Prepare for Life

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Taking cover in changing times

The pandemic has changed the way so many of us live, with jobs, travel and lifestyle all transformed during COVID-19. Now, as we start emerging on the other side, it may be a good idea to check whether these changes have impacted on your life insurance needs.

In some cases, you may require more cover and in others perhaps less. This is not just down to COVID-19. Changes to your insurance needs at any given time are a constant throughout your life.

Insurance through the ages

What you need as a single 20-something building your career is generally quite different from your requirements in your 40s when you may be juggling a young family and a mortgage. Then as you approach retirement and beyond, perhaps with your mortgage paid off, your needs change yet again.

On top of these life cycle changes, what may have seemed appropriate before the pandemic may no longer work. Perhaps you are working fewer hours and as a result have a lower income. Or perhaps you have opted to take early retirement.

Certainly, insurance companies have been mindful of people struggling to pay premiums during the pandemic and have generally honoured payouts on income protection cover if they occurred within that timeframe.

Whatever your circumstances, now is a good time to consider whether your current policies work for you.

What's covered?

Life insurance is the umbrella term for four main types of cover - death, total and permanent disability (TPD), income protection and trauma.

Death cover is self-explanatory. It pays a lump sum to your estate or nominated beneficiaries when you die. It is often packaged with TPD which covers things like living expenses, repayment of debt and medical costs if you are no longer able to work. If your TPD is held through your super fund, generally this will only be paid if you cannot work in 'any' occupation; if it is held outside super, you may be covered if you can no longer work in your 'own' occupation.

Income protection cover will pay part of your lost income for a pre-determined time if you get sick or are injured and need time off work. It is particularly useful if you are self-employed or a small business owner as you don't have access to sick leave.

Trauma cover meanwhile provides a lump sum amount if you are diagnosed with a major illness or serious injury such as cancer, a heart condition, stroke or head injury. Such payments can be a big help with paying medical bills.

Check your super

Death and TPD insurance can often be purchased through your super fund. If, however, you took advantage of the early release of super allowed during the pandemic in 2020, it could be that you no longer have sufficient savings in your fund to cover the premium payments. Or, if you've not made any contributions to your super for 16 months, your account may have been deemed inactive under super law and closed.

It's important to note that if you lost your job due to COVID-19, then any automatic cover in your super with your previous employer may have stopped. If you have a new employer, the cost may have increased. Also keep in mind that income protection insurance doesn't cover you if you have lost your job due to a business closure or other COVID-related event.

Protect your mental health

One area that has received more attention during the pandemic is mental health. Not all insurance policies provide cover for mental health without exclusions or additional premiums. Nevertheless, according to the Financial Services Council, insurers paid out $1.47 billion in mental health claims in 2020.[i]

If your circumstances have changed, then it may be worth examining whether your life insurance cover still suits your needs and whether there are ways you can save money through lower premiums. For instance, you might reduce the amount you are insured for or remove some of the benefits.

If you would like to discuss your life insurance needs and whether your existing cover is still appropriate give us a call.

i https://www.abc.net.au/news/2021-02-08/insurance-coverage-mental-health-after-covid-19/13122144

Your investing style – as unique as you are

As interest rates start to increase after a lengthy period of historical lows, it's a good time to think about how your money is working for you and whether your investing style and strategy is still in line with your goals.

Higher interest rates don't just send a ripple through the economy, aside from the obvious impact on the property market, they often impact stock prices. There are a myriad of other factors that contribute to market movement and portfolio performance and trying to navigate all the things that need to be considered can be challenging but being aware of your preferred investment style and having a considered and appropriate strategy can help.

The benefits of style and strategy

Just as we are all unique individuals, our goals and approach to investing will also be different to our family and friends and it pays to be familiar with your own style and preferences.

It can be common for those new to investing to take the plunge without any real plan, let alone an investment strategy that's likely to align with their current circumstances, future requirements, and investment goals.

Even those who have been investing for some time can be guilty of a 'set and forget' approach that might mean hanging on to a strategy that does not meet their present or future needs.

Having the right investment strategy – the one that's right for you – improves the likelihood of your investments meeting your goals and allows you to sleep at night.

Your tolerance for risk at the core of your style

While approaches to, and styles of investing are many and varied, your comfort with risk is often the primary driver of any approach you may choose to take. There is of course a trade-off between risk and return that needs to also be considered. Your comfort with risk will determine the right mix of asset classes in your portfolio.

An aggressive investor, commonly someone with higher risk tolerance, is willing to take on greater risk for the possibility of better returns than a conservative investor. This type of investor will be comfortable with a higher proportion of growth assets like shares or listed property that offer higher returns over the long-term that may come at the expense of less stable returns.

A conservative investor will employ a larger proportion of defensive assets in their portfolio to provide long-term stable returns with lower volatility and exposure to risk. Defensive assets are fixed interest investment options including fixed income bonds and cash investment options.

Hands-on vs hands-off approach

Investing strategies can be further separated into two distinct groups: active and passive.

Passive investing, as the name implies, focuses on benefitting from the overall increase in market prices over time. One of the benefits of passive investing is that it minimises the mistakes investors can make when they react emotionally to stock market movement.

Active investing involves a more hands-on approach, with more frequent buying and selling to take advantage of short-term price fluctuations and is generally undertaken by a portfolio manager.

Changing your strategy over time

Most investors find that their investment style shifts as they age. Younger investors have a longer time horizon, so they may feel more comfortable making riskier investments as they have time for the market to recover from market falls. Mature investors may be more focused on preserving their savings for retirement, so they may be more interested in diversification and dollar-cost averaging.

For investors nearing or at retirement, a shift from asset growth and capital gains to a focus on income may be something worth considering and is often desired. The advantage of an income focussed strategy is that investments can produce some of the cash flows needed when you're no longer working. Dividend stocks are a common way to achieve this goal, with companies showing stable and growing dividends providing the most value.

To ensure you are employing the right strategy to meet your objectives, it pays to be aware of your options and revisit your comfort with risk and your overall investment goals. We can ensure your investment portfolio meets both these elements throughout your various life stages.

If you are interested in exploring the options available to you, please get in touch. We can work closely with you to review your strategy or if you are new to investing, find the right mix for your unique circumstances.

Sharing super A WIN-WIN FOR COUPLES

Australia's superannuation system is based on individual accounts, with men and women treated equally. But that's where equality ends. It's a simple fact that women generally retire with much less super than men.

The latest figures show women aged 60-64 have an average super balance of $289,179, almost 25 per cent less than men the same age (average balance $359,870).[i]

The reasons for this are well-known. Women earn less than men on average and are more likely to take time out of the workforce to raise children or care for sick or elderly family members. When they return to the workforce, it's often part-time at least until the children are older.

So, it makes sense for couples to join forces to bridge the super gap as they build their retirement savings. Fortunately, Australia's super system provides incentives to do just that, including tax and estate planning benefits.

Restoring the balance

There are several ways you can top up your partner's super account to build a bigger retirement nest egg you can share and enjoy together. Where superannuation law is concerned, partner or spouse includes de facto and same sex couples.

One of the simplest ways to spread the super love is to make a non-concessional (after tax) contribution into your partner's super account. Other strategies include contribution splitting and a recontribution strategy.

Spouse contribution

If your partner earns less than $40,000 you may be able contribute up to $3,000 directly into their super each year and potentially receive a tax offset of up to $540.

The receiving partner must be under age 75, have a total super balance of less than $1.7 million on June 30 in the year before the contribution was made, and not have exceeded their annual non-concessional contributions cap of $110,000.

Also be aware that you can't receive a tax offset for super contributions you make into your own super account and then split with your spouse.[ii]

Contributions splitting

This allows one member of a couple to transfer up to 85 per cent of their concessional (before tax) super contributions into their partner's account.

Any contributions you split with your partner will still count towards your annual concessional contributions cap of $27,500. However, in some years you may be able to contribute more if your super balance is less than $500,000 and you have unused contributions caps from previous years under the 'carry-forward' rule.

If your partner is younger than you, splitting your contributions with them may help you qualify for a higher Age Pension. This is because their super won't be assessed for social security purposes if they haven't reached Age Pension age, currently 66 and six months.[iii]

Recontribution strategy

Another handy way to equalise super for older couples is for the partner with the higher balance to withdraw funds from their super and re-contribute it to their partner's super account.

This strategy is generally used for couples who are both over age 60. That's because you can only withdraw super once you reach your preservation age (between 55 and 60 depending on your date of birth) or meet another condition of release such as turning 60 and retiring.

Any super transferred this way will count towards the receiving partner's annual non-concessional contributions cap of $110,000. If they are 74 or younger at the start of the financial year in which the contribution is to be made, they may be able to receive up to $330,000 using the 'bring-forward' rule.

As well as boosting your partner's super, a re-contribution strategy can potentially reduce the tax on death benefits paid to non-dependents when they die. And if they are younger than you, it may also help you qualify for a higher Age Pension. These are complex arrangements so please get in touch before you act.

A joint effort

Sharing super can also help wealthier couples increase the amount they have in the tax-free retirement phase of super.

That's because there's a $1.7 million cap on how much an individual can transfer from accumulation phase into a tax-free super pension account. Any excess must be left in an accumulation account or removed from super, where it will be taxed. But here's the good news – couples can potentially transfer up to $3.4 million into retirement phase, or $1.7 million each.[iv]

By working as a team and closing the super gap, couples can potentially enjoy a better standard of living in retirement. If you would like to check your eligibility or find out which strategies may suit your personal circumstance, get in touch.

i https://www.superannuation.asn.au/ArticleDocuments/402/2202_Super_stats.pdf.aspx?Embed=Y

ii https://www.ato.gov.au/individuals/income-anddeductions/offsets-and-rebates/super-related-taxoffsets/#Taxoffsetforsupercontributionsonbehalfof

iii https://www.ato.gov.au/Forms/Contributions-splitting/

iv https://www.ato.gov.au/individuals/super/withdrawing-and-using-your-super/transfer-balance-cap/

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