RESERVE
Financial Consulting

# Money Matters

Spring 2017

Welcome to this Spring 2017 edition of the personal finance newsletter from Richard Shermon at Reserve Financial Consulting. With Spring in the air this is a good time to be reviewing your financial plans and make sure you remain on track.

## Keep focused on the long term

The equity markets, both in Australia and Overseas, continue to be volatile over the last few months. Share prices have been reacting to the daily news of geopolitical events like North Korea, Chinese debt concerns, Brexit and possible further increases in interest rates in the US. I often have to remind my clients to stay focused on the long term and not to react to what is happening to daily share price movements.

When investing in growth assets like shares or property it is important to remember that these decisions should be seen as 10-20 year investments and not 10-20 days. It is prudent to try and ignore all the noise that surrounds us that might provoke us into making the wrong short term decision which is inconsistent with our longer term strategy.

Vanguard have recently published their 2017 Index Chart which highlights the importance of sticking to a long term strategy and details the investment returns achieved by various asset classes over the last 30 years. You can view a copy by clicking on this link The power of perspective.

This Vanguard Chart includes a table which shows the financial year total returns for the major asset classes for each of the last 30 years (1988-2017). It is a good reminder of how growth type investments like shares and property have produced higher returns than more defensive assets like fixed interest and cash. It also reminds us of the importance of diversification as no asset class is consistently the best or worse performer each year. The table below summaries the average annual investment return achieved by different asset classes between 1st July 1987 and 30th June 2017 (i.e. a 30 year period).

| | | | |
|---|---|---|---|
| Australian Shares | 9.1% | International Listed Property | 10.6% |
| International Shares | 7.8% | Australian Bonds | 8.7% |
| US Shares | 11.0% | International Bonds (Hedged) | 9.1% |
| Australian Listed Property | 9.4% | Cash | 6.5% |

Remember that past performance is not an indicator of future performance.

Visit www.reservefc.com.au for more details

# How much income do you need in retirement?

One important question that I ask my clients is how much income do they think they will need in their retirement? This is a difficult question to answer as it depends on a range of factors including where they live, their age, their hobbies and pastimes and whether they still support children or other family members.

The latest figures released from the ASFA Retirement Standard show that a couple looking to achieve a comfortable lifestyle now need to spend $60,063 a year, while those seeking only a modest lifestyle need to spend $34,911 a year. You can read more about this at ASFA Retirement Standard.

The level of income you draw down from your superannuation has a significant impact on the length of time your funds can last in retirement. The following table shows that only a modest increase in your income can significantly reduce the amount of time your funds may last in retirement. The projection assumes an accumulated superannuation balance of $1m at retirement at age 60, price inflation of 3% pa. and an investment return of 6% pa. net of fees and tax.

| Income need in retirement | Length of time funds last in retirement |
|---|---|
| $60,000 pa. | 22 years |
| $80,000 pa. | 14 years |
| $100,000 pa. | 11 years |

There are a number of ways to improve the length of time your superannuation can last in retirement which include reducing the fees you pay on your investments, deferring your retirement and reducing your income requirements by careful management of your spending.

# Are you making additional contributions to your partners super?

One of the better superannuation rule changes that applies for this financial year was a significant increase in the spouse contribution tax offset threshold from $10,800 to $37,000. So how does a spouse contribution work?

If your spouse has income (which is defined as their assessable income plus reportable fringe benefits plus reportable employer super contributions) below $37,000 in the financial year and you made a contribution of $3,000 to boost their superannuation you could qualify for a spouse contribution tax offset of $540 (i.e. you pay $540 less in tax for that financial year). This represents a return of 18% on the initial $3,000 contribution and boosts your spouse's super savings.

The contribution counts as part of the receiving spouse's non-concessional limit so is still allowable even if the contributing spouse is no longer allowed to make non-concessional contributions (perhaps because they have already used up their own limit or they no longer satisfy the work or age test). It is important to remember that the receiving spouse does still need to meet the work and age test.

Given the significant increase in the qualification threshold I suspect these types of super contributions will become much more popular this financial year especially for couples where one of them works part-time.

# Away in Singapore/Phuket/Hong Kong in November/December

I thought I would let you know that I will be away for a couple of weeks in November/December on a combined business trip and vacation. The office will be closed from the 20th of November through to the 7th of December. I will be checking emails etc. whilst I am away but my normal response times may be a little slower due to the time differences!

# Updated Financial Services Guide

Please note that I have an updated Financial Services Guide (issued on 20th April 2017 as Version 7.1). A copy can be downloaded from my web site at www.reservefc.com.au or by clicking on this link Financial Services Guide

RESERVE
Financial Consulting

# Reserve Financial Consulting celebrates its' eighth birthday!


The business officially launched in October 2009 and I would like to take this opportunity to thank all my clients for their ongoing support and encouragement over the last 8 years. The practice has now grown to over 70 ongoing financial advice clients with greater than $60m funds under advice.

As the business continues to grow I thought I would share with you some further real life examples where quality financial advice has really helped my clients. I look forward to continuing to meet the financial planning needs of all my clients in the months and years ahead.

- The restructuring of financial affairs, including insurance, following the breakdown of a marriage.
- Helped a client manage the finances of her mother who was in aged care and no longer capable of making her own decisions.
- Following the passing of a client's husband I helped the family review and agree a financial strategy for both the investments of the Estate and their existing Self Managed Super Fund.
- A young couple expecting their first child wanted to ensure they had sufficient life insurance as well as a plan to accelerate the repayment of their mortgage to enable a future move in 2-3 years time.
- A couple approaching retirement consolidated all their superannuation into one cost effective solution which significantly reduced their ongoing fees as well as provided an income stream to enable them to reduce the number of hours they worked each week.
- I advised a client in receipt of a disability support pension how best to structure their affairs following an inheritance to retain a part pension and the concession card.
- A retired couple were guided on how to structure their affairs to receive a part age pension from Centrelink along with the pensioners concession card.

# How can you obtain quality financial advice?

By contacting Reserve Financial Consulting which is a financial planning business based in the Bayside area. I specialise in providing advice in the area of Investments, Insurance, Superannuation and Pensions.

I am the Managing Director of the business and I have over 30 years experience in the financial services industry in the UK, Singapore and Australia.

Richard Shermon BA FIA DIP FIN SERV (FP)

I provide advice to my clients on a fee for service basis and no commission is received on any of the products I may recommend. A typical financial plan costs approximately $2,500 (plus GST) to research, prepare and implement.

Please give me a call to set up an initial appointment to discuss any personal finance issues or concerns that you may have. I am sure I will be able to help.

Reserve Financial Consulting

Suite 4, 10 Station Road

Cheltenham

M: 0401 357 071

E: richard@reservefc.com.au

W: www.reservefc.com.au


## There is no charge for the first meeting