MONEY MATTERS.

Life. Investments. Superannuation and Retirement.

Edition 4, 2021

What's inside:

KPFP

KP Financial Planning

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We hope you enjoy our latest edition of Money Matters.

Please contact our office if you would like to discuss anything in this edition.

Greg Roberts

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Tackling the gender retirement income gap

Women tend to retire with far less superannuation than men but there are ways to even the playing field.

The superannuation system is about to become a little more equitable for women from 1 July 2022*.

The government finally announced the closing of a loophole that allows employers to not pay about 220,000 women an estimated $125 million in super guarantee contributions because those employees earn less than $450 per month[1].

The loophole predominately affects women because they’re more likely to work part-time or casually. But there remains a long way to go before retirement incomes across all genders become more equal.

“Our analysis confirms that there is a fundamental gender pension gap in most retirement income systems, including Australia’s,” the Actuaries Institute said in its research paper **Gender Inequality in Retirement Savings**.

“This gender pension gap impacts women of all ages and wealth cohorts and is not projected to materially close under current system settings.”

While the problem is complex, there are some simple things everyone can do to tackle the issue.

1. Build savings early and take advantage of tax breaks

Making voluntary super contributions early in your working life can turbocharge retirement savings in two ways: through attractive tax breaks and the power of compound interest.

Employers currently pay 10% of an employee’s salary towards their super, which is taxed at just 15%. This is well below most marginal tax rates, which can be up to 45% (plus the 2% Medicare levy)[2].

Making extra contributions with pre-tax salary through your employer can boost your super because it’s concessionally taxed. The total concessional contribution cap in 2021-22 is $27,500 per year.

Many women also rely on the government’s carry-forward contributions scheme, where people can access unused concessional cap amounts from previous years. The Actuaries Institute recommends extending the carry-forward contributions scheme to longer than five years.

“Many women return to the workforce in a part-time role and are therefore unable to take advantage of this provision. A longer time period would enable more women to ‘catch up’.”

It’s important to remember that boosting your super doesn’t automatically lead to a higher retirement income because of the complex nature of Australia’s retirement system. Factors such as home ownership and Age Pension eligibility are also crucial factors to consider, which is why good financial advice is important.

2. Choose your super fund wisely

A typical full-time worker in a poorly performing fund over their lifetime would retire with a balance 54% (or $660 000) lower than if they were in one of the best performing funds according to the **Productivity Commission**[3].

Even a small difference in long-term returns can make a significant impact because those extra returns compound over decades.

Fortunately, it is now easier to identify if you are in an underperforming MySuper fund – the basic, default funds that most Australians belong to.

The new Your Future, Your Super legislation compels underperforming MySuper funds to write to their members advising them of their underperformance and provide details of the ATO's YourSuper comparison tool.

It allows people to easily compare funds and can be found at: **www.ato.gov.au/Calculators-and-tools/YourSuper-comparison-tool/**.

"APRA has intensified its supervision of trustees with products that failed the test and has requested they provide a report identifying the causes of their underperformance and how they plan to address them," APRA Executive Board Member Margaret Cole said when announcing the results.

3. Lobby for changes to the system that eradicate inequity

There are many inequities across society that lead to poor retirement outcomes for women.

Women tend to be paid less than men, even when performing the same job.

Women also tend to work more part-time hours and have extended career breaks because they shoulder the bulk of unpaid household work, as well as looking after children or other family members.

It will take system-wide changes to address the imbalance that extend well beyond the $450 per month superannuation guarantee loophole.

The Actuaries Institute[4] recommends the SG be paid on all parental leave.

"The SG can be considered to be deferred wages. We therefore recommend that when wages are paid on approved parental leave, the SG should also be paid. This would be consistent with the SG being paid on annual and long service leave."

The Institute's modelling suggests it would boost retirement balances by approximately 2.4% at no impact to the government's fiscal position.

Pension credits for carers, which are common in Europe, would also help address the imbalance.

"Another example is in Canada where participation in employer-sponsored benefits continues during periods of maternity leave and parental leave subject to payment of employee contributions, for a period of up to 80 weeks."

It's easy to ignore these issues when retirement can seem so far away but raising issues of gender inequality with your local MP can help change society.

If you have any questions about your financial or lifestyle goals, contact our office to speak with your adviser today.

* This change is not yet law and if it does become law, will not commence until 1 July 2022

1 Removal $450 - Women in Super. (2021, September 06). Retrieved from https://www.womeninsuper.com.au/content/removal-450/gjuq2x?permcode=gjuq2x

2 Individual income tax rates. (2021, July 01). Retrieved from https://www.ato.gov.au/rates/individual-income-tax-rates

3 Commission, C. (2019, January 10). Superannuation: Assessing Efficiency and Competitiveness - Productivity Commission Inquiry Report. Retrieved from https://www.pc.gov.au/inquiries/completed/superannuation/assessment/report

4 Gender Equality in Retirement Savings', the Actuaries Institute, April 2021. Retrieved from https://www.actuaries.asn.au/Library/Miscellaneous/2021/GenderInequalityinRetirementSavingsActuariesInstitute270421.pdf

Helping retirees build homes for life

Homes are built for living but often not for ageing. A new code is set to change the situation and add to a rising array of options for older Australians.

Most Australians want to grow old in their own homes. However, few homes are designed with retirement in mind.

“As our population ages, the demand for accessible housing will increase,” said the **Building Better Homes Campaign**, which seeks to improve housing standards to better accommodate the needs for all Australians.

“Over the next 40 years, the number of Australians with a mobility limitation due to disability is estimated to increase from 3 million to around 5.75 million.”

Yet only 5% of new home builds comply with the voluntary Liveable Housing Guidelines, despite being in place since 2010.

But change is on the way with more choices and a new construction code set to turn more homes into homes for life.

Silver service

A major change occurred earlier this year when Australian Building Ministers agreed to include mandatory minimum accessibility standards in the **National Construction Code**.

“This is a major win for people with disability, seniors and all Australians. But not every state and territory has committed to implementing the new Code,” said the Building Better Homes Campaign.

The 2020 RMIT report, **Exploring the economic value embedded in housing built to universal design principles**, asked more than 100 caregivers whether housing design impacted their capacity to provide care[1].

The vast majority (88%) agreed overall, while 97% of informal care workers strongly agreed.

Around three-quarters (74%) believed home design was very important to support ageing in place.

The new guidelines will help achieve that goal across three performance levels: Silver, Gold and Platinum.

The standard Silver accessibility features include having a clear path of travel from the street to a level entry; wider doorways and passages; a toilet suitable for people with limited mobility on the entry level; and reinforced bathroom walls to allow grab rails to be inexpensively fitted.

This standard, which will be implemented next year, aims to improve function for all and avoid costly retrofitting should household circumstances change.

The estimated extra cost of fitting basic accessibility features at the design stage is 0.1% to 0.3% of total unit costs. Retrofitting accessibility features to an existing home can cost 22 times as much, according to **RMIT research**.

The Gold level is drafted to allow states and territories to voluntarily upgrade their standard while Platinum houses would be designed with all 17 recommendations displayed in the breakout.

Planning ahead

While the Silver criteria will likely form an important building guide in years to come, it can act as a housing checklist for retirees.

While the updated code will improve new homes, innovative technology and services can also help older Australians make their current homes more accessible.

Assisted living products is a booming area that now extends beyond traditional shower rails and non-slip shower mats to home automation systems and house cleaning robots.

1 RMIT report: Exploring the economic value embedded in housing built to universal design principles. Retrieved from https://cur.org.au/cms/wp-content/uploads/2020/08/public-placemaking-and-private-residential-housing.pdf

It also takes planning to maintain autonomy.

While some people feel uncomfortable discussing their future need for care or acknowledging the impact of physical decline, starting the discussion early can avoid issues.

A good time to start discussions is when people are beginning to consider retirement and have a reasonable asset base – often just after 50 years of age.

"Surveys also show that some people have limited knowledge about retirement decisions, such as managing longevity, the cost of aged care, and the operation of various government policies," the RMIT report said.

"These uncertainties collectively can mean the family home can become a form of self-insurance even if it is not a suitable environment to age in."

It underlines the value of good advice to enjoy your retirement for as long as possible.

Liveable housing attributes	
1	**Dwelling access:** A safe continuous and step free path of travel from the street entrance and/or parking area to a dwelling entrance that is level.
2	**Dwelling entrance:** There is at least 1 level, step-free entrance into the home
3	Direct and level entry from parking space to the house. Enter and exit the dwelling easily
4	**Internal doors & corridors:** Internal doors and corridors are wider than standard
5	**Toilet:** The ground level has a toilet with 1200 mm clear circulation space
6	**Shower:** Easy and independent access for occupants. Hobless, shower recess
7	**Reinforcement of bathroom & toilet walls:** Grabrails can be installed where needed.
8	**Internal stairways:** Continuous handrail on one side of the stairway
9	**Kitchen space:** Clearance in front of fixed benches and appliances
10	**Laundry space:** Ease of movement between fixed benches appliances
11	**Bedroom space:** There is a space on the ground (or entry) level that can be used as a bedroom with 1m a 1.5m clearance space
12	**Switches and Power Points:** Switches should be aligned to door handles and power points should be a minimum of 300m above floor
13	**Door and tap hardware:** Doorways should feature door hardware 900-1.2m above finished door
14	Tapware are easy to use with a lever mechanism
15	**Family/living room space:** There is enough free room to accommodate residents to move in and around the room with ease
16	Window sills are installed at a height that enables home occupants to view the outdoor space
17	**Flooring:** Floor coverings should be slip resistant

If you have any questions about the role your home plays in retirement, contact your adviser.

Why life and disability insurance is key to protecting families from 'health poverty'

Poverty is not just a financial measure – it can also affect health. But life insurance can help manage the risks.

More than 40% of Australians report such low levels of physical and mental wellbeing that they are defined as living in 'health poverty', according to new research[1].

It suggests many Australians are unaware of the risks they face given life and disability insurance levels continue to decline.

The comprehensive analysis by the ARC Centre of Excellence in Population Ageing Research (CEPAR) assessed more than 30,000 Australians' views of their health across physical function, role function, social function, pain, mental health, and vitality.

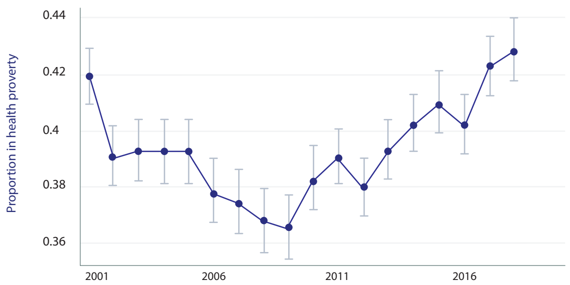
"Our investigations of what aspects of health were contributing to health poverty suggests lack of role functioning and vitality were the most important elements," the report found.

"They account for much of the change over time, the differences between groups, and the differences in trends between groups."

While there are measures of poverty across several aspects of life, there is no established measure of health poverty, according to the report.

According to the CEPAR measure, the rate of health poverty fell between 2001 and 2009, but then quickly climbed again, in line with rising diabetes and drug-induced deaths.

Figure 1. Change in overall measures of health poverty



Note: HILDA 2001-2018. 95% confidence intervals obtained using probit regression.

Women and Indigenous Australians more at risk

The research found specific groups, including women and Indigenous Australians, were more at risk of health poverty.

Around 44% of women suffered from health poverty in 2001 compared to 40% of men. The gap grew larger (33% for men and 40% for women) by 2010, with women's health poverty continuing to get worse, reaching a record high of 46% in 2018.

Indigenous Australians were also at risk, suffering extreme rates of health poverty of more than 60% by 2018.

"For Indigenous people, poor mental health also played a significant part in explaining higher rates of health poverty compared to non-Indigenous people. These findings should be explored further in future research."

While older Australians tend to have more health problems, the health poverty gap between older and younger people narrowed over the last two decades.

Meanwhile, the research also found South Australia had the highest levels of health poverty while the Australian Capital Territory (ACT) had the lowest. People in rural areas were likely to experience slightly higher levels of health poverty.

The report didn't offer substantial reasons for the findings but suggested they may point the way to improve public policy to help at-risk groups.

Underinsurance and health poverty

The report shows many Australians are at risk of health poverty, yet actuarial firm Rice Warner (recently merged with PwC) estimated Australians were underinsured by $1.8 trillion in 2017[2].

And the gap has widened. Rice Warner's 2020 analysis revealed that the total sum insured has decreased by 17% and 19% for death and TPD cover respectively over the previous two years.

The table below estimates the actual average level of death and TPD insurance that 30 and 50-year-old parents need. (The amount is lower for older parents as they have less time until retirement, lower expected debt, higher super savings, and spend less time looking after children.)

Table 1. Average insurance need per parent

Age of parents	Basic level death need	Basic level TPD need
30	$561,000	$874,000
50	$207,000	$499,000

If you would like to review your current life insurance cover, contact your adviser.

1 Trends in Health Poverty in Australia, 2001-2018 | CEPAR. (2021, July 30). Retrieved from https://cepar.edu.au/publications/working-papers/trends-health-poverty-australia-2001-2018
2 Life insurance adequacy - Rice Warner. (2021, April 27). Retrieved from https://www.ricewarner.com/life-insurance-adequacy/

What does rising inflation mean for investors?

Inflation may be on the way back thanks to massive government stimulus aimed at reviving the economy. Should investors be worried?

"Inflation is as violent as a mugger, as frightening as an armed robber, and as deadly as a hitman," former US president Ronald Reagan said as the US battled soaring inflation in the early 1980s. Since then, governments have largely kept inflation under lock and key. It has gradually been falling for decades, which has driven the value of growth assets such as shares higher.

But as economies re-emerge from the pandemic, inflation is rising again. Inflation in Australia jumped to 3.8% in the second quarter of the year, up from just 1.1% in the **first**[1]. Meanwhile, US inflation rose by 5.4% in June year-on-year, the fastest pace in **30 years**[2].

Should investors be concerned or is the spike just transitory after the pandemic?

"That's the million-dollar question," says ClearView Chief Investment Officer Justin McLaughlin. "The short answer is no one really knows. But I think it's going to be transitionary. If you look at the RBA's forecast, they clearly think there will be a fairly modest increase in inflation at best."

Why falling inflation has been good for investors

Falling inflation usually prompts central banks to cut interest rates, which fires up the economy. It is easier for businesses to borrow money to invest and hire new staff, while consumers with loans such as mortgages pay less interest, leaving them with more money to spend.

The average rolling 12-month return for global equities when inflation was trending down over the last five decades was 10.4%, according to a SSgA **report**[3]. When inflation was rising, annualised returns fell to just 5.3%.

Central banks have taken interest rates to around zero (and in some cases negative) in the years since the global financial crisis in 2008-09, providing a powerful tailwind for equities. However, productivity and wages growth have remained stubbornly low.

The pandemic which struck in early-2020 presented a new challenge. With little monetary policy ammunition left, governments have unleashed record spending programs aimed at pumping up their shutdown economies.

But while inflation has since rebounded strongly, McLaughlin suggests it may largely be because inflation was so low (or even deflationary) during the pandemic lockdown. Supply chain bottlenecks, caused by production companies trying to keep up with newfound consumer demand, may also be driving higher inflation.

"We might continue to have an inflationary spike as things reemerge this year," McLaughlin says.

"But we don't expect inflation to rise again and again, year after year. To get sustained inflation the economy needs wages growth and that's quite a bit of a challenge for Wall Street and, in Australia, George Street."

Investment opportunities won't be curtailed if inflation rises

McLaughlin says three scenarios could eventuate: inflation could continue to rise, it could go back to recent lows, or reach the RBA's target.

"If we can't get inflation up, we are going to be stuck in this very low, slow growth world, which we've been struggling to get out of for a while. The key is to get inflation and wages growth up," says McLaughlin.

"It'll have investment implications so far as cash rates and bond yields would be very low for a long time. Investors with conservative mixes of investments would be struggling because there wouldn't be much yield out there."

The optimal range for inflation would be 2%-2.5%, which would boost wages and demand without devaluing goods and services through excessive inflation. It would also help people saving and retirees who generate income from cash and bonds.

"A lot of people are very happy to have their wages going up each year. A lot of retirees would probably quite like the increasing returns on their cash investments too."

While rising interest rates would hurt bonds in the short term

(capital prices would decline), newly issued bonds would start to generate a higher interest rate. Some bonds are inflation-linked, which offers the best protection against rising inflation.

Professional fund managers also have an array of options to manage through changing market conditions. For example, SSgA research found that some equity investment styles, such as low volatility, quality, momentum and value, outperformed during periods of rising inflation over the last 20 years.

"The point is: don't be scared of inflation," McLaughlin says. "There are winners and losers. In my view, the winner is more likely to be the real economy under the current circumstances as we head towards the target."

If you have any questions or would like to review your investment portfolio, contact your adviser.

1 Measures of Consumer Price Inflation. (2021, July 28). Retrieved from https://www.rba.gov.au/inflation/measures-cpi.html

2 Individual income tax rates. (2021, July 01). Retrieved from https://www.ato.gov.au/rates/individual-income-tax-rates

3 Inflation – What it Really Means for Equities. State Street Global Advisors. Retrieved from: https://www.ssga.com/library-content/products/fund-docs/mf/apac/au/monthly%20commentary/Australian_Equities_Monthly_Commentary.pdf

Equity market strength defies pandemic lockdown

Investors continue to enjoy surging markets after a strong profit reporting season, despite the significant uncertainty of the coronavirus.

The Australian share market continues to hover around record highs despite millions of people across the country enduring lockdowns that are shrinking the economy.

With rising vaccination rates, confidence remains high that this outbreak will mirror the last year's COVID-19 episode, when economic activity quickly returned to normal. At least 80% of all Australian adults are on track to be vaccinated later this year – a key threshold that will prompt most States to reopen.

The strong local equity market performance has been led by the banks, which have benefited from an ongoing residential property boom, while mining stocks have also been driven by global demand for commodities. Strong demand from China combined with supply issues in Brazil pushed iron ore prices through the $US200 per tonne level, before falling back to around $US130 by mid-September.

Other sectors benefited from cashed up consumers ready to spend after pandemic-induced lockdowns, although more recent levels of government support have been far less generous than last year's JobKeeper scheme.

The US share market has also continued to surge despite disappointing jobs data in early-September which dampened the mood on Wall Street. European share markets performed strongly although Japan remained flat.

The US Federal Reserve continued to support its economy and is unlikely to taper its bond buying program with Federal Reserve Chairperson Jerome Powell previously stating that better employment figures were needed before the central bank eased support.

The Reserve Bank of Australia held interest rates at a record low 0.1% in September as lockdowns across the country continued to weigh on the economy. It also extended its $4 billion per week bond buying program out to at least February 2022.

"While the outbreak is affecting most parts of the economy, the impact is uneven, with some areas facing very difficult conditions while others are continuing to grow strongly," the RBA said in September.

Meanwhile, there are also signs of inflationary pressure emerging around the world with COVID-19 causing ongoing disruptions across global supply chains. The International Monetary Fund has recommended central banks take a 'wait and see' approach to assess whether it is permanent or transitory.

The Australian residential property market has again proven resilient through lockdowns and a short construction ban in NSW aimed at slowing the spread of coronavirus. Housing prices have risen almost 11 times faster than wages growth over the past year, according to CoreLogic. Australian housing values rose 15.8% across the first eight months of 2021.

In the commercial property sector, office and retail have been most negatively impacted by lockdowns, but industrial has been booming thanks to rising demand for e-commerce logistics.

If you are concerned about current market conditions, please contact our office today.

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