CENTAUR
FINANCIAL SERVICES

The Rich Life Vol 87

It's the last month of Spring and with summer on the way and many already planning for Christmas and holidays, it might be a busy month. The Centaur office will be closed over the festive period with our last day in the office being Friday, 20th of December 2024. Monday, reopening on Monday, 6th of January 2025.

Interest rates are expected to remain on hold when the Reserve Bank board meets next week despite welcome news on the inflation front. The Consumer Price Index rose just 0.2% in the September quarter and 2.8% for the year, the lowest rate in just over three years. Prices fell slightly for alcohol and tobacco, clothing, housing, health, and financial services. Transport costs also fell for the first time since 2020.

Share prices softened during the past two weeks of October, recorded the worst monthly performance in six months. The S&P/ASX 200 closed slightly down by 0.3% over the month, after again reaching record highs mid-month.

The Australian dollar ended the month at 65.7 US cents after almost hitting 70 US cents just a few weeks ago. Investors were reacting to the weaker than expected Australian retail sales and stronger US unemployment and retail sales figures.

Iron ore has hit a one-month low at USD104.08 after the heady highs in January of almost USD 145 in January. All eyes are on meetings in China next week about expanding its stimulus measures.

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SUPER VS PROPERTY

what works for retirement income?

There is no debate that Australians love investing in property.

The value of Australian residential real estate at the end of August 2024 was an estimated $10.95 trillion.[i]

Some love it so much that they believe property is a better option for providing a retirement income. They see a bricks and mortar investment as a more tangible and solid approach than say, superannuation, preferring to take their super as a lump sum on retirement to buy property. They may also choose to invest a windfall, such as an inheritance, or the proceeds from downsizing the family home, in property instead of their super.

So, given that a retired couple above age 65 needs an estimated yearly income $73,337 to lead a comfortable lifestyle, could a property investment do the job?[ii]

While it's true that a sizeable property portfolio could deliver rental income to equal a super pension, it might mean missing out on some useful benefits.

After all, super is a retirement savings structure with significant tax advantages. It also has the flexibility to provide investments in a range of different asset classes, including property.

Meanwhile, super fund performance has, generally speaking, outstripped house price movements over the past decade. Super funds (invested in an all-growth category) returned an annual average of 9.1 per cent during that time while average house prices in Australian capital cities grew 6.5 per cent per year over the same period.[iii, iv]

Not that past performance can give you any guarantees about what will happen in the future. Indeed, the average numbers smooth out the years of high returns and the years of negative returns. More important considerations in making an informed decision are your financial goals, your investment timeframe and how much risk you're comfortable with.

Liquidity

One of the most significant differences between super and property investments is liquidity, or how quickly you can convert your investment to cash.

With super, assuming you're eligible, funds can be accessed relatively easily and quickly. On the other hand, if your wealth is tied up in property it may take some time to sell or it may sell at a lower price.

Nonetheless, market cycles affect both property and super investments. They can be affected by volatile conditions and deliver negative returns just at the time you need access to a lump sum.

Long-term investing

Superannuation is designed for long-term growth, often spanning decades as you accumulate wealth over your working life. The magic of compounding interest can lead to substantial growth over time, depending on your investment options and the state of the market.

Property investments, on the other hand, can be invested for short, medium, and long-term growth depending on the suburb, the street, and the type of house you invest in. Of course, there are additional costs in buying a property (such as stamp duty) plus costs in selling (including capital gains tax). If there's a mortgage over the property, you'll need to factor in the additional costs of repayments and interest (bearing in mind that interest on investment properties is tax deductible).

Risk appetite

Investors' attitudes towards risk also play a role in choosing between super and property.

Superannuation funds can be diversified across various asset classes, which helps to reduce risk. But property investments expose investors to a single market meaning that while there might be a big benefit from an upswing, any downturn may be a blow to a portfolio.

Making an informed choice

Ultimately, any decision between superannuation and property should align with individual financial goals, risk tolerance, and investment strategies. And, of course, it doesn't need to be one or the other – many choose to rely on their super while also holding investment property so it's best to understand how super and property can complement each other in a well-rounded retirement plan.

We'd be happy to help you analyse your retirement income strategy to develop a plan that works for you.

i https://www.corelogic.com.au/news-research/news/2024/almost-30-of-suburbs-have-seen-values-fall-over-the-quarter

ii https://www.superannuation.asn.au/wp-content/uploads/2024/08/ASFA_Retirement_Standard_Budgets_June-24_quarter.pdf

iii https://www.chantwest.com.au/media/slnh0t1t/chant-west-media-release-17-july-2024-final.pdf

iv https://sqmresearch.com.au/asking-property-prices.iphp?avg=1&t=1

Helping the kids WITHOUT derailing your retirement plans

As parents, the instinct to support our children never truly fades, even when they become adults but when you are looking at giving them a financial helping hand there is a bit to consider.

It's important to ensure any support you provide is not at the expense of your financial future. It can also be tricky knowing what form your support should take, in order to maximise the benefits for your kids.

Support in a challenging environment

In today's financial landscape, many young people are struggling to get ahead in the face of skyrocketing housing prices and rising living costs and it's increasingly common for parents to provide some form of financial assistance. In fact, more than half of parents with a child older than 18 provide financial support.[i]

So, if you are giving your adult kids a monetary helping hand, or considering it, you are in good company.

Achieving balance

The challenge for most people is the balance between helping your kids get a head start in life and making sure you have enough for a secure financial future.

It's important to have clear visibility of your own financial situation, of how much you'll need to fund the retirement you aspire to, and how much you can comfortably spare. If your financial future is secure, you'll be in a better position to help your children when they need it most, so ensure that any contribution you make to your kids' financial wellbeing is not at the expense of your superannuation and other retirement savings.

Ways of providing support

When we think of support we often think of the 'bank of mum and dad' helping with a home purchase and that is quite common, with 40 per cent of new home buyers getting a hand from their parents.[ii]

If you're considering this route, you have several options:

Gift funds: If you have the means, you can gift your child a portion of the deposit, however, be mindful of any tax implications.

Going guarantor: Another popular option is to act as a guarantor on your child's home loan. This means that you'll use the equity in your own home to guarantee the loan, which can help your child secure better borrowing terms. It's a significant commitment, so be sure to discuss the potential risks and implications thoroughly.

Co-ownership: In some cases, parents and children can purchase a property together, sharing the financial responsibilities. This arrangement can be beneficial, but it's crucial to have a clear agreement in place outlining each party's responsibilities and financial contributions.

Other ways of providing financial support

There are lot of other ways you can help your kids with a range of expenses. Nearly 40 per cent of parents pay for their adult children's groceries and around the same proportion allow their adult children to live at home rent-free, while around a third pay their adult children's bills. One in five fork out for their kid's car-related costs like registration fees and petrol and 20 per cent pay for their kids to take off on holidays.[iii]

Non-financial support

Financial assistance isn't the only way to support your children. Often, your time and knowledge can be just as valuable. Encourage them to develop good financial habits, such as budgeting, saving, and investing. You might even consider involving them in family discussions about money management, which can empower them to make informed financial decisions.

Communication is critical

Regular, honest conversations about finances can strengthen your relationship with your children. Discuss their financial goals and challenges openly and encourage them to share their aspirations. These dialogues will allow you to gauge how best to support them and sometimes, just being there to listen can make a world of difference.

Setting clear boundaries is also crucial when offering financial support. Discuss how much you can provide, whether it's a one-off gift, a monthly allowance, or a loan. By being transparent about your limits, you can prevent misunderstandings and help your children set realistic expectations and become financially independent.

Navigating the complexities of financial support can be challenging, especially when balancing your own needs with those of your children. We can provide assistance and advice tailored to your unique situation and help you create a sustainable plan that allows you to assist your children without compromising your retirement goals.

i https://www.finder.com.au/bank-accounts/finder-bank-of-mum-and-dad-report-2021

ii https://www.apimagazine.com.au/news/tag/deposit

iii https://www.domain.com.au/news/the-bank-of-mum-and-dad-slightly-less-generous-than-before-covid-19-survey-shows-996809/

SMSFs – KEEPING IT IN THE FAMILY

Self managed super funds (SMSFs) can offer their members many benefits, but one that's often overlooked is their potential as a multigenerational wealth creation and transfer vehicle.

Family SMSFs are relatively rare. According to the most recent ATO statistics (2022-23), the majority of SMSFs (93.2 per cent) have only one or two members.[i] Just 6.6 per cent have three or four members and only 0.3 per cent have five or six members (the maximum allowed).

Advantages of a family SMSF

An SMSF is sometimes established when two or more generations of a family share ownership or work in a family business. The fund can then form part of a personal and business succession plan, potentially making it easier to pass on ownership and management of assets to the next generation.

With more members, SMSFs also gain additional scale, allowing them to invest in larger assets (such as property). You can add business premises to the SMSF and lease it back without violating the related parties rule and 5 per cent limit on in-house assets.[ii]

Reduced tax and administration costs are also a benefit of multigenerational funds.

Running a family SMSF means the costs of establishing and administering the fund are spread across more members. This can be particularly helpful for adult children just beginning to save for their retirement.

In addition, more fund members means more people to share the administrative burdens of running an SMSF, which may be helpful as you get older.

A family SMSF does not need to be automatically wound up if you die or lose mental capacity and they can simplify the process of paying out a member death benefit as well as potentially allowing it to be paid tax-effectively. Note that death benefits paid to non tax dependent beneficiaries incur a tax rate of up to 30 per cent plus the Medicare levy.[iii]

More fund members also make setting up a limited recourse borrowing arrangement (LRBA) easier because their contributions reduce the fund's risk of being unable to pay the borrowing costs. (An LRBA allows an SMSF to borrow money to buy assets)

Funding pension payments

Another advantage of an SMSF with up to six members may be when the fund begins making pension payments to older members.

If younger members are still making regular contributions, fund assets don't need to be sold to make pension payments, which avoids the realisation of capital gains on assets.

Family SMSFs can also provide non-financial benefits, helping to transfer financial knowledge and expertise between the generations. And, while your children gain a solid financial education from participating in the running the SMSF, they can also provide valuable investment insights from a different perspective.

Risks and responsibilities

It is important to note that a multigenerational SMSF may not be right for everyone.

SMSFs of any size come with some risks and responsibilities. You are personally liable for the fund's decisions, even if you act on advice from a professional, and your investments may not provide the returns you were hoping for.

Before you start adding your children and their spouses to your fund, it's essential to spend time thinking about the challenges in running a family SMSF. Developing an asset allocation strategy catering to different life stages can be complex. Older members may prefer a strategy designed to deliver a consistent income stream, while younger members are usually more focused on capital growth.

Risk profiles are also likely to vary. Typically, younger fund members have a higher appetite for investment risk than members closer to retirement.

Family conflict can also be an issue when relationships are under pressure from divorce, blended families, and personality clashes.

The death of a parent can also create disputes over the distribution of fund assets or forced asset sales. Decisions about the payment of death benefits by the remaining trustees can derail carefully made estate plans and result in expensive legal battles.

Larger families with multiple adult children and partners may also find the six member limit an obstacle, forcing them to look at other options such as running a number of family SMSFs in parallel.

If you would like more information about establishing a family SMSF, call us today.

i https://data.gov.au/data/dataset/self-managed-superannuation-funds/resource/adcb7b2c-70a7-4359-9425-fd96ffa0b6c4

ii https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/self-managed-super-funds-smsf/investing/restrictions-on-investments/related-parties-and-relatives

iii https://www.ato.gov.au/tax-and-super-professionals/for-superannuation-professionals/apra-regulated-funds/paying-benefits/paying-superannuation-death-benefits

The retirement living sector is growing rapidly in Australia as the population ages and demand increases for a spot in a retirement village.

For many people, the idea of having someone on site to help with property and garden maintenance is enough for them to make what can be a major change later in life. For others it is about the ready-made community and the easy access to social activities and a network of friends. And, as developers seek to entice younger and younger residents, they are dialling up the luxury and add-ons.

The type of accommodation varies widely between villages from apartments, villas and houses. Some retirement villages have a resort-style feel with a range of onsite amenities on offer including swimming pools, fitness centres, cinemas and cafes and there are often different dining and cleaning options available for residents.

Research released last year by the Property Council of Australia shows that retirement village residents are 41 per cent happier; 19 per cent less likely to require hospitalisation after only nine months; 15 per cent more physically active; five times more socially active; twice as likely to catch up with family or friends and have reduced levels of depression and loneliness.[i]

One important factor that sets retirement villages apart from residential aged care facilities is that retirement village living is considered independent living, generally without medical or personal care available through the village itself.

Different laws

Some residential retirement complexes include both independent living homes and aged care facilities. This set up can make the transition to aged care, if needed, less stressful especially if one member of a couple needs greater care.

However, the two operations are regulated quite separately under different laws and there are no guarantees that you can move smoothly from one to another when you want to.

Unlike assisted living or residential aged care, retirement villages are not regulated by the Federal Government but are governed under state and territory retirement villages acts. As such, the rules can vary between jurisdictions and villages.

Considering the costs

Buying into a retirement village can be a significant expense, making it important to understand the legal implications and ensure you carry out a thorough check to see if it is affordable.

In most cases you don't own the village residence. A common arrangement is for a lease or loan type arrangement, where residents buy the right to occupy a home within the village for a specific period.

The level of fees and how they are set is a private commercial arrangement and not governed by any laws. The costs could be roughly what would be incurred if you owned your home. As well as an upfront price, there could be ongoing maintenance fees and deferred management fees, which reduce the amount you receive when you leave the village.

Knowing your rights and obligations, as well as the initial costs and ongoing fees and expenses are key considerations to a successful transition.

Financial and legal advice is highly recommended to ensure clear understanding of the purchase arrangements and contracts. Their level of complexity is not to be underestimated.

Extra services and support

It is most people's aim to remain living independently in their own home for as long as possible.

For people living in retirement villages, this could mean accessing government subsidised home care services – for example, through the existing Home Care Packages Program. Depending on a person's health, these services could include cleaning and domestic assistance as well as personal care, such as assistance with showering or the delivery of pre-cooked meals.

Following the introduction of recent reforms, a new Aged Care Act aims to increase the subsidies for services and equipment to assist people staying at home.

A new Support at Home Program will replace the Home Care Packages Program from 1 July 2025. The Commonwealth Home Support Program will transition after 1 July 2027.

The reforms also include significant changes to the funding arrangements for residential aged care.

For both home care and residential aged care, the focus will be increasing the quality of services and the rights of individuals, while at the same time looking for greater contributions from people accessing the services.

Retirement villages are largely lifestyle considerations, but you also need to consider your current and future care needs to ensure that the village you choose will remain suitable for at least the medium term.

Contact us to discuss your plans for retirement.

i https://www.propertycouncil.com.au/media-releases/seniors-housing-focus-required-as-population-ages