



## Experien Financial Services Newsletter - September 2022

Welcome to our Spring newsletter. September means it's football finals season and hopefully the beginning of warmer weather despite the recent late winter chill.

In August, the focus was on US Federal Reserve chair Jerome Powell's speech at the annual Jackson Hole business gathering on August 26, and he was blunt. To hose down talk of interest rate cuts in 2023, he said the Fed was focused on bringing US inflation down to 2% (from 8.5% now), even at the risk of recession. He said this will "take some time", will likely require a "sustained period of below trend economic growth", and households should expect "some pain" in the months ahead. The S&P500 share index promptly fell 3.4% and bond yields rose. Economists expect the US central bank will continue lifting rates each month for the remainder of 2022.

In Australia, economic conditions are less gloomy. Australia's trade surplus was a record \$136.4 billion in 2022-23. Unemployment fell to 3.4% in July while wages growth rose to an annual rate of 2.6% in the year to June, the strongest in 8 years but well below inflation. The ANZ-Roy Morgan consumer confidence index rose slightly in September to a still depressed 85.0 points while the NAB business confidence index jumped to +6.9 points in July, well above the long-term average of +5.4 points. Half-way through the June half-year reporting season, CommSec reports ASX200 company profits increased 56% in aggregate while dividends are 6% lower on a year earlier.

The Aussie dollar fell more than one cent over the month to close around US68.5c. Aussie shares bucked the global trend, finishing steady over the month.

---



## How much super do I need to retire?

**Working out how much you need to save for retirement is a question that keeps many pre-retirees awake at night. Recent market volatility and fluctuating superannuation balances have only added to the uncertainty.**

For most people, the amount you need to save will depend on how much you wish to spend in retirement to maintain your current standard of living. When Super Consumers Australia (SCA) recently set about designing retirement savings targets they started by looking at what pre-retirees aged 55 to 59 actually spend now.

### Retirement savings targets

SCA estimated retirement savings targets for three levels of spending – low, medium and high - for recently retired singles and couples aged 65 to 69.

Significantly, only so-called **high spending couples** who want to spend at least \$75,000 a year would need to save more than \$1 million. A couple hoping to spend a medium-level \$56,000 a year would need to save \$352,000. **High spending singles** would need \$743,000 to cover spending of \$51,000 a year, and \$258,000 for medium annual spending of \$38,000.<sup>1</sup>

While these savings targets are based on what people actually spend, there is a buffer built in to provide confidence that your savings can weather periods of market volatility and won't run out before you reach age 90.

They assume you own your home outright and will be eligible for the Age Pension, which is reflected in the relatively low savings targets for all but wealthier retirees.\*

### Retirement planning rules of thumb

The SCA research is the latest attempt at a retirement planning 'rule of thumb'. Rules of thumb are popular shortcuts that give a best estimate of what tends to work for most people, based on practical experience and population averages.

These tend to fall into two camps:

- **A target replacement rate for retirement income.** This approach assumes most people want to continue the standard of living they are used to, so it takes pre-retirement income as a starting point. A target replacement range of 65-75 per cent of pre-retirement income is generally deemed appropriate for most Australians.<sup>ii</sup>
- **Budget standards.** This approach estimates the cost of a basket of goods and services likely to provide a given standard of living in retirement. The best-known example in Australia is the Association of Superannuation Funds of Australia (ASFA) Retirement Standard which provides 'modest' and 'comfortable' budget estimates.<sup>iii</sup>

SCA sits somewhere between the two, offering three levels of spending to ASFA's two, based on pre-retirement spending rather than a basket of goods. Interestingly, the results are similar with ASFAs 'comfortable' budget falling between SCA's medium and high targets.

ASFA estimates a single retiree will need to save \$545,000 to live comfortably on annual income of \$46,494 a year, while retired couples will need \$640,000 to generate annual income of \$65,445. This also assumes you are a homeowner and will be eligible for the Age Pension.

## Limitations of shortcuts

The big unknown is how long you will live. If you're healthy and have good genes, you might expect to live well into your 90s which may require a bigger nest egg. Luckily, it's never too late to give your super a boost. You could:

- Salary sacrifice some of your pre-tax income or make a personal super contribution and claim a tax deduction but stay within the annual concessional contributions cap of \$27,500.
- Make an after-tax super contribution of up to the annual limit of \$110,000, or up to \$330,000 using the bring-forward rule.
- Downsize your home and put up to \$300,000 of the proceeds into your super fund. Thanks to new rules that came into force on July 1, you may be able to add to your super up to age 75 even if you're no longer working.

*While retirement planning rules of thumb are a useful starting point, **they are no substitute for a personal plan.** At Experien Financial Services we have a bespoke, sophisticated, actuarial modelling tool that helps remove the need for guesswork. We will run 1000's of scenarios, based on a 100 years of past investment data and our economic forecasts, overlaid with various longevity scenarios, to **determine how much you need to meet your retirement goals, based on your personal circumstances.***

\*Assumptions also include average annual inflation of 2.5% in future, which is the average rate over the past 20 years, and average annual returns net of fees and taxes of 5.6% in retirement phase and 5% in accumulation phase.

i [CONSULTATIVE REPORT: Retirement Spending Levels and Savings Targets](#), Super Consumers Australia,

ii [2020 Retirement Income Review](#), The Treasury

iii [Association of Superannuation Funds of Australia \(ASFA\) Retirement Standard](#)

---



## How is my insurance taxed?

**With the cost of living on the rise, it's more important than ever to have a financial safety net that protects you and your family in case the unexpected happens.**

Most Australian employees have some form of life insurance, often through their superannuation fund, but many of us tend to 'set and forget'.

To make the most of your life insurance policy, it's useful to understand how it works, and how premiums and payments are affected by tax.

### Various types of life insurance

Life insurance is an umbrella term for a range of policies that cover different situations. They include:

- **Life cover**, which pays out after your death to beneficiaries you have nominated.
- **Income protection** covers you if you're unable to work because of illness or injury.
- **Total and permanent disability (TPD)** insurance provides a lump sum, often used to meet medical and living costs, if you become permanently disabled.
- **Accidental death and injury** cover pays a lump sum if you die or are injured as a result of an accident.
- **Critical illness or trauma** insurance pays a lump sum for major medical conditions such as a heart attack or cancer.
- **Business expenses** insurance covers ongoing fixed business costs if you're a business owner suffering serious illness or injury.

### Tax benefits and deductions

The premiums for most types of life insurance are not tax deductible, but there are exceptions. Premiums for income protection held outside of super are tax-deductible and inside super for the self-employed. Business expenses insurance premiums are also tax deductible.

The tax treatment of benefits paid out by policies also varies according to the type of policy and your situation, so it's important to talk to us. Generally, life cover paid to someone who's financially dependent on you (typically a spouse and children under 18 years) is not taxed. But if the beneficiary isn't your financial dependent, they can expect to pay tax.

Income protection insurance payments must be declared on your tax return and will be taxed at your marginal rate, just like your usual salary. Business expense insurance payouts also taxable.

Lump sum payments made through other policies are not taxable.

## Inside super or outside?

Some of these insurances, particularly life cover, income protection and TPD, can be purchased through your super fund. Most people have a basic level of cover held this way, but let us help you check to see if it's adequate for your needs.

If you are aged under 25, have a super balance of \$6,000 or less, or your account is inactive, you will need to "opt in" if you want insurance cover.

If you have a self-managed super fund (SMSF), you're required to consider whether to hold life insurance for each of the fund's members, although there's no obligation to buy.

## Super pros and cons

You'll need to do the sums for your circumstances, which is where we can assist.

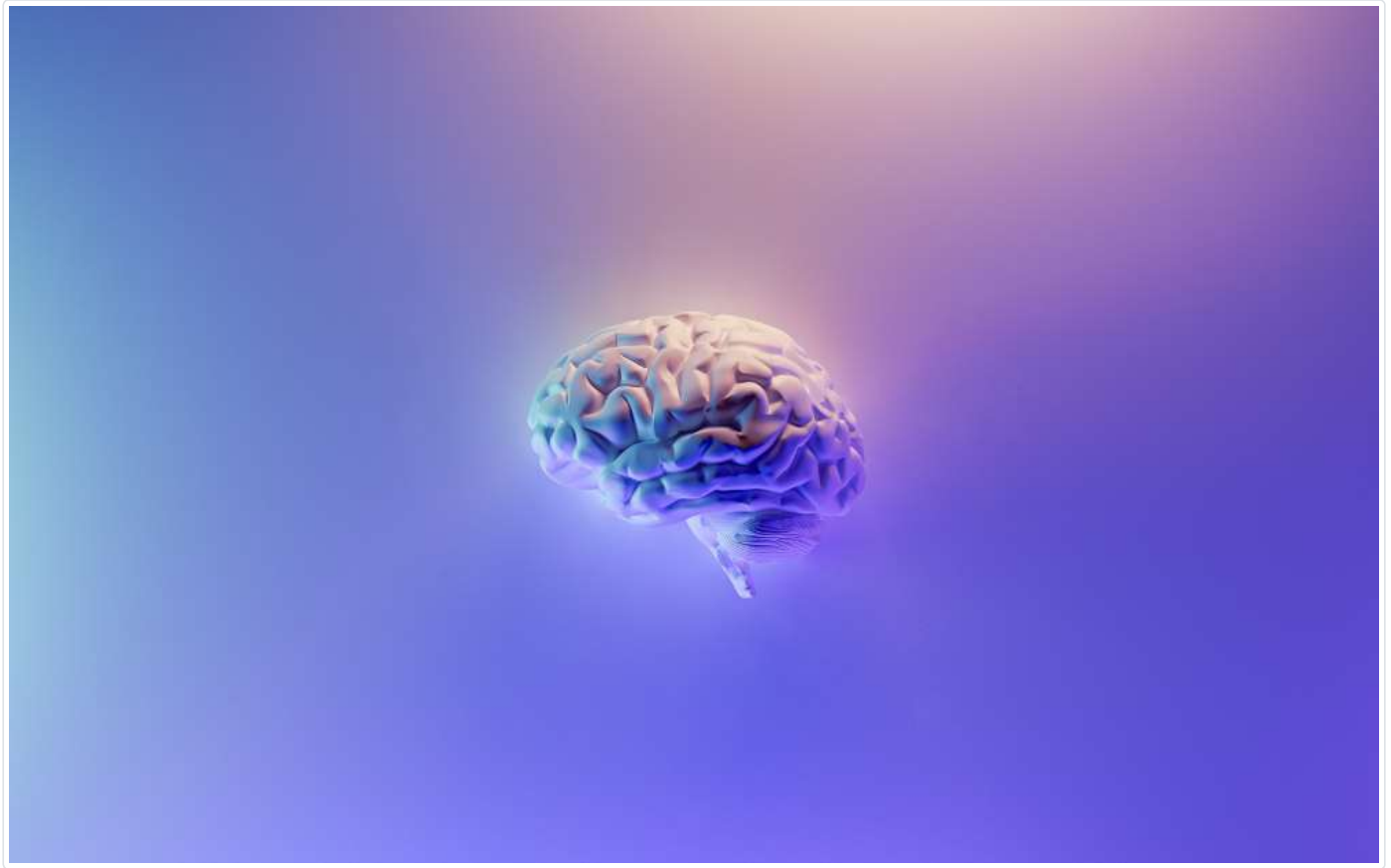
A potential financial benefit in paying the monthly premiums out of your super account, is that you're using funds taxed at 15 per cent. Whereas, if you pay the premium from your own bank account, you'd be using funds already taxed at your marginal tax rate, which may be higher. That means your pre-tax dollars are working harder and you've still got your cash in the bank.

The main drawback to paying insurance premiums through super is that you'll be reducing your super balance, which means less for retirement. However, you may be able to boost your balance using salary sacrifice or personal contributions. Policy conditions for policies offered by superannuation funds are often inferior to those offered by retail providers and we will do a complimentary assessment of your insurances to see that you have the best value and best terms for your circumstances.

### Your safety net checklist

1. Decide on who and what needs to be financially protected if something should happen to you.
2. Weigh up the best type of life insurance to meet your needs and shop around.
3. Be clear about any tax implications of an insurance payout
4. Make sure the policy benefit is adequate and check it annually.

*Deciding on the type of life insurance you need can be tricky, so give us a call for a complimentary review and discussion of your insurance needs.*



## The trouble with intuition when investing

**Knowing how your mind works can help you avoid the more obvious traps many investors fall into.**

Cognitive bias has become a bit of an investing buzz phrase in recent years.

The theory is that the human brain predictably makes errors of judgment that can lead us to be emotional, short term and come to other incorrect conclusions.

Cognitive bias has been of particular interest to the investing community and long lists of biases – confirmation bias, anchoring, the recency effect and dozens of others – are now the stock-in-trade of beginner investors worldwide.

The Nobel-prize winning economist Daniel Kahneman first researched bias in human thinking, distinguishing two ways in which we think: an automatic, instinctive and almost involuntary style contrasted with effortful, considered and logical thought.

That original research has grown into an industry.

Researchers and psychologists have identified endless ways in which the human brain is prone to bias, errors and poor judgment – and the investing community has latched on.

But underlying it all is that original finding that we spontaneously seek an intuitive solution to our problems rather than taking a logical, methodical approach.

Kahneman wrote that when we are confronted with a problem – such as choosing the right chess move or selecting an investment – our desire for a quick, intuitive answer takes over.

Where we have the relevant expertise, this intuition can often be right. A chess master's intuition when faced with a complicated game position is likely to be pretty good.

But when questions are complex and rely on incomplete information, like investing, our intuition fails us.

The very fact we find the concept of cognitive bias so appealing is simply another example of our innate desire for simple, intuitive answers.

Unfortunately, the world is complicated, and almost everything that happens in investment markets emerges from the combination of a web of unrelated, intricate and multi-faceted events.

Our bias towards simplicity is reinforced by the nightly news and the morning newspapers that persist in providing simple explanations for complex events. Each day, market movements are distilled into 'this-caused-that' explanations that obscure the true drivers of change.

It is our intuition that is reacting when we find ourselves excited that markets rose 100 points – and a little nervous when markets 'wipe off' billions. We experience these emotional reactions even though the effect on our overall wealth from either event is likely to be tiny.

Our understanding of history is similarly simple, reducing wars, recessions and pandemics into simple cause and effect stories that are easy to remember and teach.

These stories help us understand the past. But they do not help us predict the future.

This explains why investment opportunities that seemed certain at the time we made them so often go awry.

It is not bad luck or circumstances changing against us – it's the fundamentally simplistic cause and effect model in our minds that doesn't allow us to understand all the possible outcomes.

So how can we best use the science of cognitive bias to become better at investing?

It is certainly worth learning about the wide and growing range of cognitive biases scientists are identifying that can stand in your way of being more successful.

Knowing how your mind works can help you avoid the more obvious traps many investors fall into.

We can use the basic principles of successful investing to avoid becoming victim to our own cognitive biases. Stick to a plan and don't react to market noise or your emotions. Stay diversified to reduce the risk of permanent loss. And ensure you do not spend too much money on unnecessary fees.

But it is also a trap to rely too heavily on the science of cognitive bias, thinking that it can provide you with the keys to investing success.

The serious research being done by psychologists has been co-opted to offer you yet another tempting short cut – and in successful investing, there is no such thing.

Source: [Vanguard](#)

Reproduced with permission of Vanguard Investments Australia Ltd

Vanguard Investments Australia Ltd (ABN 72 072 881 086 / AFS Licence 227263) is the product issuer. We have not taken yours and your clients' circumstances into account when preparing this material so it may not be applicable to the particular situation you are considering. You should consider your circumstances and our Product Disclosure Statement (PDS) or Prospectus before making any investment decision. You can access our PDS or Prospectus online or by calling us. This material was prepared in good faith and we accept no liability for any errors or omissions. Past performance is not an indication of future performance.

© 2022 Vanguard Investments Australia Ltd. All rights reserved.

Important:

Any information provided by the author detailed above is separate and external to our business and our Licensee. Neither our business nor our Licensee takes any

responsibility for any action or any service provided by the author. Any links have been provided with permission for information purposes only and will take you to external websites, which are not connected to our company in any way. Note: Our company does not endorse and is not responsible for the accuracy of the contents/information contained within the linked site(s) accessible from this page.

**P** 1300 417 020

**E** [superannuation@experien.com.au](mailto:superannuation@experien.com.au)

**W** <https://www.experien.com.au>



The information provided contains general information and does not take into account your personal objectives, financial situation or needs. It is important, before deciding whether to act on this advice, that you obtain personal advice.

Life insurance and Financial Advice services are provided by Experien Insurance Services Pty Ltd (EIS) ABN 99 128 678 937 and Experien Financial Services Pty Ltd (EFS) ABN 32 631 346 757. EIS and EFS are a Corporate Authorised Representative (No. 320626 and No. 1274354) of Affinia Financial Advisers Limited ABN 13 085 335 397 AFSL No. 237857 This advice may not be suitable to you because it contains general advice that has not been tailored to your personal circumstances. Please seek personal financial advice prior to acting on this information. Investment Performance: Past performance is not a reliable guide to future returns as future returns may differ from and be more or less volatile than past returns.