Welcome to the Autumn Edition

When we rang in the New Year, no doubt most of us were hoping that we had left the uncertainties of 2020 behind us. Whilst this was not to be, with the first of the vaccines rolling out in late February, comes hope.

For many, the uncertainties of last year have caused a shift in priorities, and the lure of escaping the cities for more idyllic country lifestyle is tempting. In this edition we take a look at some key considerations when contemplating a tree change.

When making these decisions, it is important to consider the impact of life changes on your financial future, and the legacy you are creating. This brings us to the question what happens to the legacy you leave behind. How can you ensure your voice is heard in relation to your estate? It's important to understand a Will may be contested. What additional tools can you consider to ensure your voice is heard?

Talking about changes, the government has announced the first CPI indexation change to a number of superannuation caps, including the Transfer Balance Cap. We take a look at what these changes may mean for you.

We need to remember uncertainty and change can create opportunity, and as the last year has shown, having a financial planner by your side, can give you more confidence in your financial future.

VACCINE ROLLOUT ACCELERATES AS BOND YIELDS SPIKE

We talked previously about equity markets rallying in anticipation of the vaccine rollout and the positive impact of the gradual reopening of economies. The global vaccine rollout is now well underway. The one concern is that the new COVID-19 variants (UK, South African) will require updated vaccines.

In Australia, the recovery from COVID-19 is well underway and the economy is not as bad as initially feared. In August, the RBA forecast unemployment to be around 10% by the end of 2020, and still be above 7% by the end of 2021. Unemployment peaked at 7.5% in July 2020 and fell to 6.6% in December.

According to Dr. Stewart Lowe (RBA Governor), the main two reasons for this being:

- Our success in containing the virus which limited the extent of lockdowns.
- Government fiscal policy support has been bigger than expected, at around 15% of GDP.

The massive Quantitative Easing (QE) program continues in the US, while in Australia, the RBA doubled its QE program to $200 billion. The program is due to run until September, but there is a strong possibility it will be ongoing.

OUTLOOK AND MARKETS

Asset Class	3-month return to 31 January 21
Australian large cap equities	11.9%
Australian small cap equities	11.0%
Developed market global equities	7.1%
Emerging market equities	10.7%
Australian listed property	9.1%
Australian fixed interest	-0.80%
Cash	0.01%

Chart 1: Investment Returns to 31 January 2021 (% p.a.)

Asset Class	1 month	3 months	1 Year	3 Years	5 Years
Australian Shares	0.31	11.89	-3.11	7.00	10.03
Global Shares	0.12	7.10	2.11	8.86	11.73
Listed Property	-4.06	9.10	-13.96	5.14	5.88
Fixed Interest	-0.42	-0.80	1.68	5.36	4.22

Dr. Lowe said the board was not expecting to increase the cash rate for "at least three years “, while the US Fed sees no material movement in US interest rates until 2023. They do not expect the jobs market to deliver strong wages growth to Australian workers until at least 2024. **The implication is extremely low yields in fixed interest for the next few years. These settings strongly favour Growth Assets in terms of yield and total return.**

Company earnings are on the up

Economies and companies are rebounding. Brokers are forecasting Australian June 30 earnings to get back to pre-pandemic levels. According to UBS, with around 40% of the ASX 100 having reported, earnings per share growth estimates for the 2021 financial year have been revised up 2.1% to 28.8%.

However, valuation is an issue, particularly in the US. Australian equities (ASX 200) trading at a PE (price-to-earnings ratio) of 19.5x at 31 December 2020 are now trading at over 20 times June earnings. The US (S&P 500) is currently trading around 22.5x, well above long term average levels of around 17 times. Very low interest rates and strongly rebounding economies (e.g. US forecast growth around 6% in 2021) are the main justification for current valuations.

The major issue in markets right now is the sharp rise in long-term bond yields, signalling that markets are worried about future inflation. Higher growth can also lead to higher interest rates. Whatever the reason, higher bond yields normally result in lower PE multiples for stocks.

The US 10-year bond yield has increased from around 0.8% in late October 2020 to over 1.3%, which is about its pre-COVID-19 level. The move in Australia's 10-year bond yield has been even more dramatic, rising from around 0.8% to 1.68%. The spike in yields has led to underperformance in high PE tech stocks (growth stocks in general) and prompted a move into more cyclical or economically sensitive stocks, such as financials and resources.

This should be positive for Australian equities relative to global equities given the proportion of cyclical stocks in our market. One 'downside' to this cyclical recovery has been the strength of the Australian dollar which impacts foreign earnings and is a drag on domestic economic growth and employment growth. One of the major reasons for the QE program by the RBA is to limit the rise in the Australian dollar, a battle it is currently losing.

We will be maintaining our strategic weighting to growth assets but we would be cautious in the short-term. It is natural for bond yields to rise as growth picks up, but we are closely watching the current move. We are still not at a level of interest rates which would significantly impact the broader market, but we would certainly like to see the trajectory of this rise start to flatten out.

LENDING FINANCE AT ALL TIME HIGH

In December 2020, the ABS reported that new loan commitments continued to soar and break records, driven by owner-occupier home loans, and first home buyers.

COULD A TREE-CHANGE WORK FOR YOU?

City living is not called the rat-race for nothing. While many thrive in the big smoke, many are opting out, choosing to raise their families in the country instead.

Cleaner air, less traffic, open spaces, lower cost of living… did we mention less traffic? There are any number of reasons to consider a tree change, but if you're serious, better do your homework first.

Housing affordability

Buying or renting a home is more affordable in the country. In rural Wodonga you can rent a 4-bedroom, modern family home for around $390 per week. A similar home in Glen Waverley would rent for around $610. You could buy a similar home in Orange for just over $500,000, where in Hornsby, it could cost over $1 million.

While property is generally cheaper to rent or buy in the country, you'll need to consider other factors. Some rural municipalities cover large areas. Higher maintenance costs and fewer residents can mean council and water rates are more expensive. Another point to think about is bushfire zoning. If you're in a high-risk area, insurance premiums can be higher. Building in a bushfire-prone area may require more expensive modifications to meet the fire rating.

Make sure you do your sums. Talk to local councils about rates and levies. If buying land, read your Section 32 carefully and be aware of all zoning requirements.

Work

Government incentives encourage industries and businesses to move to regional areas. As employment opportunities in regional areas grows, so too does the economic well-being of its towns. All of this activity provides a wide range of employment.

It's a good idea to check the job-market in the area, and if possible, have a job lined up before you make any final decisions.

Could you make it work?

Holidaying and living are two separate things. Try not to make the mistake of assuming an idyllic getaway will be your perfect permanent tree-change. On holiday you're relaxed; you're not a taxi for your kids' weekend activities, you're not harried by housework, school and work pressures.

If you're serious about moving to the country and you've a location in mind, do your due diligence. Include researching:

- Schools
- Medical facilities
- Community infrastructure and activities.

If you're dreaming of a tree change, do your research and draw up a plan to make it reality.

ENSURE YOUR VOICE IS HEARD

When you're here to supervise your worldly affairs, you can ensure your voice and current wishes are heard and heeded. But what happens when you're no longer here? What voice will be heard? Will it be your most recent voice; an old voice from several years ago; or the voice of government legislation? Unfortunately, it's often voice number two, or worse, three.

If your Will and other estate arrangements have not recently been reviewed, you risk your current voice not being heard. If you have overlooked making a Will altogether, the government decides how your estate is to be distributed. This reinforces the importance of keeping all of your estate arrangements current. That said, even with the best of intentions, the most up-to-date Will can be challenged. There have been countless court dramas over Wills involving claims and counter-claims.

It's important to remember people can change, form new relationships, and take advice from different sources.

While the Will remains the centrepiece of estate planning, there are additional tools you may not be aware of.

The insurance option

An insurance policy taken out by you on your own life and owned by you forms part of your estate, to be distributed in accordance with your Will, and is subject to challenge.

However, if your life insurance policy nominates someone other than you as the beneficiary, it doesn't form part of the estate. It's separate from the Will, and not subject to challenge. This feature can make insurance an important part of sound estate planning. If there's any possibility your wishes may not be carried out after you're gone, it might be useful to seek professional advice about the value of a life insurance policy.

The super solution

You may think super is included in your estate and dealt with through a Will. Not so. The trustee of your superannuation fund determines how your super is paid upon your death. You may identify a 'preferred beneficiary', however, the fund trustee can override this decision. If you don't want this to occur, you should complete a Binding Death Benefit Nomination, and ensure this is kept current.

Binding Death Benefit Nominations

Superannuation legislation allows you to specifically nominate, with certainty, who will receive your super following your death. These nominations must be in writing and clearly state the names of beneficiaries and any split details between multi-beneficiaries.

Some funds offer non-lapsing binding nominations. However, many binding nominations must be renewed every three years and are only valid if you nominate a dependant. You may also nominate your estate. Binding nominations are still relevant if you have an SMSF.

To ensure it's your voice that takes final control of what you have worked hard for, it's important to seek professional advice, which may include consulting an estate planning specialist. If you have any questions, give us a call and we'll be able to point you in the right direction.

CAP THAT! IMPACT OF INDEXATION ON THE TRANSFER BALANCE CAP

The government introduced a Transfer Balance Cap (TBC) in July 2017, which effectively limits the total amount of super able to be transferred into a tax-free retirement phase pension. 1 July 2021 will be the first time this cap has been increased, in line with CPI, so the threshold will increase from its current level of $1.6 million, up to $1.7 million.

Depending on personal circumstances, every individual will have their own TBC, between $1.6 million to $1.7 million. An individuals' TBC is equal to the general TBC at the time of commencing a superannuation income stream. If an individual uses a proportion of their TBC, their personal TBC is calculated to proportional indexation in line with the CPI increases to the general TBC. Details of the level of an individual's TBC will be available through their myGov account.

Other changes to caps

Indexation of the general TBC will also change the cap that applies to eligibility criteria to make Non-concessional contributions and to access the Government co-contribution and the Spouse tax offset. Commencing 1 July 2021, the new cap for these arrangements will also be $1.7 million (currently $1.6 million). For capped defined benefit income streams, the cap will increase to $106,250 (currently $100,000).

How might this increase impact you?

- Individuals may be able to benefit from this CPI increase if they have started using their retirement income stream, but have not fully utilised their current TBC by 1 July 2021.
- Individuals who may be considering starting their retirement income stream soon may be better off deferring starting this income stream until after 1 July 2021.
- Individuals wanting to make Non- concessional contributions to superannuation will have an increased cap to determine their eligibility to make these contributions.
- Individuals wanting to access Government co-contribution or Spouse tax offset government benefits will have an increased cap to determine their eligibility.

If you have any questions about changes to these caps, or believe you may be impacted by these changes, please call me to discuss.

TB Wealth Solutions

ABN 89 523 089 363

Phone: 8525 3939 Fax: 9531 0899

Level 1, 12-16 President Ave Caringbah NSW 2229 (entry via Burns Lane)

PO Box 869 Caringbah NSW 1495

tbwealthsolutions.com.au help@tbwealthsolutions.com.au

TB Wealth Solutions Pty Ltd is a Corporate Authorised Representative (No.1242590) of Lifespan Financial Planning Pty Ltd AFSL No.229892.