MST ADVISORS
Financial Business & Tax Advisory Services

Market St. Market Mix

NOVEMBER 2021

ABOUT THIS NEWSLETTER

Welcome to the MST Advisors monthly newsletter, keeping you on top of the issues, news and changes you need to know. Should you require further information on any of the topics covered, please contact us via the details below.

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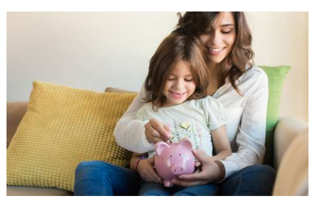
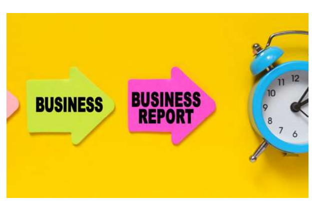
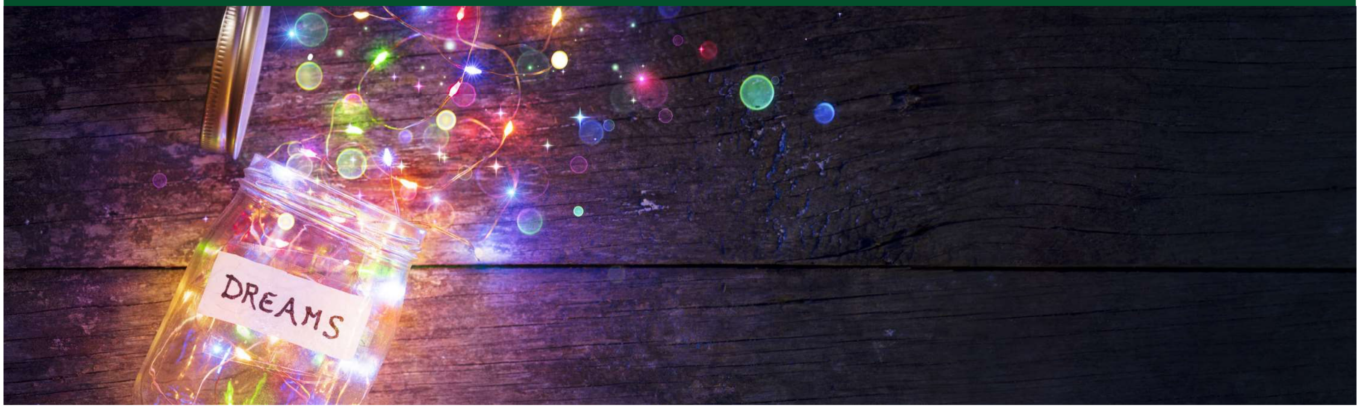




Living your dream retirement

We all have a vision of our perfect retirement. But whether it's travelling around the country in a luxurious motor home, playing golf every day or spending more time with the grandkids, how do you accumulate enough to pay for your golden years?



How much do I need to live my lifestyle?

Lifestyle is a personal choice. The big question is: How much do you need to save while you're working to pay your preferred retirement lifestyle?

A good place to start is to calculate how much you need to meet basic living costs. You could use your current expenses as a guide, but keep in mind that these may be quite different during retirement.

What about the age pension?

The age pension is designed as a safety net for those who can't self-fund their retirement. The payment for a single person represents less than 30% of average male weekly earnings. A person receiving the base maximum single-rate age pension will receive $967.50 each fortnight, or $25,155.00 annually, while a couple entitled to the full rate will receive a combined amount of $1,458.60 each fortnight, or $37,923.60 annually.

This may be enough to cover basic essential expenses, but most retirees want a better standard of living and are more active in retirement than previous generations. For these people, the age pension won't be enough. Take this for example.

Living a modest lifestyle

The Association of Superannuation Funds of Australia (ASFA) Retirement Standard provides an insight into the cost of different lifestyle options. First prepared in 2004, it benchmarks on a quarterly basis the annual budget Australians need to fund either a comfortable or a modest standard of living in retirement.

The Standard defines a modest retirement lifestyle as "better than the age pension, but still only able to afford fairly basic activities". The June 2021 ASFA figures suggest that a single person would need $28,514 a year to achieve this, while couples would need a combined income of $41,170.

Upgrading to a comfortable lifestyle

The Standard defines a comfortable retirement as one that enables "…an older, healthy retiree to be involved in a broad range of leisure and recreational activities and to have a good standard of living through the purchase of such things as: household goods, private health insurance, a reasonable car, good clothes, a range of electronic equipment, and domestic and occasionally international holiday travel".

The June 2021 ASFA figures suggest that a single person would need $44,818 a year to have a comfortable lifestyle, while couples would need a combined amount of $63,352.

Obviously these figures are just a guide, and the actual amount needed to fund your preferred retirement lifestyle will depend on the choices you make about the things you want to do. Your financial adviser can help you more accurately determine the amount needed for your retirement based on your goals, needs and preferences.

How much is enough?

Looking at the figures above, it's clearly apparent that if you want more than a basic lifestyle in retirement, you'll need more than the age pension to live on. Your superannuation and non-superannuation savings will need to supplement the difference, and in some cases, fully fund your retirement.

The ASIC MoneySmart Retirement Planner calculator, available at www.moneysmart.gov.au, is a useful tool.

The figures generated suggest that to achieve a comfortable retirement, a single person should have about $896,360 and a couple should have over $1,267,040.

These are generic calculations based on a 5% return on investments. Your financial adviser can provide more detailed calculations for your specific situation.

What's the best way to save?

Superannuation is the most tax-effective way to save for retirement. You can build your super through employer contributions (including salary sacrifice), your own contributions, spouse contributions and government co-contributions.

There are certain restrictions on superannuation contributions and withdrawals, so you may need to supplement your superannuation with other investments such as managed funds, term deposits or property.

In conclusion

Regardless of how much you need, it's important to start planning early to ensure you have enough to retire on. We can work with you to develop strategies that suit your individual circumstances and help you to look forward to enjoying your retirement dream.

Notes: Assumption for calculation: value is based on today's dollars and retiring at age 65. It does not take into account the Age Pension.

Age pension figures quoted include supplements.

Super in your 50s. It's time to push the pedal down!

If 50 really is the new 40, then life has just begun. The kids are gaining independence or may have left home, and the mortgage could be a thing of the past. Bliss. But galloping towards you is… retirement!.

How are you tracking?

According to the Association of Superannuation Funds of Australia (ASFA), a 'comfortable' retirement today costs close to $62,562 per year for a couple. If you and your partner are planning to retire at 55, to afford this retirement lifestyle and secure your future, at least into your mid-eighties, you should be looking at having around $1.0 million in super . Over time, inflation will push these figures higher. Leave retirement to age 65 and a couple will need around $84,078 a year from a nest egg of around $1.1 million .

Find those numbers a bit daunting? Here are some ways to boost your retirement savings.

Increase your pre-tax contributions

You can ask your employer to reduce your take-home pay and make larger contributions to your super fund. If you are self-employed, you can increase your level of tax-deductible contributions. This strategy is commonly known as 'salary sacrifice'.

If you are earning between $120,001 and $180,000 per year, any income between those limits is taxed at 37%. Salary sacrifice contributions to your superannuation fund are only taxed at 15%. Sacrificing just $1,000 per month to super will, over the course of a year, see you better off by $2,640 on the tax differences alone. Plus, the earnings on those super contributions will be taxed at only 15%, compared to investment earnings outside of super being taxed at your marginal rate.

Don't overdo it though. If your salary sacrifice plus superannuation guarantee contributions add up to more than $25,000 this year (increasing to $27,500 in the 2021/22 financial year), the excess is added to your assessable income and taxed at your marginal tax rate.

Retiring slowly

Once you reach your preservation age you might start a 'transition to retirement' (TTR) pension from your superannuation fund. The idea is to allow people to reduce working hours without reducing their income.

Keep your money working

There is a tendency to opt for more secure, but lower-return investments as we approach retirement. However, even at retirement your investment horizon may still be decades. With cash and fixed interest producing some of their lowest returns in history, it may be beneficial to keep a significant portion of your portfolio invested in growth assets.

Insurance and death benefits

With the mortgage paid off or much diminished and a growing investment pool, your insurance needs have probably changed. You may be paying for cover you no longer need, premiums may be quite high due to age, and that money might be better applied to boosting your savings. This is a good time to review your insurance cover to ensure it continues to be a match for your changing circumstances.

It's also a good idea to check the death benefit nomination with your super fund. By making a binding nomination you can ensure that your death benefit goes to the beneficiaries of your choice, and may mean they receive the money more quickly.

Get a plan!

Superannuation provides many opportunities for boosting your retirement wealth. However, it is a complex area and strategies that benefit some people may harm others. Good advice is absolutely essential, and the sooner you sit down with a licensed financial adviser, the better your chances of having more when you reach the finishing line.

The balancing act of blended family finances

When Jack and Sarah met through mutual friends, they hit it off immediately. Both had previously been married and, besides having a child each, found they had quite a lot in common.

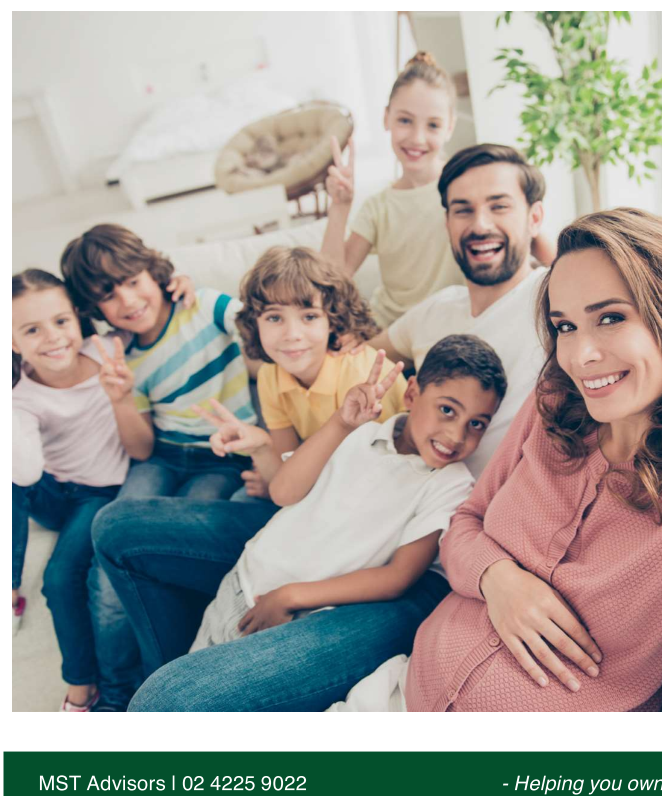
Dinner dates quickly morphed into family-style outings with their children, to the zoo or adventure theme parks, and soon the couple was talking about taking their relationship to the next level.

According to the Australian Bureau of Statistics, in 2019, over 113,000 marriages took place in Australia. Of those, 11.4 % were second marriages. Many of this number were considered 'blended', meaning that one or both parents had children from previous relationships.

Marriage breakdown can result in significant financial commitments and family court outcomes. People entering new relationships bring these commitments with them.

The Australian government's Family Relationships website suggests that negotiation and communication are key to resolving these issues before they get out of hand.

Couples, like Jack and Sarah, planning a future together should discuss their financial and legal positions with honesty and transparency. This is critical to building trust and keeping finances under control.



Topics to cover include:

Assets: List what you own and what you have divided with your former spouse. Sometimes, for example where there was a family business, the asset may be maintained jointly.

Debts: Full disclosure is vital. List credit cards and balances, personal loans, mortgages etc. how much you're paying and when, and how, you expect to pay them off. If both of you have a number of debts each, you may consider consolidating some of them to make it easier to stay on track.

Your accountant or financial adviser can help with this.

Children: Provision must be made to support children from previous marriages as well as new family members.

Children sharing time between two households must be treated equally. Even if they only live with you part-time, their education and recreational activities must be included in household budgeting.

Savings: It may not be necessary to open joint accounts and investments immediately. But once you consider buying a home, or have other long-term goals, setting up a joint account to manage mortgage payments, rates and insurances, etc. may be helpful.

Additionally, if you're saving for something you both want, a holiday for example, discuss opening a dedicated joint account.

Life insurance: Consider whether your insurances need to be updated, along with your nominated beneficiaries. Changes to your lifestyle and family structure can impact your insurance needs so it's important to review your policies.

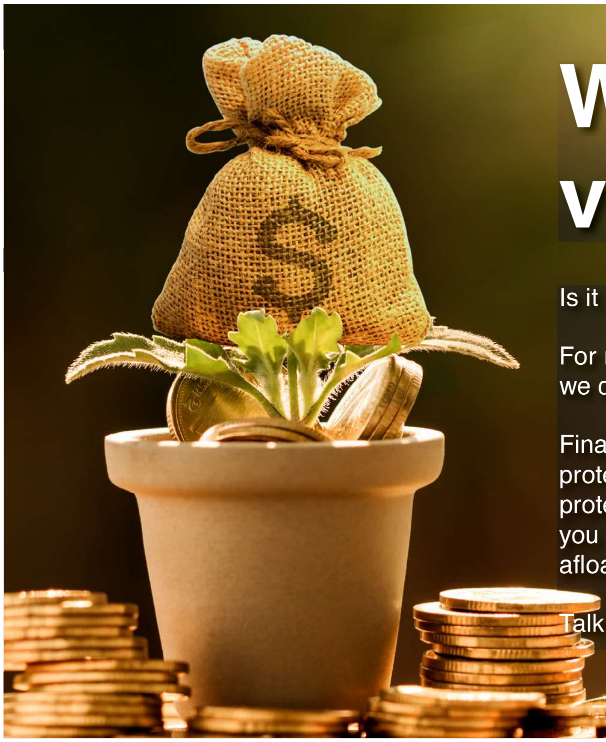
Superannuation: This does not automatically form part of your estate. In the event of your death, the Australian Tax Office focusses on current spouses and dependents. Setting up a Binding Nomination of Beneficiary will ensure your super benefits are directed to your former spouse, current spouse or children as you choose.

Wills: Any time your family structure changes, you should update your Will. This is true for all births and deaths as well as marriages and divorces. Estate planning can be complex and difficult, so it's best to seek professional advice if you're uncertain.

Managing finances for a blended family can be emotional and tangled. Decisions around the previous relationship – some of which may have been court imposed – must be included which adds a layer of complexity.

A financial adviser can help you look at the big picture and understand how you can structure your affairs to ensure nothing and nobody is forgotten.

Additionally, a realistic household budget will identify all income and expenses so you can get on top of your affairs, stay on track, and look forward to the future.



What is your most valuable asset?

Is it a) your house, b) your superannuation, or c) your income?

For most people, the answer is c). Without the ability to earn income we don't have the money to pay the bills and save for the future.

Financial security doesn't just mean accumulating wealth but also protecting it. Many people insure their house and car but forget about protecting their income. If you are sick or injured and cannot work, you may have savings or sick leave from your employer to keep you afloat. But after that...?

Talk to us about protecting your most valuable asset.

10 important tips for business owners

As a business owner, there is always something to do, however many owners often spend more time working in the business than they do on the business.

Here are ten simple management tips to help you maintain a successful business in good and not-so-good times.

1. Watch trends in your industry. Compare your business performance with your competitors and to performance in previous years.

2. Review your market and your sales/marketing plans at least every three months.

3. Review your financial management. Timely accurate reporting is vital to the success of any business.

4. Ensure your budgets are current and regularly reviewed. If profit falls below what you had budgeted, prompt action is essential to reduce costs or boost sales.

5. Align your business development plans with your budget. Ensure they are practical and won't put any undue pressure on your profit margin. If you can't afford to do or buy something now, postpone it to when you know your business will be in a better financial position.

6. Ensure credit control is tight with prompt follow-up of overdue accounts. Make sure that your clients are aware of your trading terms upfront and if you have any concerns, discuss it first or refer them elsewhere. No clients are better than clients who can't pay.

7. Review your payments policy. Are you taking maximum advantage of prompt payment discounts? Or if you are unable to pay an account in full by the due date, talk to the supplier and make arrangements to pay it off. Keep the communication open and honest and fulfil your promises.

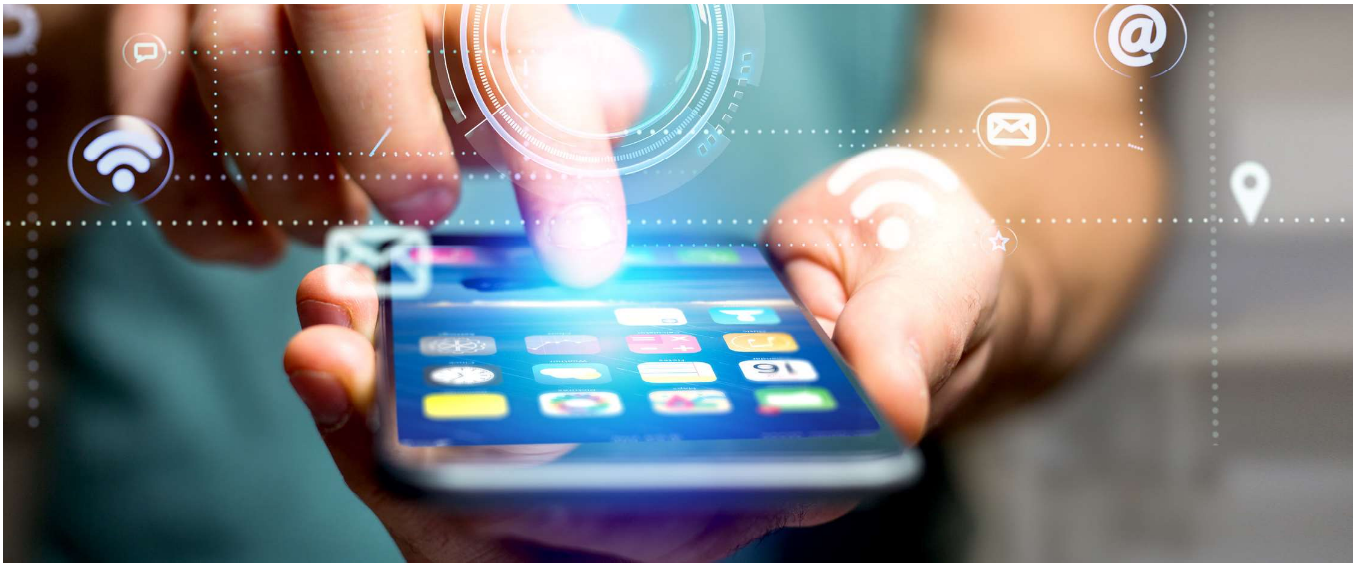
8. Review credit facilities with your bank. Are there better options available that could save you money?

9. Check inventories and ensure your stock turnover rate is at least equal to industry standards.

10. Above all DO IT NOW! If things look bad, take action to correct the situation. Look for positive approaches to solving any problems; and for new opportunities to build your business.

These all sound pretty simple, but in the day-to-day running of a business it's easy to let the simple things slide. For your peace of mind and success, allocate time to these important tasks.

Create wealth at the tip of your fingers



You're probably already pretty impressed by what your smart phone can do, but have you thought of it as a wealth builder?

It's all down to the apps you can install, and there's an increasing range to help you manage your spending, supercharge savings, complete your tax returns and manage your investments – all at the tip of your fingers.

Track your spending

Most people approach the 'b' word – budgeting – with dread, but getting your spending under control is fundamental to any wealth creation plan. For starters, you'll want to know where the money is going. Several apps take much of the drudgery out of tracking each dollar you spend while also helping you to take control of your money. This includes separating your 'wants' from your 'needs', further categorising expenses and setting spending limits for each category.

A popular app is Pocketbook, which syncs with many Australian bank accounts and largely automates the task of categorising each transaction. It also tells you exactly what your bank balance is and how much you can safely spend to stay within your budget for each category.

Boosting savings

Remember piggybanks and the pleasure of slipping the day's loose change into the slot? With electronic transactions now dominating our spending, loose change is a disappearing commodity.

The Raiz app provides a digital solution. It automatically rounds up each purchase you make on a linked debit card to the next dollar and invests this 'loose change' into one of six diversified investment portfolios. You can also set up regular contributions or make one-off additions to your portfolio.

Manage your investments

From simple watch lists for shares to mobile apps that give you full access to a stockbroker's trading platform, a vast range of apps is available to the connected investor. Check out what's available from your super fund, investment managers and share broker. In many cases you'll find apps that can do everything that you would normally use your desktop computer for, and often with more convenience. Enjoy lunch in the park while you check up on your super or snap up a few shares.

File your tax return

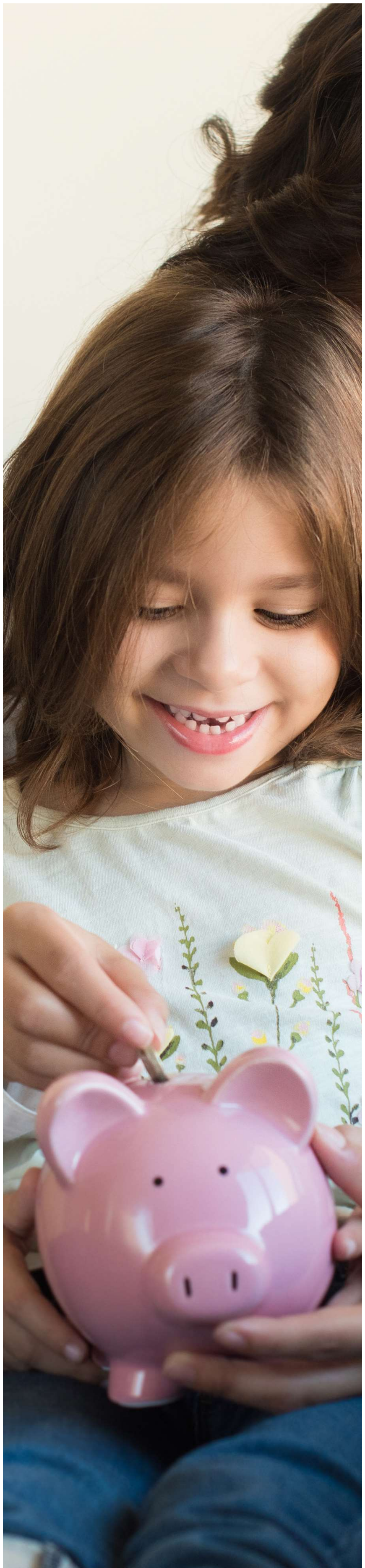
We know that apps are mainstream when the tax office gets in on the act. The 'ATO app' includes the myDeductions tool to help you track expenses. Sole traders can also record income as well as deductions. Come tax time the data can be emailed to a tax agent or you can use your app to prefill your tax return before lodging it yourself.

Pocketbook also has a dedicated tax return app, though a fee applies to lodge the return with the ATO.

Be appy

This is just a brief sampling of the many mobile financial apps that are available. Many are free, but be aware of 'in-app purchases'. In some cases, functionality may be limited unless you upgrade to a 'premium', paid option. Also remember that you may be sharing your financial information with a third party. Make sure you're happy with the app provider's privacy policy and security.

Then, when you've found the ideal electronic helpers for your financial needs, 'app up' and get your mobile phone building your wealth.



Building your 'Family Future Fund'

How much does it cost to raise a child? Obviously the answer is highly dependent on individual circumstances. However, as a guide, a 2013 national study found that a typical middle income family would spend about $812,000 on raising two children from birth to age 24. At that time child-raising costs were increasing at around 9% per annum, so it's a reasonable estimate that these days the cost of getting two kids to the point where they're ready to leave home (that's not to say that they will) is closer to $1.48 million! And that's a middle of the road figure.

For low and middle income families transport is, perhaps surprisingly, the biggest single cost, but for high income families, education takes top spot. Along with childcare it eats up over a quarter of the household budget. That's largely due to the costs of private education.

Australian Unity, estimates that providing just one child with a private education from pre-school to the end of high school will cost close to $415,015 . Opt for the Catholic system and that drops to around $256,110, while a government education comes in at roughly $126,338. Supporting a child through university adds substantially to these costs.

Creating a 'Family Future Fund'

Being forewarned about the costs of children, particularly educating them, provides an opportunity to prepare for the hit to the family budget.

Take Ben and Laura, a young professional couple with a combined after-tax income of $150,000. They plan on starting a family in a few years and after allowing for other financial commitments decide to set aside 25% of their net income for their 'family future fund'. Opting for the safety of a high interest savings account their return after tax is 2% per annum. When baby Rose arrives five years later, they have a head start of just over $195,000 in meeting future child-raising costs. But babies and toddlers are relatively cheap to support compared with older children, so Ben and Laura don't need to dip into their fund just yet. This is just as well as they are forced to stop their regular contributions when unpaid parental leave puts a dent in their income. When Rose is ready to start school at age five the family fund has grown to $215,463.

Matt and Sara on the other hand only begin to think about their future family costs when their first child Thom is born. To match Ben and Laura's savings balance by the time Thom starts school, Matt and Sara would need to save $41,400 per year – for them, and most young couples, an impossible challenge.

Savings options

A child's 'future fund' is not something to speculate with. This means opting for 'safer' investments such as cash, term deposits or bonds, despite their generally lower returns. Alternatively, tax benefits may be gained by investing in insurance bonds or a friendly society education plan.

Another possibility is to pay the savings into a mortgage offset account. This will provide a return closer to the home loan rate, which is likely to be higher than interest rates currently available elsewhere. Funds can then be redrawn as school fees or other costs require.

While every family is unique, the costs of raising children are quite staggering. The sooner you talk to your licensed financial adviser about how you can plan the financial side of family life, the more enjoyable parenthood can be.

Quarterly economic update: July - September 2021

COVID here to stay

The third quarter of the calendar year brought with it the third and by far the biggest wave in COVID-19 infections. Largely restricted to NSW and Victoria the outbreak was driven by the highly infectious Delta variant. Such was its speed of spread it forced a change in strategy from one of elimination to learning to live with the virus, supported by a massive vaccination campaign. By quarter's end vaccination rates were closing in on key targets that will allow a slow and selective lifting of the severe lockdown conditions that have prevailed for months. This may lead to a slower economic recovery than occurred after previous waves.

Time to chill

You know Australia has a housing problem when the head of one of the big banks, in this case Matt Comyn at CBA, calls for action "sooner rather than later" to stop the property market overheating. This was on the back of CoreLogic data showing house prices in Melbourne and Sydney rose 15.6% and 26% respectively over the 12 months to August. The International Monetary Fund (IMF) also called on Australian regulators to cool the market. Don't expect this to happen through the usual instrument of increased interest rates. Rather, look for reduced lending in specific sectors, such as investors, higher deposit requirements, or testing loan serviceability at higher interest rates.

Pop goes iron ore

Iron ore's price bubble eventually popped as China instructed its steelmakers to cut back on production. The main reason given was to reduce emissions, and perhaps to help clear the skies in the run up to the winter Olympics. Over the quarter the ore price fell 45%, with major miners taking an equivalent hit. BHP, Rio and Fortescue saw their shares tumble 33%, 26% and 44% respectively.

Hot topic

In August the Intergovernmental Panel on Climate Change (IPCC) released its latest report. It warned that "unless there are immediate, rapid and large-scale reductions in greenhouse gas emissions, limiting warming to close to 1.5°C or even 2°C will be beyond reach". The report paints a grim picture of what that warmer world will look like and returned climate change to the front pages of the world's newspapers.

The numbers

Equity markets experienced a bit of a rollercoaster ride over the quarter. All the major indices posted record highs, but most ended up within 1% of where they started.

The Aussie dollar also had a volatile quarter, trading between 71 and 75.4 US cents and finishing at 72 cents. It was a similar story against the other major currencies.

In both cases the late-quarter sell-offs were blamed on expectations of higher US interest rates.

On the radar

Many of the world's leaders will come together in Glasgow at the end of October for the 26th UN Climate Change Conference (COP26). If they heed the warning from the IPCC, and if they agree to take the necessary steps to limit warming to 2°C (and preferably 1.5°C), it will set the scene for a dramatic economic transformation, with huge opportunities for those who can sort the winners from the losers.

Of more immediate concern, Chinese property company China Evergrande appears to be on the brink of collapse. Heavily indebted to the tune of US$300 billion, if it is allowed to fail it is likely to have global ramifications, not the least for Australia. For one thing China's construction boom has been a huge driver of demand for our iron ore.