

News from the Nest



Welcome to our Spring Edition of 'News from the Nest'

Welcome to our Spring edition of 'News from the Nest'. Much to unpack in another edition teeming with information and knowledge to share with you to help you Plan, Grow and Protect your wealth!

In this edition, we look at the benefits of financial optimism. We're here to help to ensure you keep your head when others lose theirs. It's normally when the opportunities arise that others miss when they are consumed by misinformation or fear, and a real focus of ours when we work with our clients is to help keep you focused on the best ways to reach your financial goals.

We also look at the opportunities arising from the latest superannuation changes and some examples to show you some of the benefits of these.

Finally, we look at the impact of rising interest rates and how this might impact you, plus the latest goings on at FinNest HQ.

Enjoy and we look forward to seeing you in the Nest very soon.

A handwritten signature in blue ink, appearing to read "B Stone".

Brendan Stone

Director - Financial Advice,
FinNest Financial Pty Ltd.

A HERCULEAN ACHIEVEMENT TO RAISE FUNDS FOR MND!!

Earlier this year, our very own Louise set herself a couple of very steep challenges - to complete **The Overland Track** trek in Tasmania, and to raise much needed funds for Motor Neurone Disease in the process.

Both were hugely ambitious. The Overland Track is a six-day trek through 78km of the harshest terrains. Being chased by Wombats and tiger snakes, carrying a 20kg pack every day, walking in sleet and rain and arctic winds and camping in tents every night in sometimes zero-degree temperatures. However, Louise pushed herself to her limits - and successfully completed her demanding challenge!

What is just as impressive is Louise set herself a very ambitious fund-raising target for MND. I'm pleased to report, with the help of many of our very generous clients, we raised over \$5,000 for Motor Neurone Disease! Thank you so much to all of those who contributed to this worthy cause and made Louise's efforts all worthwhile.



THE STORK HAS VISITED THE NEST

Thrilled to announce that Michael McGowan and mum Natalie have welcomed a new daughter and a baby sister for Theo into their family. Baby Sienna, I'm sure you'll agree, has cute well and truly covered! Please join me in congratulating the McGowan family on their new arrival.



NEW CLIENTS FOR FINNEST FINANCIAL

Some background on this topic first if I may. The financial planning profession has undergone some dramatic changes in the last few years. Significantly escalated educational requirements for advisers, coupled with greatly increased regulatory requirements, have seen financial advisers leave the profession in droves over the past four years. Specifically, in 2018, there were approximately 28,000 financial advisers practising in Australia. It is projected by the end of 2023, due to these factors, there will be approximately 13,000 financial advisers left practising in Australia.

When combined with a significant increase in the number of Australians approaching retirement and the intricate complexities of superannuation rules, demand for those who remain is likely to increase substantially.

Fortunately, at FinNest Financial, we planned for this eventuality. Those practices that didn't now struggle with their current workload and, whilst they might pay lip service to being able to take on new clients, they often don't have the capacity to do so.

Whereas here at FinNest Financial, we're pleased to let you know that we have **genuine capacity** to take on new clients. If you know people who value personal support, and would benefit from guidance and advice to help them reach their financial goals, or have had, or are considering, a big life event with associated financial implications, we'd love to have a chat with them on **07 3831 7629** or email enquiries@finnest.com.au

THE FINANCIAL REWARDS OF OPTIMISM

If it wasn't already clear, the past 12 months certainly cemented the fact that life has a habit of throwing us the occasional curveball. The reality is we all face challenges, however approaching life with a positive mindset can help us deal with any issues we may face and improve our lives in many ways.

Having a positive outlook not only improves our health and well-being, it can also have a meaningful and very positive impact on our finances.

How optimism can improve our finances

If you have a cautious or anxious approach to your finances, such as worrying you'll never have enough money or being wary of spending, it will likely come as a surprise to hear that being optimistic can improve your financial situation.

A recent study connected the link between financial well-being and an optimistic mindset, finding that people who classify themselves as optimists enjoy 62 per cent fewer days of financial stress per year compared to pessimists.

Superior financial well-being

When you are positive in your outlook, you are also much more likely to follow better financial habits in managing your money. Optimists tend to save for major purchases, with around 90 percent of optimists having saved for a significant purchase, be it a car, a house or an overseas holiday, compared to pessimists at just 70 per cent.¹

However, optimism does not equal naivety and optimists still tend to have contingency plans in place for unforeseen events that may detrimentally impact their bottom line. Some 66 per cent of optimists had an emergency fund, compared to under 50 percent of the pessimists.¹

This goes to show that maintaining an optimistic approach to your finances does still involve planning for the future. By being prepared, you'll reduce the stress that comes from feeling the rug could be pulled from beneath you without a safety net.

Your career and earning capacity

An optimistic approach to life and your career leads to achieving greater career success and the financial rewards that come with being successful in your job.

Optimists are 40 percent more likely than pessimists to receive a promotion within a space of twelve months and up to six times more predisposed to being highly engaged in their chosen career.¹

Changing your attitude

Knowing that optimism is great for your wallet and your health is one thing, but how do you shift your outlook? If you're prone to worry, focussing on pessimistic outcomes or a bit of a sceptic, looking on the bright side of life can seem easier said than done.

It is possible to nurture optimism, and you get this opportunity every day. Cultivating optimism can be as simple as adopting optimistic behaviours.

So, what are the financial behaviours of optimists that we can emulate?

Optimists tend to be more comfortable talking about and learning about money and are more likely to follow expert financial advice than their more pessimistic peers.

Positive people display a correspondingly positive approach to their finances. They tend to put plans in place and have the courage to dream big. You don't have to be too ambitious in how you carry out those plans, every small step you take will help you to get where you want to be.

Everyone experiences setbacks at various times, however optimists rise to these challenges, learning from their past mistakes and persisting in their endeavours.

Don't be too hard on yourself if you are experiencing difficulties. We all face challenges and during these times, focus on solutions rather than just the problems, be conscious of your "internal talk" and don't be afraid to seek out support. It's important to focus on what you can do differently going forward, this could be as simple as working towards a "rainy day" fund.

It's never too late to change your outlook. By embracing optimism, you can reap the rewards that a more positive outlook provides.

¹ <https://www.optforoptimism.com/optimism/optimismresearch.pdf/>

A NEW YEAR RINGS IN SUPER CHANGES

New rules coming into force on July 1 will create opportunities for older Australians to boost their retirement savings and younger Australians to build a home deposit, all within the tax-efficient superannuation system.

Using the existing First Home Super Saver Scheme, people can now release up to \$50,000 from their super account for a first home deposit, up from \$30,000 previously.¹

Another change that will help low-income earners and people who work in the gig economy is the scrapping of the Super Guarantee (SG) threshold. Previously, employees only began receiving compulsory SG payments from their employer once they earned \$450 a month.²

However, the biggest potential benefits from the recent changes will flow to Australians aged 55 and older. Here's a rundown of the key changes and potential strategies.

Work test changes³

From July 1, anyone under the age of 75 can make and receive personal or salary sacrifice super contributions without having to satisfy a work test. Annual contribution limits still apply and personal contributions for which you claim a tax deduction are still not allowed.

Previously, people aged 67 to 74 were required to work for at least 40 hours in a consecutive 30-day period in a financial year or be eligible for the work test exemption.

This means you can potentially top up your super account until you turn 75 (or no later than 28 days after the end of the month you turn 75). It also opens potential new strategies for a making big last-minute contribution using the bring-forward rule.

Extension of the bring-forward rule⁴

The bring-forward rule allows eligible people to "bring forward" up to two years' worth of non-concessional (after tax) super contributions. The current annual non-concessional contributions cap is \$110,000, which means you can potentially contribute up to \$330,000.

When combined with the removal of the work test for people aged 67-75, this opens a 10-year window of opportunity for older Australians to boost their super even as they draw down retirement income.

Some potential strategies you might consider are:

Transferring wealth you hold outside super into super to take advantage of the tax-free environment of super in retirement phase

Withdrawing a lump sum from your super and recontributing it to your spouse's super, to make the most of your combined super under the existing limits

Using the bring-forward rule in conjunction with downsizer contributions when you sell your family home

Downsizer contributions age lowered to 60⁵

From July 1, you can make a downsizer contribution into super from age 60, down from 65 previously. The downsizer rules allow eligible individuals to contribute up to \$300,000 from the sale of their home into super. Couples can contribute up to this amount each, up to a combined \$600,000. To be eligible, you must have owned the home for at least 10 years.

Downsizer contributions don't count towards your concessional or non-concessional caps. Additionally, as there is no work test or age limit, downsizer contributions provide a lot of flexibility for older Australians to manage their financial resources in retirement.

Rules relaxed, not removed

The latest rule changes will make it easier for many Australians to build and manage their retirement savings within the concessional tax environment of super. However, those generous tax concessions still have their limits.

Currently, there's a \$1.7 million limit on the amount you can transfer into the pension phase of super, called your transfer balance cap.⁶ Just to confuse matters, there's also a cap on the total amount you can have in super (your total super balance) to be eligible for a range of non-concessional contributions.⁷

As you can see, it's complicated. So if you would like to discuss how the new super rules might benefit you, please get in touch.

Combining downsizer and bring-forward contributions

Australians aged between 60 and 74 now have greater flexibility to downsize from a large family home and put more of the sale proceeds into super, using a combination of the new downsizer and bring-forward contribution rules.

Take the example of Tony (62) and Lena (60). Tony has a super balance of \$450,000 while Lena has a balance of \$200,000. They plan to retire within the next 12 months, sell their large family home and buy a townhouse closer to their grandchildren. After doing this, they estimate they will have net sale proceeds of \$1 million.

Under the new rules from 1 July 2022

They can contribute \$600,000 of the sale proceeds into their super accounts as downsizer contributions (\$300,000 each)

The remaining \$400,000 can also be contributed into super using the bring-forward rule, with each of them contributing \$200,000

By using a combination of the downsizer and bring-forward rules, Tony and Lena can contribute the full \$1 million into super. Not only will this give their retirement savings a real boost, but they will be able to withdraw the income from their super pension accounts tax-free once they retire

1 <https://www.ato.gov.au/individuals/super/withdrawing-and-using-your-super/first-home-super-saver-scheme/>

2 [https://www.ato.gov.au/General/New-legislation/In-detail/Super/Removing-the-\\$450-per-month-threshold-for-superannuation-guarantee-eligibility/](https://www.ato.gov.au/General/New-legislation/In-detail/Super/Removing-the-$450-per-month-threshold-for-superannuation-guarantee-eligibility/)

3 <https://www.ato.gov.au/Individuals/Super/Withdrawing-and-using-your-super/Repealing-the-work-test-for-voluntary-super-contributions/>

4 <https://www.ato.gov.au/individuals/super/in-detail/growing-your-super/super-contributions---too-much-can-mean-extra-tax/?page=7#Bringforwardarrangements>

5 <https://www.ato.gov.au/Individuals/Super/Growing-your-super/Adding-to-your-super/Downsizing-contributions-into-superannuation/>

6 <https://www.ato.gov.au/Individuals/Super/Withdrawing-and-using-your-super/Transfer-balance-cap/>

7 <https://www.ato.gov.au/individuals/super/in-detail/growing-your-super/super-contributions---too-much-can-mean-extra-tax/?page=11>

HOW TO MANAGE RISING INTEREST RATES

Rising interest rates are almost always portrayed as bad news, by the media and by politicians of all persuasions. But a rise in rates cuts both ways.

How high will Monthly Mortgage Repayments go?

	Median Value	Loan Amount (80% LVR)	Current*	Increase with 1% Rise	Increase with 2% Rise
Sydney	\$1,127,723	\$902,178	\$3,560	\$486	\$1,006
Melbourne	\$806,144	\$644,915	\$2,545	\$348	\$719
Brisbane	\$770,808	\$616,646	\$2,433	\$332	\$687
Adelaide	\$619,819	\$495,855	\$1,957	\$267	\$553
Perth	\$552,128	\$441,702	\$1,743	\$238	\$492
Hobart	\$735,425	\$588,340	\$2,322	\$317	\$656
Darwin	\$501,182	\$400,945	\$1,582	\$216	\$447
Canberra	\$947,309	\$757,847	\$2,990	\$408	\$845

Source: CoreLogic. *Assumes current average variable rate of 2.49%, monthly P&I repayments over 30 years.

Higher interest rates are a worry for people with home loans and borrowers generally. However, they are good news for older Australians who depend on income from bank deposits and young people trying to save for a deposit on their first home. Rising interest rates are also a sign of a growing economy, which creates jobs and provides the income people need to pay the mortgage and other bills. By lifting interest rates, the Reserve Bank hopes to keep a lid on inflation and rising prices. Yes, it's complicated.

How high will rates go?

In early May, the Reserve Bank lifted the official cash rate from its historic low of 0.1 per cent to a still low 0.35 per cent. The reason the cash rate is watched so closely is that it flows through to mortgages and other lending rates in the economy.

To tackle the rising cost of living, the Reserve Bank expects to lift the cash rate further, to around 2.5 per cent.¹ Inflation is currently running at 5.1 per cent and while unemployment is below 4 per cent, annual wages growth of 2.4 per cent is not keeping pace with rising prices.²

So what does this mean for household budgets?

Mortgage rates on the rise

The people most affected by rising rates are likely those who recently bought their first home. In a double whammy, after several years of booming house prices the size of the average mortgage has also increased.

According to CoreLogic, even though price growth is slowing, the median home value rose 16.7 per cent nationally in the year to April to \$748,635. Prices are higher in Sydney, Canberra and Melbourne.

The big four banks have already passed on the Reserve Bank's 0.25 per cent increase in the cash rate in full to their standard variable mortgage rates which range from 4.6 to 4.8 per cent. The lowest standard variable rates from smaller lenders are below 2 per cent.³

Still, it's believed most homeowners should be able to absorb a 2 per cent rise in their repayments.

The financial regulator, APRA now insists all lenders apply three percentage points on top of their headline borrowing rate, as a stress test on the amount you can borrow.⁴

But with prices increasing for food, fuel, childcare and other basics, budgets are tight, and households may need to cut back non-essential spending or increase their hours of work.

Rate rise action plan

Whatever your circumstances, the shift from a low interest rate, low inflation economic environment to rising rates and inflation is a signal that it's time to revisit some of your financial assumptions.

The first thing you need to do is update your budget to factor in higher loan repayments and the rising cost of essential items such as food, fuel, power, childcare, health and insurances. You could then look for easy cuts from your non-essential spending on things like regular takeaways, eating out and streaming services.

If you have a home loan, then potentially the biggest saving involves absolutely no sacrifice to your lifestyle. Simply pick up the phone and ask your lender to give you a better deal. Banks all offer lower rates to new customers than they do to existing customers, however, you can often negotiate a lower rate simply by asking.

If your bank won't budge, then consider switching lenders. Just the mention of switching can often land you a better rate with your existing lender.

The challenge for savers

Older Australians and young savers face a tougher task. Bank savings rates are generally non-negotiable, but it does pay to shop around.

Banks have been slower to pass on the full increase in the cash rate to savings accounts. By mid-May only three of the big four had increased rates for savings accounts. Several lenders also announced increased rates for term deposits of up to 0.6 per cent.⁵

High interest rates traditionally put a dampener on returns from shares and property, so commentators are warning investors to prepare for lower returns from these investments and superannuation.

That makes it more important than ever to ensure you are getting the best return on your savings and not paying more than necessary on your loans.

1 <https://www.rba.gov.au/speeches/2022/sp-gov-2022-05-03-q-and-a-transcript.html>

2 <https://www.abs.gov.au/>

3 <https://www.canstar.com.au/home-loans/banks-respond-cash-rate-increase/>

4 <https://www.apra.gov.au/news-and-publications/apra-increases-banks%E2%80%99-loan-serviceability-expectations-to-counter-rising>

5 <https://www.ratecity.com.au/term-deposits/news/banks-increased-term-deposit-interest-rates>

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