributions
- If you don't already have one, consider how a self-managed super fund may help you take control of your superannuation
- Think about how you can take advantage of transition to retirement strategies
- Review your investment strategies and consider how your risk profile has changed
- Review whether your portfolio is set for retirement
- Talk to your adviser about reducing or eliminating debt
- Implement or review your wealth protection plan
- Review your estate plan

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Things to discuss with my financial adviser

Your first step after reading this guide is to make an appointment with your financial adviser to discuss any issues you may have.

Use the space below to jot down the specific questions or strategies you want to discuss with your adviser before the meeting, then take this guide along with you.

Budget Planner	January	February	March	April	May
Income					
Salary/Wage					
Bonuses					
Investment income					
Interest					
TOTAL INCOME					
Personal expenses					
Credit cards					
Mobile phones					
Personal loans					
Gym/Club memberships					
Clothes and shoes					
Medical					
Food					
Transport					
Housing expenses					
Rent/Board/Mortgage					
Rates/Body corporate					
Telephone/Internet					
House/Contents insurance					
Insurance and wealth protection					
Income protection premiums					
Life insurance premiums					
Trauma/TPD premiums					
Private health insurance					
Education					
Child care fees					
School fees					
Extra-curricular fees					
Coaching/Tutoring					
Books					
HECS/HELP					
Car expenses					
Repayments					
Insurance					
Registration					
Petrol/Oil					
Maintenance/Tyres					
Motoring association fees					
Driver's licence					
Parking					
Other					
Restaurants					
Subscriptions					
Magazines/CDs/Books					
Gifts					
Donations					
Fitness					
Personal loan repayments					
Savings					
Regular savings					
Superannuation contributions					
TOTAL EXPENSES					

June	July	August	September	October	November	December

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Queensland

Brisbane Stockbroking, Corporate Advice, Wealth Management	+61 7 3334 4888
Brisbane Edward Street	+61 7 3121 5677
Brisbane Tynan Partners	+61 7 3152 0600
Brisbane North Quay	+61 7 3245 5466
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Springfield-Ipswich	+61 7 3202 3995
Spring Hill	+61 7 3833 9333
Sunshine Coast	+61 7 5479 2757
Toowoomba Chalk Capital	+61 7 4639 1277
Townsville	+61 7 4725 5787
West End	+61 7 3151 8300

Northern Territory

Darwin	+61 8 8981 9555

New South Wales

Sydney Stockbroking, Corporate Advice, Wealth Management	+61 2 9043 7900
Sydney Margaret Street	+61 2 8215 5000
Sydney Reynolds Securities	+61 2 9373 4452
Sydney Currency House	+61 2 8216 5111
Armidale	+61 2 6770 3300
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Scone	+61 2 6544 3144
Wollongong	+61 2 4227 3022

Australian Capital Territory

Canberra	+61 2 6232 4999

Victoria

Melbourne Stockbroking, Corporate Advice, Wealth Management	+61 3 9947 4111
Brighton	+61 3 9519 3555
Domain	+61 3 9066 3200
Geelong	+61 3 5222 5128
Hawthorn	+61 1300 382 075
South Yarra	+61 3 9006 9955
Southbank	+61 3 9037 9444
Traralgon	+61 3 5176 6055
Warrnambool	+61 3 5559 1500

Western Australia

West Perth Stockbroking, Corporate Advice, Wealth Management	+61 8 6160 8700
Perth	+61 8 6462 1999

South Australia

Adelaide Stockbroking, Corporate Advice, Wealth Management	+61 8 8464 5000
Exchange Place	+61 8 7325 9200
Norwood	+61 8 8461 2800
Unley	+61 8 8155 4300

Tasmania

Hobart	+61 3 6236 9000

1800 777 946
info@morgans.com.au

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