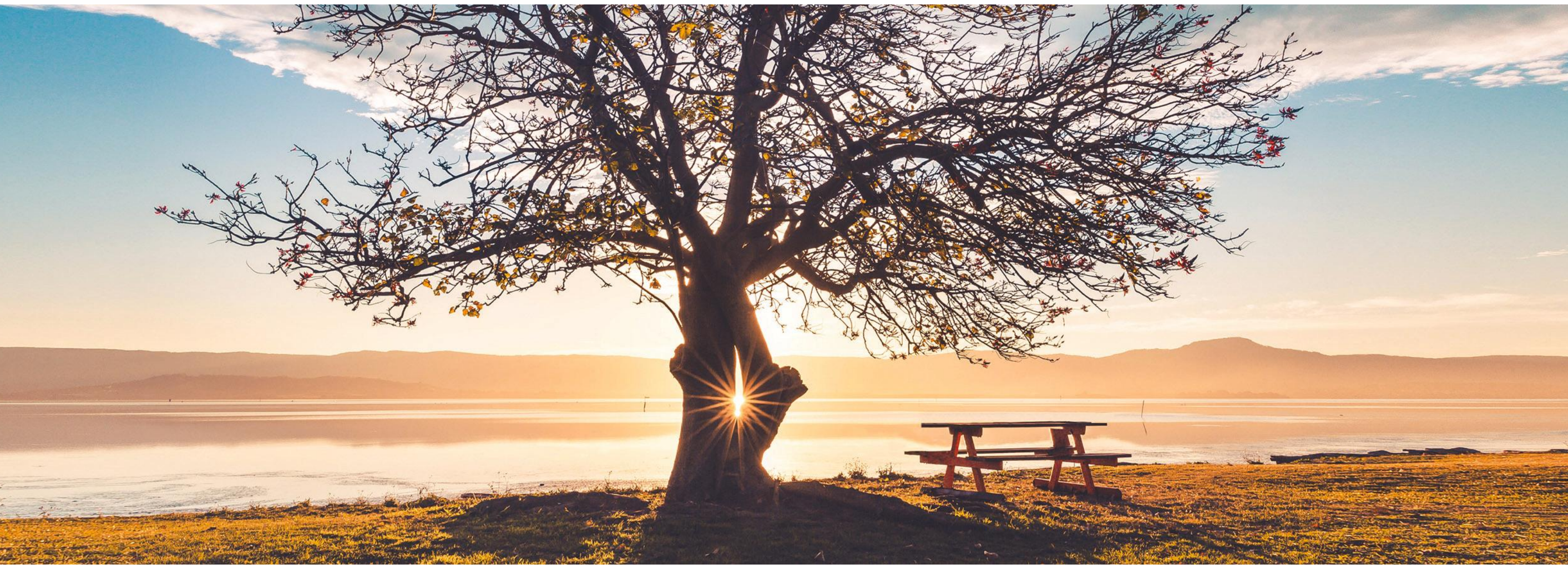

The Rich Life Vol 81

As winter approaches and the weather grows cooler, commentary around the 2024-25 Federal Budget is heating up, with the government facing the tension between addressing cost of living pressures without contributing to rising inflation.

The cost of living continues to bite with consumers keeping their wallets firmly closed. Retail sales fell 0.4% in March after getting a boost from the 'Taylor Swift effect' the previous month and prices continue to rise with a CPI increase in the March quarter to 3.6% annually. Education, health, housing and food recorded the biggest price increases for the quarter.

The markets have been subdued too with the prospect of further interest rate rises both in Australia and the US. The S&P/ASX 200 was down by about 2.5% for April. Some economists are predicting that we may not see the first cuts in interest rates until November. Mining stocks have been generally buoyant as commodity prices continue to surge while the energy and retail sectors have struggled.

The Australian dollar is back from the doldrums mid-month to end April at just over US65c. But with a strengthening US dollar, economists are rethinking their six-month outlooks for the Aussie with predictions now of between US65c and US69c. The surprise player in our currency's fortunes has been the ailing Japanese yen. Its weakness has been our gain with the Aussie ending April above 100 yen, its highest level since 2014.

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Living your best life in *retirement*

If you're nearing retirement age, it's likely you're wondering if you will have enough saved to give up work and take it easy, particularly as cost-of-living increases hit some of the basic expenses such as energy, insurance, food and health costs.

Fortunately, someone has already worked out what you might need.

The Association of Superannuation Funds in Australia (ASFA) updates its Retirement Standard every year, which provides a breakdown of expenses for two types of lifestyles: modest and comfortable.[i]

Based on our average life expectancy – for women it is just over 85 years and men 81 – if you are about to retire at say age 67, you will have between 14 and 18 years in retirement, on average and depending on your gender.[ii]

ASFA finds that a couple needs $46,944 a year to live a modest lifestyle and $72,148 to live a comfortable lifestyle. That's equal to $902 a week and $1387 respectively.

The figure is of course lower for a single person – $32,666 for a modest lifestyle ($628 a week) or $51,278 ($986) for a comfortable lifestyle.[iii]

What does that add up to? ASFA estimates that, for a modest lifestyle, a single person or a couple would need savings of $100,000 at retirement age, while for a modest lifestyle, a couple would need at least $690,000.[iv]

A modest lifestyle means being able to afford everyday expenses such as basic health insurance, communication, clothing and household goods but not going overboard.

The difference between a modest and a comfortable lifestyle can be significant. For example, there is no room in a modest budget to update a kitchen or a bathroom; similarly overseas holidays are not an option.

The rule of thumb for a comfortable retirement is an estimated 70 per cent of your current annual income.[v] (The reason you need less is that you no longer need to commute to work and you don't need to buy work clothes.)

Building your nest egg

So how can you build up a sufficient nest egg to provide for a good life in retirement? There are three main sources: superannuation, pension and investments/savings.

Superannuation has the key advantage that the money in your pension is tax free in retirement.

Your superannuation pension can be augmented with the government's Aged Pension either from the moment you retire or later when your original nest egg diminishes.

Your income and assets will be taken into account if you apply for the Age Pension but even if you receive a pension from your super fund, you may still be eligible for a part Age Pension. You may also be eligible for rent assistance and a Health Care Card, which provides concessions on medicines.[vi]

Money keeps growing

It's also important to remember that the amount you accumulate up to retirement will still be generating an income, whether its rentals from investment properties or merely the growth in the value of your share investments and the accumulation of money from any dividends paid.

You can also continue to add to your superannuation by, for instance, selling your family home and downsizing, as long as you have lived in the home for more than 10 years.

If you are single, $300,000 can go into your super when you downsize and $600,000 if you are a couple. This figure is independent of any other superannuation caps.[vii]

Planning for a good life in retirement often requires just that – planning. If you would like to discuss how retirement will work for you, then give us a call.

i Retirement Standard - Association of Superannuation Funds of Australia

ii Life expectancy, 2020 - 2022 | Australian Bureau of Statistics (abs.gov.au)

iii https://www.superannuation.asn.au/media-release/retiree-budgets-continue-to-face-significant-cost-pressures/#:~:text=The%20ASFA%20Retirement%20Standard%20December,to%20around%203.5%20per%20cent.

iv https://www.superannuation.asn.au/resources/retirement-standard/

v https://www.gesb.wa.gov.au/members/retirement/how-retirement-works/cost-of-living-in-retirement

vi Assets test for Age Pension - Age Pension - Services Australia

vii Downsizer super contributions | Australian Taxation Office (ato.gov.au)

What's all the noise about *loud budgeting?*

Loud budgeting is a trend that may have started as a joke but is being embraced by those who want to share their financial goals and priorities and in doing so, also improve their chances of achieving them.

It was comedian and writer Lukas Battle who bought the term "loud budgeting" to the world in a TikTok post, presenting it as an alternative to "quiet luxury" as loud budgeting represents a move away from spending to impress or conform.

As is the way with trends, the idea resonated with people, was picked up and run with by a growing group of budgeters. The spirit of the trend is about saying a loud "no" to what doesn't align with your values. But there's more to it than that, and there is also a right way to go about loud budgeting that will enable you to keep your finances on target – and your friendships intact.

The benefits of loud budgeting

But before we look at how to get it right, let's explore why loud budgeting can be such a powerful tool to put you in control of your financial journey.

The fundamental reason it works is because talking transparently about your finances and sharing your reasoning behind how you want to spend your money gives you power and lets you decline invites in a way that is less likely to offend others.

Being open about your challenges can create a sense of community and inclusion. By sharing and acknowledging that it is normal to have limited spending capacity and that it can be a juggle to manage our short-term spending with our long-term savings goals, helps everyone understand each other's pressures.

Once things are out in the open you are also more accountable. When you have shared your financial hopes and dreams with others, you are more likely to do what is required to stay on track and get support from those who care about you.

Making it loud – and successful!

Think of your goals

Before you start sharing your financial goals with others you must be clear on what they are. Think about what is important to you and what you are working towards. Don't just have figures in your head – do a proper budget of what you have coming in, what you need to save to meet your targets and what you have left over to spend, so you can make educated decisions.

What matters to you

When you have decisions to make about how to spend your money it can help to think about what is important to you and make intentional choices. That ensures you are not living unnecessarily frugally, but being selective about what you choose to spend your money on, taking into consideration what matters most to you.

Eye on the prize

It's important to keep your eye on the prize (or prizes) whatever form they may take. Looking to the longer term, this can be smaller goals, like saving up for a special occasion or bigger ones, such as a home deposit. It could also be prioritising payments such as mortgages, student loans and other kinds of debt. Check in from time to time to track your spending and savings against your goals.

Careful communication

Being careful in your phrasing will help make sure feelings aren't hurt when you decline an invitation. Part of loud budgeting is not saying 'no' outright – it's about explaining what's going on for you and offering an alternative that works for you. For example, if you're invited out for a dinner that you know will blow the budget, you could say "I'm trying to get enough together for a deposit to buy a place so I'm on a tight budget at the moment, can we catch up for a BYO barbeque at my place instead?

Making financial choices that are in line with how you want to live your life and prioritising long-term goals over temporary indulgences is a great way to set yourself up for a fantastic future. So why not speak up and try making your budgeting loud?

Caught IN THE middle: HELP FOR THE SANDWICH GENERATION

If you are feeling a bit like the meat in the sandwich you are not alone. The 'sandwich generation' is a growing social phenomenon that impacts people from all walks of life, describing those at a stage of their lives where they are caring for their offspring as well as their elderly parents.

The phenomenon is gathering momentum as we are tending to live longer and have kids later. It even encompasses royalty – Prince William has been dealing with a sick father while juggling school aged kids (as well as a partner dealing with serious health issues).

A growing phenomenon

The number of people forming part of the sandwich generation has grown since the term was first coined in the 1980's, as we tend to live longer and have kids later. It is estimated that as many as 5% of Australians are currently juggling caring responsibilities which has implications for family dynamics, incomes, retirement and even the economy.[i]

Like many other countries, the number of older Australians is growing both in number and as a percentage of the population. By 2026, more than 22 percent of Australians will be aged over 65 – up from 16 percent in 2020.[ii] It is also becoming more common for aging parents to rely on their adult children for assistance when living independently becomes challenging.

The other piece of bread in the sandwich is that as a society we are caring for kids later in life. The median age of all women giving birth increased by three years over two decades.[iii]

And with young people staying in the family home well into their twenties, we are certainly supporting our children for longer. Even after the kids leave the nest, it's also common for parents to become involved in looking after grandchildren.

Taking its toll on carers

While we want to support our loved ones, when that support is required constantly and intensively for both parts of the family, it can mean that something has to give and that 'something' is often the carer's well-being.

Even if you are not part of the sandwich generation but being squeezed at either end – caring for kids or parents, acting as a primary care-giver often requires you to provide physical, emotional, and financial support. It's common to feel it take a toll on your own emotional and physical health, and sometimes your finances as you sacrifice some of your savings or paid work to help your loved ones.

Support for caregivers

It can be difficult to acknowledge you need assistance but there are a number of ways you can access help.

Deciding what to get help with

It can feel like there is not enough hours in the day and that's overwhelming. Try to think about what you really need to do and where your time is best spent and consider if you can get assistance with tasks or duties you don't have to do. This may mean outsourcing things like buying a healthy meal instead of cooking or getting a hand with gardening or lawn mowing.

Think about what others could assist with to lighten and share your load.

Accessing support

There are also support networks out there that exist to take off some of the pressure. Reach out to local support networks via *Carers Australia* for help identifying mainstream and community supports.

You or your loved ones may also be entitled to government support, under the *National Disability Insurance Scheme* (NDIS) or *My Aged Care*. These programs provide funding and resources to help pay for essential care; from domestic assistance with cleaning and cooking, to home modifications, to 24-hour care for those who require more support.

The importance of self-care

It's vital to take some time out for yourself and make your own wellbeing a priority. Don't feel that it's selfish to take care of your own needs as that's an essential part of being a carer. Resources like respite care and getting support when needed is an important gateway to self-care.

Managing your finances

Caregiving can put financial pressure on the whole household and has the potential to impact retirement savings. The assistance of a trusted professional can help, and we are here if you need a hand.

Raising kids as well as supporting parents to live their best lives as they age is becoming more common and can be a challenging time of life. While the act of caring is the ultimate act of kindness – the most important thing to remember is to be kind to yourself.

i https://info.careforfamily.com.au/blog/sandwich-generation

ii https://www.sydney.edu.au/news-opinion/news/2023/10/09/confronting-ageing-the-talk-australia-has-to-have.html

iii https://www.abs.gov.au/ausstats/abs@.nsf/2f762f95845417aeca25706c00834efa/b130815d4b2de356ca2570ec000c1c60!OpenDocument

The art of refinancing

Refinancing your home loan has the potential to save you thousands, reduce your monthly repayments and free up your finances to achieve your goals.

However, mastering the art of refinancing requires strategic planning, an understanding of the process and taking numerous considerations into account. Whether you plan on external or internal refinancing, here's what to keep in mind.

Understand the different types of refinancing

While many people think of refinancing as switching lenders, you can also choose a better deal but stay with your original lender. Refinancing through your original lender but opting for a different deal is referred to as an internal refinance; external refinance is where you find a different lender.

In 2023, it was reported that Australia had the largest boom in mortgage refinances in history over the past three years.[i] And according to Finder's Housing Market Report 2023, while in 2019 just over half of refinancers were external refinancers, by mid-2023, this had jumped to 72%.[ii]

Know the market and interest rate movements

As the stats show, in recent times more mortgage holders than ever, are swapping lenders in order to chase a better deal. Often this is the main goal – to refinance to get a lower interest rate.

Given the fluctuations in the market and the rise and fall of interest rates, it's smart to keep informed as to what's happening. It's also a good idea to touch base with a financial expert to get their take on whether now is a good time to refinance.

Assess your financial health

It's then time to look at your financial situation, so you have a clear understanding of your credit score, current financial position and equity, income, and debt-to-income ratio.

It may have been some time ago that you last did this and it's likely that some things have shifted, especially given the higher cost of living at the moment.

Understand your loan

Whatever your reasons for wanting to refinance are, you need to understand what your current commitment is and what changes you want to make.

Read through your current loan's terms and conditions, as it may have been a while since you've checked them. You can chat to your current lender to see if there are any benefits you haven't been utilising or costs you are unaware of.

Understand refinancing costs

A follow-up from knowing your loan is ensuring you have a clear understanding of refinancing costs. While the lure of a better deal can be hard to resist, you may find that it may cost you more than you had thought.

Calculate your break-even point to determining if refinancing is beneficial – this includes taking any valuation fees and payout costs (such as exit fees) into consideration. If you are on a fixed rate home loan, you may need to pay a break free if you refinance.

Consider the impact on your credit score and LVR

Another thing to be aware of is how refinancing can impact your credit score. Aspects that come along with refinancing, such as ending a loan and needing another credit check, can cause your credit score to dip. And if there is the possibility that you skip out on a mortgage payment (should the refinancing process take longer than expected, for example), this will further damage your credit score.

Loan to Value Ratio (LVR) is the difference between the amount you're borrowing to the value of the property. If your LVR is over 80%, you need to pay Lender's Mortgage Insurance (LMI). When refinancing, it's likely that your LVR has shifted due to your mortgage repayments, so your LVR tends to be lower as a result. However, if your property has fallen in value and your LVR has risen, then you may need to pay LMI when refinancing.

We can assist with refinancing to ensure it's not only beneficial for you, but that it also frees up your finances. Get in touch today so we can discuss your options.

i https://www.macrobusiness.com.au/2024/03/mortgage-refinancing-boom-turns-bust/

ii https://www.finder.com.au/home-loans/housing-market-report