Our latest update

October 2023

The warmer weather and spring rains are a welcome break from the colder months. And, while outside activities become more tempting, don't forget to find a moment or two to review your finances to make sure you're up-to-date and on-track.

Household wealth has increased for the third quarter in a row. It rose by 2.6% in the June quarter, pushed up by rising house prices and increases in superannuation balances. Meanwhile demand for credit was the lowest since 2005. But consumers are not spending and consumer confidence is down. Retail sales growth was the slowest since the pandemic lockdown.

While the number of job vacancies have fallen by about 18% since their peak in May this year, they are still around 72 per cent higher than just before the pandemic – that's an extra 160,000 positions that employers are looking to fill. Unemployment was unchanged at 3.7%.

The Australian dollar rebounded a little to finish the month where it began but it's ended the quarter about 3% down thanks to surging oil prices, interest rate uncertainty and the US markets.

Brent crude has continued its relentless climb since June, ending the month just over 30% higher than three months ago. That's pushed petrol prices ever higher – about 17% over the same period – with the national average price for unleaded at $2.11 a litre compared to $1.80 in June. Oil prices are expected to continue to increase because of depleted US inventories and cuts to production in Saudia Arabia and Russia. Increasing petrol prices helped fuel a jump in inflation last month.

Endure Wealth Pty Ltd
ABN 87 632 221 713
AFSL 516435
E info@endurewealth.com.au

YOURS, MINE AND OURS

– estate and succession planning for modern families

Navigating complex family relationships and blended families can be challenging at times and particularly when a family member dies.

A good estate plan can help to make sure your wishes are carried out when you die. An estate plan, of which a will is the first and most important part, can ensure your estate is distributed in the way you want. It can also help if you become incapacitated, particularly when it includes an enduring power of attorney and a medical power of attorney that indicate who should be in charge of your affairs and any relevant instructions.

Professional advice is vital in estate planning to make sure that you have considered all the issues, including tax matters, and that your loved ones are protected. It is also important to clearly communicate your wishes, particularly when there are complex issues involved, so that your wishes are clearly understood.

Here are some of the issues to think about.

Superannuation

A binding death benefit nomination should be at the top of your list when you are considering the distribution of your superannuation funds.

This makes certain that your super death benefit is paid to those you choose because without one, the trustee of your super fund will make their own decision.

The nomination is usually valid for three years before it lapses and must be renewed.

Blended families

If you have been married more than once and/or have children with more than one partner, your will helps to effectively provide for those you choose.

You may wish, for example, to ensure that your children receive the proceeds of your estate rather than your spouse or ex-spouse. Alternatively, you may need to ensure your will protects your current spouse from the claims of previous spouses.

When it comes to the family home, the type of home ownership is important. If you have purchased as 'joint tenants', the entire asset will pass to the surviving spouse. On the other hand, if you have purchased as 'tenants in common', each spouse can distribute their share of the house to others.

You may also wish to include a 'life interest' in the home so that your current spouse can continue to live in the home until their death before it ultimately passes to your other beneficiaries.

Trusts

Any existing family trusts should be reviewed with a blended family in mind. Check that the trust deed provides clear instructions for succession, if you want to ensure your children from past relationships are catered for.

Your will can also establish new trusts, known as testamentary trusts, to provide for any dependents with disability, when you are worried that a child may waste or misuse your assets, or to allow for young children.

A testamentary trust can also help to protect your adult child's interests if they were to divorce a partner or are facing bankruptcy. Any inheritance they receive from you would become part of their property and can be considered in a divorce settlement or called on by creditors.

Handing on a business

If you are in business with partners, or would like to hand on the family business to one child but not others, a life insurance policy may be a useful strategy – sometimes known as estate equalisation – to even the distributions from your estate.

In the case of a business partnership, you would name your partner or partners as beneficiaries of the life insurance policy, to effectively 'buy you out' of the business. Where it's a family business due to be handed on to one child, your life insurance would go to your other children to match the value of the business.

Note that it is crucial to continually review the value of the business and the value of the life insurance to ensure they remain current.

Estate planning can be tricky and emotional, particularly when your circumstances are a little more complex. *So, get in touch with us to ensure your estate plan meets your wishes and takes account of all the issues.*

A POSITIVE PROPERTY OUTLOOK FOR SOME

Residential property investors have been on a wild ride in recent years as prices slumped during the pandemic then quickly skyrocketed before losing ground again.

Now, with prices levelling out or slowly increasing, there is good news around the corner, according to some analysts.[i]

A combination of positive indicators for housing could help to fuel further price rises.

With a widespread view that the Reserve Bank's interest rate increases are beginning to work to ease spending, some believe we may see the first rate cuts as early as next March. Add to that the increase in migration and the fall in new house construction, and residential property gains may follow. CBA Chief Economist Stephen Halmarick is forecasting a 7 per cent rise in house prices this year and another 5 per cent in 2024 claiming that, by this time next year, prices will return to "all-time record highs".

The sustained levels of high demand clashing with historically low levels of for-sale listings are also pushing prices up, according to the Property Investment Professionals of Australia (PIPA).[ii]

In the meantime, some investors are doing it tough with rising interest rates and the end of fixed interest rate mortgages sometimes a contributing factor. The number of short-term property resales made at a loss has jumped, according to property analysts CoreLogic, from 2.7 per cent a year ago to 9.7 per cent in the June quarter this year.[iii] The median loss was $30,000, for houses sold within two years, compared to a median profit of $75,000.

PIPA's annual survey to gauge property investor sentiment found just over 12 per cent of investors sold at least one investment property in the past year.[iv] Less than a quarter of those houses sold went to other investors, continuing a trend that has been happening for several years.

Almost half of those who sold said they were concerned about governments increasing or threatening to increase taxes, duties and levies.

Where are rents headed?

Will rents continue to rise or stabilise? Experts' views are mixed about the short-term outlook for the rental market.

The Reserve Bank says the continuing shortage of rental housing is likely to support ongoing increases in rents.[v]

The rents paid by new tenants provide a good indication of price movements in rental housing. Actual rents paid by new tenants increased by 14 per cent over the year to February 2023. Since the onset of the pandemic in 2020, rents paid by new tenants have increased by 24 per cent.[vi]

But CoreLogic predicts a slowing in rental price growth next year, saying rents rose for the 35th month in a row in July but monthly growth has eased over the past four months. It says the expected drop in interest rates next year combined with softer income growth and stretched rental affordability will contribute to a slowing in rents.

Build-to-rent growth

Australia's growing build-to-rent (BTR) market is getting a boost with tax concessions from governments eager to increase housing stock.

BTR projects, common in Europe and North American, see landlords build a large-scale residential development intending to hold it for the long-term while renting the apartments for as long as three years with rent increases locked in. Rents are often slightly higher than market averages in return for better communal amenities such as roof gardens and gyms.

Institutional investors, such as super funds, are also getting onboard with the projects, favouring the steady income stream.

While Australia's BTR market is mostly being driven by large developers and global players, smaller private investors are also getting in on the act. On the plus side, BTR offers regular income, often better returns and the chance to minimise expenses, not to mention the government tax concessions.

On the downside, there is the possibility the concept might not take off in Australia and that vacancy rates may be higher. Meanwhile, the locked-in rental increases may not keep pace with rapid market changes.

i https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/total-value-dwellings/latest-release

ii, iv https://www.pipa.asn.au/wp-content/uploads/PIPA_Investor-Survey-Report_2023_Final.pdf

iii https://www.corelogic.com.au/news-research/news/2023/short-term-loss-making-resales-on-the-rise

v, vi https://www.rba.gov.au/publications/bulletin/2023/jun/new-insights-into-the-rental-market.html

How the Aussie dollar *moves your investments*

It has been a wild ride for the Australian dollar since the Covid-19 pandemic struck and that could mean good news, or bad news for your investment portfolio.

In March 2020 the Aussie dipped below US58 cents for the first time in a decade. Since then, a high of just over US77 cents in 2021 has been followed by a rollercoaster ride, mostly downhill.

In October 2022 the dollar plummeted to US61.9 cents, bounced its way back up to US71.3 cents in February this year but by mid-August it had slipped to a nine-month low at under US64 cents.[i]

Many analysts agree that further falls are on the cards with some even predicting the dollar could fall to as low as US40 cents within five years.[ii]

What's driving the dollar?

Given any currency's susceptibility to changing economic conditions both at home and overseas, the Aussie has had quite a bit to deal with lately.

Rising interest rates can boost the Australian dollar by making us more attractive for foreign investors, providing our rates are rising ahead of the US and others.

If foreign investors buy more Australian assets because they can get a bigger return on their investment, more money flows into Australia which increases demand for Australian dollars. And if investors hold more Australian assets than overseas ones, less money leaves the country, decreasing supply. So, increased demand and decreased supply see the Australian dollar rise.

While the Reserve Bank of Australia (RBA) has increased rates by 4 per cent in Australia since May last year as it battles to get inflation under control, rates have also been rising in the US.

The US Federal Reserve has undertaken its most aggressive rate-rising cycle in 40 years with rates now at a 22-year high and signs of further increases likely. This has put pressure on the Australian dollar, narrowing the difference between the US and Australian rates, meaning foreign investors will look for better returns elsewhere.

Changing economic conditions

The value of the Australian dollar is also affected by changes in economic conditions as well as rises and falls in other financial markets. For example, in August news that the unemployment rate had increased slightly and an easing in wage price growth led to speculation that the RBA would put a hold on rates, putting a dampener on the Aussie.

Also affecting the dollar was a decline in US share markets in August, confirming the typical pattern of the Australian dollar falling when equity markets' prices drop.

Meanwhile, the performance of China's economy plays a significant part in Australian dollar movements. China is currently battling soaring unemployment, particularly among young people, falling land prices and a housing crisis, among other ills.

As Australia's largest trading partner, both in terms of imports and exports, any slowdown in China means lower sales of our commodities and other goods and services and less investment in property and business.[iii]

How the dollar affects us

There are advantages and disadvantages of a falling Australian dollar. On the plus side, our exports will be more competitive because our customers will pay less for our goods and services compared with those produced overseas. Conversely, imported goods will be relatively more expensive.

There could also be an increase in tourism – the cost of travel in Australia will be cheaper for those coming from overseas. Unfortunately, those planning an overseas trip will need to find a significantly greater pile of Australian dollars to pay for airfares, accommodation and shopping.

For investors, it is a useful exercise to review the currency's effect on your portfolio.

For example, if you're invested in Australian companies that rely on overseas earnings, look at how they handle their exposure to the currency risk. A lower dollar is good news for those with overseas operations and those that export goods. On the other hand, those that need to buy in components or products from overseas may suffer.

In any case, have a chat to us to look at the best way forward in these uncertain times.

i https://tradingeconomics.com/australia/currency

ii https://www.news.com.au/finance/markets/australian-dollar/aussie-dollar-in-free-fall-amid-bloodbath/news-story/929165d65db4dc7d8a97bc7b27b5ab0d

iii https://www.aph.gov.au/about_parliament/parliamentary_departments/parliamentary_library/pubs/briefingbook44p/china

Should I buy INSURANCE through my super?

While we all hope for good health, the reality is that some of us may struggle at times with sickness or injury. And that may affect your family's financial wellbeing.

Different types of life insurance or personal insurance can provide an income when you're unable earn, or a lump sum to protect your loved ones if the worst happens.

Insurance products such as life insurance and total and permanent disability (TPD) cover are available through your superannuation fund or directly through an insurance company. There are also other products not usually offered by super funds such as accidental death and injury insurance, and critical illness or trauma cover.

Almost 10 million Australians have at least one type of insurance (life, TPD or income protection) provided through superannuation.[i]

Check what your fund offers

Super funds usually provide three types of personal insurance. These include:

- Life insurance or death cover provides a lump sum payment to your beneficiaries in the event of your death.
- Total and Permanent Disability (TPD) pays a lump sum if you become totally and permanently disabled because of illness or injury and it prevents you from working.
- Income Protection pays a regular income for an agreed period if you are unable to work because of illness or injury.

While these insurance products can provide valuable protection, it's essential to be aware of circumstances where coverage might not apply. For example, super funds will cancel insurance on inactive super accounts that haven't received contributions for at least 16 months.[ii] Some funds may also cancel insurance if your balance is too low, usually under $6000. Automatic insurance coverage will not be provided if you're a new super fund member aged under 25.

Should you insure through super?

Using your super fund to buy personal insurance has advantages and disadvantages so it's a good idea to review how they might affect you.

On the plus side

- Cost-effective: Insurance through super can be more cost-effective because the premiums are deducted from your super balance, reducing the impact on your day-to-day cash flow.
- Automatic inclusion: Many super funds automatically provide insurance cover without requiring medical checks or extensive paperwork.
- Tax benefits: Some contributions made to your super for insurance purposes may be tax-deductible, providing potential tax benefits.

Think about possible downsides

- Limited flexibility: Super funds can only offer a standard set of insurance options, which may not fully align with your needs.
- Reduced retirement savings: Paying insurance premiums from your super balance means less money invested for your retirement, potentially impacting your final payout.
- Coverage gaps: Depending solely on your super fund's insurance might leave you with coverage gaps, as the default options may not cover all your unique circumstances.
- Possible tax issues: Be aware that some lump sum payments may be taxed at the highest marginal rate if the beneficiary isn't your dependent.

Don't forget the life admin

Whether you decide to buy insurance through your super fund or not, it is important to regularly review your insurance coverage to make sure they reflect your current life stage and to make sure you are not paying unnecessary premiums if you have more than one super fund.

Insurance within super can be a valuable safety net, providing crucial financial support to you and your loved ones. Understanding the types of coverage offered, the pros and cons of insuring inside super and the need for regular reviews are essential steps to make the most of this benefit. If you would like to discuss your insurance options, give us a call.

i The future of insurance through superannuation, Deloitte and ASFA, 2022 1051554 Insurance through superannuation.indd

ii Treasury Laws Amendment (Protecting Your Superannuation Package) Act 2019, No. 16, 2019 Treasury Laws Amendment (Protecting Your Superannuation Package) Act 2019 (legislation.gov.au)