WELCOME TO OUR WINTER EDITION OF FFP NEWS

Welcome to Future Financial Planning News - Winter Edition.

What a strange and difficult couple of months we have had since our last edition of FFP News. The continually evolving situation of the COVID-19 outbreak has created a challenging and unsettling time for everyone.

During this time of unprecedented uncertainty, our number one priority is the safety and wellbeing of our staff, clients and local community. Our office doors continue to remain open, however we will continue to adhere to social distancing guidelines. If you are unable to attend our office we are also able to respond to any queries via telephone and email.

Inside this edition of FFP News we take a look at the current importance of your contact details being up to date, managing retirement portfolios through the pandemic, and things to think about if you are considering accessing some of your super early following the Federal Government's decision to allow people affected by the COVID-19 coronavirus outbreak to apply for the early release of their super.

Since the end of February 2020 financial markets have experienced extreme volatility, on the back of the development and spread of the COVID-19 (Coronavirus). Markets remain uncertain as they are fluctuating daily. This means there may be daily movement in the account balances of your investments. If you would like more information about this or would like to discuss any aspect of your financial plan as we approach the end of the financial year, please give us a call.

We also wish to advise that our Office will be closed on Monday, 8th June 2020 for the Queen's Birthday Public Holiday.

We hope you are all well and as we continue to navigate our way through this difficult time, please stay safe and we look forward to speaking with you in the near future.

Kind regards,

Rhys, Michelle and Michelle

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Are your contact details up to date?

NOW is a more important time as any to ensure that your contact details are up to date.

Keeping our client's contact details up to date is a continual process.

We like to make sure that you are receiving all relevant correspondence such as, superannuation statements, legislation changes and updates, annual insurance premium notices and available assistance measures relevant to the current COVID-19 situation.

Moving house or changing email addresses without notifying us, can result in important information such as above, not making it to your mailbox.

So if your contact details have recently changed or a change occurs in the future, please call our Office on **03 5622 3005** or email **michellek@futurefinancial.net.au** and let us know.

We can then update your details within our Office, with AMP and/or any other organisation relevant to your business with our Office, on your behalf.

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Planning, not panic: managing retirement portfolios through the pandemic

By AMP Life Limited, originally published on 20th April 2020 on amp.com.au/

Despite the recent wild ride for markets coping with the uncertainty of the coronavirus pandemic, many investors are well-versed in the need to “sit tight”. They understand that moving out of positions in falling markets risks crystallising losses at the bottom and missing out on the recovery.

For retirees it’s not so simple, where portfolios are particularly vulnerable to sequencing and behavioural risks that are not so apparent for those in the accumulation phase.

If investors continue to contribute to their super fund in the current environment, they are potentially buying into the market at bargain prices every time they receive their salary. Gains might take some time to materialise and losses some time to overcome, but with a long-time horizon there is more opportunity for an investor’s portfolio to recover.

If, on the other hand, investors draw down on their portfolio they may experience the sharp end of sequencing risk. Losses affect the entire nest egg, a proportion of which will be invested in assets acquired at higher points in the market cycle. In our view, most retirees have less of an opportunity to buy back in and take advantage of the future upside to current low prices. Crucially, most also have no choice but to draw-down to fund their costs of living - meaning they have to liquidate positions in a falling market.

Watching the dollar value of their life savings fluctuating over the course of a single day can be gut-wrenching for retirees, and these emotions are compounded by the ongoing health and societal crises raging around us. The fight or flight instinct is very strong in times like these. In our view, it creates a very strong behavioural risk for retirees who may act against their own best interests by switching out of growth assets at the worst possible time to “protect” what remains of their nest egg.

Shoring up your position without selling the silverware

These two risks create a conundrum for the retiree. On one hand, there is an imperative to reduce their exposure to market falls in order to minimise sequencing risk, and on the other hand there also exists a significant behavioral risk in shifting to lower risk asset classes at this point in time. It’s a tough time to make a decision but investors should be aware of the options available to them.

1. Diversify into other value assets
We believe one way to manage risk and lower an investor’s exposure to falling equity markets is to diversify. The key at the moment is to look to other asset classes where discounted pricing might be available, diversifying into areas such as infrastructure, property, credit and other alternatives.

2. Use protection
There are a number of funds and products offering forms of protection for capital or income. Investors retain some level of exposure to market gains, but could also be insulated from more significant losses to their portfolio.

3. Adjust expenditure
Our research shows that one of the most powerful tools retirees have to secure the stability and sustainability of retirement income is to know how much they can safely spend. This depends on many variables such as age, health, social security, wealth - to which a financial advisor can guide retirees. It also might surprise retirees that even a large fall in markets may only require a small adjustment in weekly expenditure to ensure their retirement income lasts.

4. Reconsider what is ’defensive’
The traditional approach to retirement investing is to move further into traditional ’defensive’ assets such as cash and bonds. We would like to emphasise that while these assets in the short term have the least likelihood of a negative return and therefore could be considered ’safe’, the future returns of cash and bonds are relatively low. A large allocation to this group may reduce long term returns and jeopardise the sustainability of a retirement income strategy.

Investors stand to lose when they move a large proportion of their assets to defensive positions such as cash and bonds in the current environment, locking in lower returns for their portfolio. It may feel comfortable in the short term, but over the long run it could seriously jeopardise the longevity of their retirement income. We believe an investor could improve their retirement strategy over time by considering the steps above and always on the basis of sound financial advice.

5 things to think about if you're considering accessing your super early

By AMP Life Limited, originally published on 23rd April 2020 on amp.com.au/insights

As part of its COVID-19 coronavirus economic response, the Federal Government is allowing eligible Australians to access some of their superannuation early.

If you're eligible, you can access up to $10,000 of your super between 20 April 2020 and by 30 June 2020 and up to a further $10,000 from 1 July 2020 until 24 September 2020.

However, accessing your super early is not without its risks. Super is designed to pay for your life in retirement, so withdrawing money from it now could affect your retirement lifestyle. Below we look at five things to consider to help you make an informed decision.

1. Other government or financial assistance

Many people are suffering financially due to the business shutdowns that have resulted from COVID-19, and you may be having trouble paying your bills, repaying debts or finding money for other essentials, such as food and your rent or home loan. Accessing some of your super early could help to alleviate some of these financial pressures, but there may be other options.

For example, you may be eligible for one of the government's other COVID-19 financial assistance measures, such as the JobKeeper Payment of Coronavirus Supplement.

Many banks are offering home loan and credit card repayment freezes, but you should check with your lender whether the freeze also applies to the interest on these debts or whether you'll still be incurring interest during this time. Some landlords and utilities providers are also offering flexibility when it comes to rent and bill payments - it's worth getting in contact to discuss your situation. Alternatively, your home loan or personal loan may have a redraw facility, you may qualify for a bank overdraft or you may have assets you can sell to boost your cash flow if it's absolutely necessary.

2. The potential impact on your retirement

Depending on what your current super balance is and how close your are to retirement, withdrawing money from your super early could have a big impact on the quality of your retirement.

According to the Association of Superannuation Funds of Australia (ASFA), to retire comfortably a single person will need retirement savings of $545,000 while a couple will need $640,000[1]. If retirement is a long way off, it can be difficult to know how your super's tracking or whether you're on target to achieve a comfortable retirement. To help you get a general idea about this, check out how your super balance compares to others your age (*amp.com.au/superannuation/super-basics/how-much-super-should-i-have-at-my-age*) or use our retirement simulator (*https://secure.amp.com.au/ddc/public/ui/mrs/*).

It's also worth considering that while the short-term impact of accessing some super now will be to reduce your super by the amount you withdraw, there may be a more significant impact on your retirement savings over the longer term. This is because you'll miss out on the additional returns you could have earned through the investment of that money by your super fund - this is known as compounding. While compound interest is very powerful when it's working to build your super balance, it can be equally powerful in magnifying the impact a withdrawal now could have on your super balance over the long term.

You can also calculate the potential impact on your retirement savings: visit https://moneysmart.gov.au/covid-19/accessing-your-super

3. Your future plans

Another consideration is whether you have any future plans that may result in temporarily leaving the work force or reducing the amount of income you generate, all of which may affect your ability to save and contribute towards retirement. For example, if you're planning to return to full-time study, take a gap year overseas, take time off to have a baby or move to working part-time, it's worth remembering that all these things would likely lead to a reduction in the amount of super you accumulate during that time. And this could have a further impact on the quality of your retirement.

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4. The current state of investment markets

Another potential downside associated with accessing some of your super now is that over the past few months investment markets have fallen due to uncertainty around the economic impact of COVID-19.

To withdraw money from your super, your super fund may need to sell some of the assets it owns on your behalf (such as shares and other types of investments). Selling these assets now may lock in any losses (/superannuation/managing-super/how-investment-market-volatility-affects-your-super) and the money you withdraw won't have the opportunity to grow in value when investment markets recover.

5. The potential loss of insurance cover

Another possible consequence of accessing your super early is how the insurance inside your super will be affected. There are a couple of different ways this could happen.

Firstly, if you withdraw a lump sum from your super and it leads to a zero account balance, your super account may be closed, which means your insurance will be cancelled from the closure date.

Secondly, super laws were brought in in 2019, to help protect super balances from being unnecessarily reduced by insurance premiums. One of these laws, called the 'Protecting Your Super Package' requires super providers to cancel any insurance inside super accounts that don't receive a contribution or rollover for 16 months. This means, if you're not in a position to make any contributions into your super account for 16 months, your insurance may be cancelled unless you tell your super provider you want to keep it.

If your insurance is cancelled because your account has been inactive for 16 months, and you account balance is below $6,000, we're also required to transfer your balance to the Australian Tax Office. Where possible, the ATO will then try to connect this super money with your active super account.

What you can do about your insurance

If you're thinking about accessing your super early, make sure you're clear about how much insurance your currently have through your super, and whether you want it.

A good way to work out whether your insurance premiums aren't unnecessarily reducing your balance is to use our general rule of thumb: your monthly insurance premium should be below 1% of your salary. (Note: This may not apply to people who require a higher amount of insurance cover to meet their needs).

To stop your insurance from being cancelled because the account becomes inactive for 16 months, make sure a contribution or rollover is made into the account before the 16 month mark is up, or fill in the 'keep my insurance form' (https://secure.amp.com.au/ddc/public/ui/pmif/).

If your insurance does get cancelled, you're still eligible to lodge a claim for a loss event if it occurred any time before the account was closed. There may also be a window of opportunity to get it back, although it can sometimes be hard to get back at the same price or benefit level. Check your PDS for all the details specific to your super and insurance.

If you're concerned about your insurance and what's right for you, you should speak to a financial adviser.

Pay it forward

If you decide to access some super early, it's a good idea to first check your super balance. It might be worth working out exactly how much you'll need and only withdrawing that amount, rather than the maximum $10,000 per withdrawal available—after all, the more money you can leave in your account to grow for the future the better your retirement might be.

Alternatively, if you're not sure what the future may hold and decide to withdraw the full amount available, you could always consider putting any unused money back into your super later on.

Before making any decisions, check your super balance.

[1] ASFA, Retirement Standard, December 2019.