

# Outlook

Financial Update &amp; Outlook

Autumn 2019

Welcome to the Autumn edition of Outlook, the quarterly newsletter aimed at keeping you up to date with wealth creation and protection strategies.

Global equity markets began 2019 with the best quarterly returns in 21 years. After everything looked so grim in the December quarter the MSCI World Index recorded 12.4% in the March quarter. This resulted from complete unwinding of tightening biases from central banks, additional stimulus in China and the increasing positive dialogue between the US and China regarding trade.

Signs are emerging that growth in key economies such as the US and China have stabilised and begun to recover. However, the upside so far is modest, and it is expected to stay that way as no policy support outside of China has been used.

Meanwhile, China has unleashed stimulus to support its new consumer-based economic system which means that the traditional flow through of stimulus to global supply chains in emerging markets, Europe and Australia is likely to be much less than in previous episodes of policy support such as 2008 and 2015.

The Australian economy slowed notably in the second half of 2018 and looks set for an extended period of below trend growth given the persistent headwinds of high debt, low wages growth and falling house prices.

The Australian equity market had a very strong quarter, with the S&P/ASX 200 Index (Total Returns) rising 10.9%. The strong performance completely recovered the sharp losses experienced in the final quarter of 2018 and was consistent with a rebound in global markets.

Falling interest rate expectations were a key driver of market performance, with the US Federal Reserve indicating a more cautious approach to rate tightening and the Reserve Bank of Australia shifting to a 'neutral' stance. In the US, interest rates are no longer being increased and may even decline.

Declining house prices impact an economy in two ways. First, through housing construction which is set to detract from economic growth in the next 12 months. The second channel is wealth effects and lower house prices are likely to spark further rises in precautionary savings, and declines in consumption growth, which represents more than half of Australian GDP.

Understandably, from a financial stability stand point, falling house prices and low-income growth has seen a rise in mortgage loans in arrears. The ANZ Bank has recently reported that their 90-day delinquency rate is now far higher than in the past, particularly in Western Australia.

We remain somewhat cautious about the outlook going forward as while interest rates remain low, the earnings growth outlook for most companies remains lack lustre given slower economic growth both in Australia and globally in the next 12 months. The increasingly uncertain political backdrop, both domestically and overseas will also continue to weigh on investor sentiment and cause some volatility from time to time.

Remember if you have any questions please contact the relevant advisor listed below. Alternatively, if you have any feedback on our updates or articles you would like covered please give me a call or send an email to [gricks@finpac.com.au](mailto:gricks@finpac.com.au).

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# *wealth creation*

## is age JUST a number?

Not when it comes to your superannuation. The whole premise behind super is to build your retirement savings so when you finally decide to retire from the workforce, you have enough capital to help finance your chosen lifestyle. What you can do with this nest egg depends on many different rules and age based restrictions.

This year's federal budget included proposals to align some ages in an attempt to simplify the rules, however only time will tell whether these proposals will make it into legislation. In the meantime, we will try to make it a little easier for you to follow:

### **Age 65 - contributing to super**

This is the age when you were required to meet a work test prior to any future contributions being made to your superannuation.

However, with advances in modern medicine, investors are living longer and as a result the Age Pension eligibility age is increasing from 65 to 67 depending on your date of birth. The budget proposed to align the personal contribution age from 1 July 2020, allowing you to make contributions up until the age of 67, regardless of employment status.

Once you reach age 75, whether you are working or not, all personal contributions will need to stop. The only exception to this rule is if you sell your home and make a downsizer contribution of up to \$300,000 to super.

### **Age 65 - accessing your super**

This is the age everyone thinks of when it comes to retirement. This was when you could become eligible for an Age Pension as well as get full access to your super benefits.

Prior to turning 65, access to your super was restricted until you met a condition of release. There are no proposals to change these ages at this stage.

### **Other relevant ages**

#### **Claiming a personal deduction for contributions**

The ability to make personal contributions ceases at age 75 and so to does the opportunity to claim a tax deduction for these personal contributions.

#### **Super Guarantee Contributions (SGC)**

For those employees over 18 years of age, you need to be paid more than \$450 per month to be eligible for this type of contribution to be paid to your superannuation.

#### **Spouse Contributions**

If you are under the age of 70, your spouse can contribute to your superannuation account. The budget included a proposal to increase this age restriction to 75 (from 1 July 2020) to align with the personal contribution age limit.

Please feel free to contact your FINPAC Financial Advisor if you would like more information on when you can contribute or access your super benefits.

# and preservation

## ENSURE your death benefits end up in the RIGHT hands

**Did you know that your Will doesn't necessarily guarantee what happens to your superannuation benefit in the event of your death?**

Many people are unaware that their entire superannuation nest egg is up for grabs amongst the dependants they leave behind. Most of our clients have their retirement capital in portfolios within the BT SuperWrap platform. BT offer a number of options in regards to the distribution of your death benefit.

### **Option 1: No Nomination**

If you choose not to nominate a beneficiary, the trustee of the superannuation fund will pay the death benefit to your legal personal representative (Estate) and it will then be distributed in terms of your will.

### **Option 2: Non-Binding Nomination**

The trustee of the superannuation fund will take into consideration the nomination you make, however, the trustee has final discretion in deciding who, from among your dependants and Estate, will receive your superannuation benefit and in what proportions when you die.

A non-binding nomination is valid for the entire term you are a member of the superannuation fund, unless another valid nomination is lodged with the Trustee. These nominations need to be reviewed regularly to ensure they remain in-line with your wishes.

### **Option 3: Non-Lapsing Nomination**

When you make a valid non-lapsing nomination, you decide who receives your benefit when you die, and how much of the benefit they receive. This type of nomination is binding on the trustee of the superannuation fund in most circumstances.

The trustee will still make enquiries at the time of death to ensure that each nominated beneficiary is a dependant or personal legal representative. These nominations remain valid for the entire term you are a member of the superannuation fund and again should be reviewed regularly.

### **Option 4: Automatic Reversionary Pension Nomination**

An automatic reversionary pension is a pension that automatically continues to be paid to your nominated beneficiary following your death.

Please feel free to contact your FINPAC Financial Advisor if you would like more information or if you would like to review your current nominations.

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## townsville floods

Townsville was hit by unprecedented rainfall in February, which led to more than 25,000 insurance claims valued at more than \$1 billion.

According to ICA figures, \$230 million has already been paid out in repairs, services, emergency accommodation and replacement items, and 25% of critical home building claims have already been fixed. ICA figures show that out of more than 25,000 claims, 0.3% have been denied.

Our experience supports this, with all insurers generally treating customers with fairness and flexibility. We have been able to settle most of our claims, with those remaining generally held up by the difficulties of availability of trades people along with the backlog of files with assessors.

Flood is automatically covered for Home, Contents and Motor Vehicle.

The insurance risk is assessed differently for businesses. Commercial customers, including strata management, generally need to 'opt in' to flood cover.

Flood exposure varies enormously across a postcode and even a street, and therefore needs to be individually underwritten, at the request of the business. If the property doesn't have flood cover, many may be covered for storm water damage.

ICA research shows that the electorate of Herbert, which includes Townsville, is Australia's most flood prone federal electorate.

# ICA Report - insurance in North Queensland

ICA has published a list of the most flood-prone areas in the country as part of a renewed push for increased public spending on mitigation works.

ICA spokesman Campbell Fuller says the catastrophe-prone north remains an unprofitable market for insurers, citing findings from past inquiries and the Australian Competition and Consumer Commission's (ACCC) ongoing probe.

He says an Australian Government Actuary report found insurers were paying \$1.40 in claims for every \$1 they received in premiums.

North Queenslanders are also five times more likely to lodge a claim than other Australians, and those claims are much more expensive to resolve.

Insurers price the risk of floods, cyclones and other events into premiums. They have proven they will lower premiums when the risk is reduced through investments in mitigation.

Well-designed and maintained mitigation protects communities for generations. Mitigation can also help insurers operate sustainably in high-risk regions, rather than being forced to consider withdrawing from the market because it is unviable and unsustainable.

ICA says mitigation is still the answer to the north's affordability woes. Mitigation, alongside programs to improve the resilience of North Queensland properties from the impact of floods, storms and cyclones, would help strengthen the economic future of Cairns, Townsville and other communities in the north.

It appears that most interested parties, i.e. insurers, ICA and the state and federal governments, favour mitigation as the long term solution to the high premiums and sustainability of insurance in northern Australia. Unfortunately the above, along with the recent catastrophes in North Queensland, will mean continued high premiums for the next few years I believe.



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## what's happening at finpac?

FINPAC Insurance Advisors wishes to advise that our Life and Disability Account Manager, Julie Ramage, announced her plan to retire earlier this year. Julie has been with FINPAC Insurance for 19 years and many of you will have come to rely on her for your personal life and disability insurance needs.

As the Owner and Director of FINPAC Insurance, Tony Muller has personally taken over responsibility for the management of Julie's client portfolios and he can assure you that your portfolio is in good hands having over 30 years experience in all types of insurance.

**We take this opportunity to thank Julie for her dedication to our company and our clients, she will be greatly missed and we send her off with our best wishes for a happy and well earned retirement.**