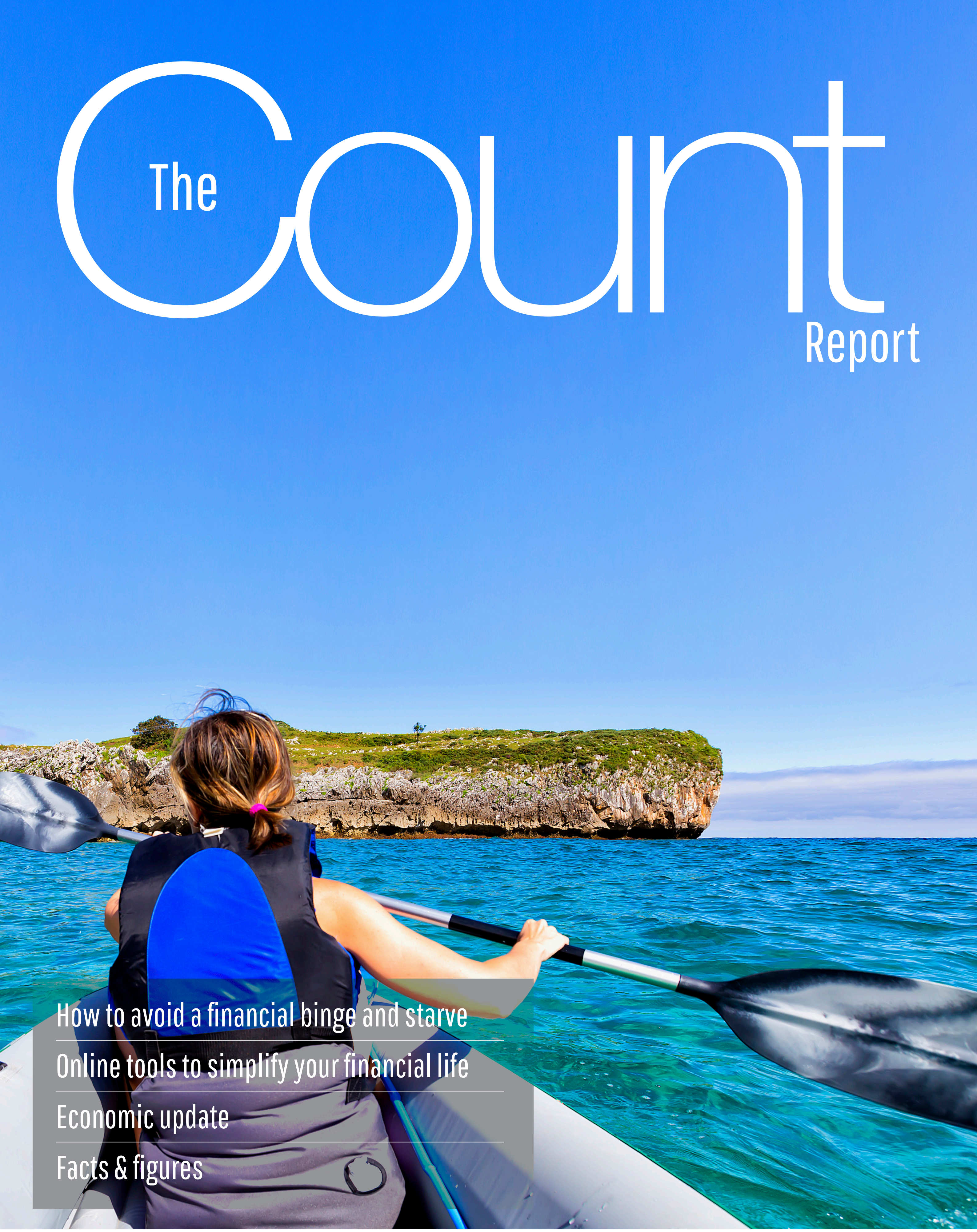
The Count Report



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Count

Welcome

to the Summer edition of The Count Report

The holiday season is fast approaching. It's a wonderful time of year but can be very expensive, with gifts to purchase and social gatherings to attend. So it's a good idea to take some time out before the end of year festivities begin, to review your financial goals and your budget.

In this edition, we take a look at how you can fight the 'urge to splurge' by putting some good spending and saving habits in place, so your finances are in good shape for the year ahead.

We also provide some of our top picks when it comes to the online tools and apps that can make it easier to manage and improve your financial wellbeing.

And 10 years on from the Global Financial Crisis, we talk to Stephen Halmarick, Head of Global Markets Research at Commonwealth Bank, on the strengths and weaknesses in today's Australian and global economies.

We hope you enjoy this edition of The Count Report.

How to avoid a financial binge and starve

Here are our five tips for breaking bad financial habits this holiday season… and keeping your finances on track all year round.

Like the old tune says, 'it's the most wonderful time of year' – but for many of us, it's also the most expensive. Over one-third of Australians reach for their credit card around Christmas time, racking up an average debt of $1,666.[1] So how can you avoid a financial hangover when the New Year rolls around?

The best way to break the pattern of a financial binge and starve is to form good spending and saving habits throughout the year. So if you're already worried about the strain on your wallet this silly season, here are five ways to get your finances in shape for 2019.

1. Plan for the year ahead

While it may seem daunting to think about your next 12 months' worth of spending, it can help you get a clearer picture of when the most expensive periods will be. That way, you can start preparing for them in advance.

You may already have a weekly or monthly budget in place to keep track of your day-to-day cash flow. But if you look at your expenses for the next year, you can start planning for one-off costs like your car registration, insurance premiums or education fees.

2. Save first, spend second

Once you have a big-picture view of your upcoming expenses, you can set up a regular savings plan. Many of us are in the habit of putting aside whatever is left from each pay cheque *after* we spend, which means we often end up with very little in our savings account.

The trick is to reverse this mindset and put aside some savings *before* you start spending. The easiest way is to set up a regular direct debit from your everyday bank account, scheduled for each payday. With a fixed amount automatically transferred to your savings account, you'll be able to grow your balance without even having to think about it.

3. Budget for major purchases

If you've set your sights on a big-ticket item like a car or an overseas trip, it's important to be realistic about how much it will set you back. It's always a good idea to overestimate the cost, so you don't get caught short. At best, you'll end up with a little cash left over to add to your savings. And of course, make sure you shop around before buying so you can get the best deal.

By figuring out the cost well ahead of your purchase date, you can then work backwards to calculate how much you need to save until then. You could even open up a separate account for your one-off goal so you can keep track of your progress and avoid the temptation to dip into those savings.

4. Be careful with your credit card

If you don't keep a close eye on your spending, the *urge to splurge* on your credit card can kick in. Before you know it, you could end up in a debt cycle where you're repaying interest upon interest.

In fact, almost one in five Aussie consumers are behind in their credit card payments, so it's best to avoid becoming a statistic.[2] Instead of splashing out on each purchase that takes your fancy, it makes financial sense to wait until you've saved enough cash to pay for it outright.

If that's not possible, you might look into alternative payment options. For instance, some retailers may let you pay in instalments or enter a rent-to-own agreement.

5. Find ways to cut back

The key to keeping your finances on track is to prioritise your spending. This is especially important during the expensive periods like Christmas – and if you're a generous gift-giver, you'll need to tighten your belt in other areas so you don't blow your budget.

Take a look at your regular spending and think about how you can trim it. For example, if you put your daily coffee habit on hold for the month of December, you could end up with around $100 more in your pocket to spend on presents. Or, perhaps there's an upcoming expense that can wait until January, like the pricey haircut you've been planning.

And remember, when it comes to getting your finances under control, your financial adviser can help you create a budget and savings plan that works for you all year round.

1 ASIC MoneySmart, *Australia's Christmas spending*, November 2017.
2 ASIC, *Credit card lending in Australia*, July 2018.

Online tools to simplify your financial life

Technology makes our lives easier in so many ways, so why not use it to improve your financial wellbeing?

There's no doubt that the internet has revolutionised the way we live, work and play – with many of us now also doing our shopping, banking and even our socialising online. The web is also a rich source of financial information, and plenty of sites offer clever apps and tools that can make it easier to manage your finances.

Here are some of our top picks.

Retirement planning

Wondering how much money you'll need to enjoy a comfortable retirement? ASIC's MoneySmart website has you covered, with their online **Retirement Planner** and **Superannuation Calculator**.

In the Retirement Planner, you can set a retirement age then work out what your retirement income will be from super and the Age Pension, based on your current super balance and contributions. You can even see how your retirement savings will be impacted if you decide to take a career break.

Using the Superannuation Calculator, you can then estimate how much further your super could grow if you top it up through salary sacrificing or by making after-tax contributions.

There are also a variety of retirement planning apps that you can download to your smartphone or tablet. One example is **RetirePlan**, which allows you to get a complete picture of your future retirement income. You can also compare different scenarios to see how your nest egg will be impacted if, for instance, you or your partner retire earlier or give your super an extra boost.

Budgeting and saving

If you need help drawing up a household budget, the MoneySmart website offers a handy **Budget Planner**.

With this easy-to-use tool, you can break down your family's expenses into different categories like utilities, groceries, entertainment and transport. You can then compare your spending against your income to see if you're on track or if you need to make some cuts. When you're ready, you can print out your budget summary and maybe stick it on your fridge, so you can check your progress throughout the year.

To keep an eye on your spending while you're out and about, you could try out popular apps like **You Need A Budget**. This app allow you to synchronise all your bank account and credit card balances with your bills and other expenses so you can see exactly where your money's going.

MoneySmart also has two great apps – **TrackMySpend** and **TrackMyGoals** – that can help you prioritise your expenses, set spending limits and create realistic savings goals.

Property

Whether you're looking to buy, rent or invest, searching for the perfect property has never been easier. From the convenience of your desktop, phone or tablet, you can now get real-time property market data from sites like **realestate.com.au** and **Domain.**

With industry listings and insights at your fingertips, you can find houses and apartments in your preferred suburb or region. You can even filter your search results by price, property features, the number of bedrooms and bathrooms, and nearby amenities such as schools or parks. They also have tools to help you work out how much you can borrow, calculate your upfront costs and estimate a repayment plan for your home loan.

Tax

Hate tax time? The Australian Taxation Office has introduced an app to take the headache out of EOFY. With **myDeductions** you can keep track of your income records and tax deductions as an employee or sole trader, as well as storing photos of all your invoices and receipts.

If you're a business owner, apps like **Expensify** and **Squirrel Street** can help you stay on top of your business expenses – from scanning and archiving receipts to generating expense reports. There are also plenty of apps like **Mileage Logbook** by Driversnote and **Travel Logs** that make it easy to log and track your work-related vehicle use and mileage.

Investing

Online share-trading platforms have been around for a while, but many of them now have their own apps.

SelfWealth users can buy and sell shares directly from their smartphone or tablet, while **Stocklight** and **Simply Wall St** allow you to find, research and monitor investment opportunities in just a few clicks.

Raiz is an innovative micro-investing app that automatically rounds up your credit card purchases to the nearest dollar and deposits the difference into your investment account. And with the rise of bitcoin, new apps like **CoinBase** and **CoinJar** enable crypto-investors to create a digital currency portfolio and trade bitcoin online, with added security to ensure your investment is safe from hackers.

Get the right advice

While online tools and apps are great, remember that your financial adviser is the best resource available to you. Your adviser understands your unique circumstances and can tailor your financial plan to make sure you stay on track towards achieving your lifestyle goals.

To find out more, visit moneysmart.gov.au or ato.gov.au. Other apps discussed in this article are currently available at the time of publishing through the App Store or Google Play. They do not take account of your individual objectives, financial situation or needs. You will need to review the content and relevance of these apps to ensure they are appropriate for you and your circumstances.

Q&As

Answers to some common questions we have recently been asked.

Q: I've read that I can't put any more money into my super once my balance reaches $1.6 million. Does this include the part of my balance that I've already used to start an account based pension?

A: While you can still make pre-tax contributions (for example, salary sacrifice), you can no longer make any after tax contributions to your superannuation during a financial year if your 'total superannuation balance' just before the start of the financial year is $1.6 million or more.

Your total superannuation balance is measured every 30 June and is the combined value of all of your superannuation accounts, including superannuation accounts in growth / accumulation phase and superannuation income streams (pensions or annuities).

The 30 June account balance of any account based income stream is included in your total superannuation balance (this will be different from the amount used to start your account based income stream).

The amounts of other types of superannuation income streams that do not have an account balance (eg annuities and defined benefits), that are included in your total superannuation balance, are determined in different ways. Your financial adviser can assist you in calculating your total superannuation balance.

Note: Additional rules must be met to make contributions to super. To make most voluntary contributions to super you must also be:

- under age 65, or
- aged 65 to 74 and meet a work test.

In addition, spouse contributions can no longer be made on your behalf once you reach age 70, regardless of your work status.

Q: My spouse and I bought our home back in 2010 and have always lived in it. We're considering going overseas to live and travel for a year, and want to rent out our home while we're away. Will this mean that we'll need to pay some capital gains tax if we sell our home in the future?

A: Generally, when you sell an asset for more than you paid for it, you will need to pay capital gains tax (CGT) on part or all of the increase in value. However, if you sell a property that was (at all times) your main residence, no CGT applies.

A property is normally only considered your main residence while you're living in it. But a special rules allows you to temporarily live away from your home, and continue to treat it as your main residence during your absence, as long as you don't treat any other property as your main residence during that time. The maximum time you can continue to treat the property as your main residence while temporarily away from it is 6 years where you are renting it out.

So, provided you continue to treat your home as your main residence during your one year absence (and will live in it after you return), you can still sell your home in the future with no CGT applying.

Q: I am 45 years old and have a super balance of $150,000. I've recently left work to care for my ill mother, and while I'll receive some income from Centrelink, I'm concerned about missing out on super contributions during this time. I've read about a recent change allowing me to catch up on contributions when I return to work – can you explain this new rule?

A: A 'concessional contributions cap' of $25,000 applies each financial year to pre-tax contributions (which include an employer's compulsory Super Guarantee, salary sacrifice, or personal tax-deductible contributions).

Recognising that people in situations like yours effectively miss out on a number of years' worth of concessional contributions, the Government recently changed the rules to allow eligible people to carry forward unused concessional contributions cap amounts and use them in a future financial year. Access to these unused cap amounts can apply from 1 July 2019 and will be limited to those individuals with a total superannuation balance of less than $500,000 and to unused amounts from the previous five financial years (starting from 1 July 2018).

For you, this change means that when you return to work in the future, you may be able to then make use of any unused cap amounts accrued from 1 July 2018. By making pre-tax contributions that exceed the $25,000 cap by the amount of your unused cap amounts, in one or more years after you have returned to work, you can boost your retirement savings. For example, if you had no superannuation contributions between 1 July 2018 and 30 June 2019, you could make an additional $25,000 of concessional contributions (on top of your usual limits) any time from 1 July 2019 to 30 June 2024.

Economic update with Stephen Halmarick

Stephen Halmarick, Managing Director and Head of Global Markets Research at Commonwealth Bank, weighs in on the current state of play in the Australian and global economies.

Q. The ten year anniversary of the Global Financial Crisis has just passed – how is the global economy shaping up?

It's been a long ten years, but we're in a situation now where the global economy is doing pretty well. Global growth is expected to run at 3.7% per annum in 2018 and 2019 – the same pace as 2017, but quite a bit better than the previous few years. A lot of that growth is being led by the US economy, but there has also been an improvement in Europe and Japan, as well as continued solid growth in China.

Interest rates are also beginning to rise, particularly in the US, UK and Canada. While interest remains negative in Europe, the European Central Bank is expected to begin to raise rates towards zero next year, which is really good news.

Q. What do you see as the biggest risks to continued growth in the economy worldwide?

There is some uncertainty in key emerging markets such as Turkey, and geopolitical concerns in areas such as the Middle East and on the Korean peninsula. Brexit is another key risk – as they edge closer to the date where the UK has to leave the European Union.

But the biggest risk to that rosy growth outlook is the increase in global tensions around trade, especially between the US and China. US President Trump recently confirmed a new 10% tariff on $US200 billion worth of Chinese imports into the US – up from around $US50 billion originally. As the US has imposed tariffs, China has retaliated. In such an environment of tit-for-tat policies, we could end up with less global trade and higher prices for many goods across a number of economies and eventually slower global economic growth.

Q. Are there any effects of the Global Financial Crisis that are still being felt today?

We are now in the phase where we're seeing the political implications of the GFC. If we look at income growth in the past 10 or 20 years, the top 1% of people in the world have seen a big increase in income, and people at the lower end of the income scale (especially those in countries like China and India) have also improved significantly.

But many middle income earners (in countries like the US, UK and Europe) have seen almost no change in their income over the past decade. They see the rich getting richer, and they see areas of the world where people are being lifted out of poverty, and they want to know why they haven't participated in that growth in the global economy. If they feel like their current politicians aren't giving them an extra piece of the action, then they look elsewhere – which helps account for the rise of President Trump in the US and Brexit, and even some of the political changes in Australia.

Q. How is the Australian economy performing?

The annual growth rate in Australia at the moment is 3.4%, which is well above our long-term average of around 2.75%. We're now in the 27th year without a recession in Australia – and no other major economy in the world has had such a long period of economic growth, so I think that's something really worth celebrating.

You hear a lot of news about the end of the mining boom, but really we've just moved from the construction to the production phase in mining. We spent billions of dollars making our mines bigger and more productive, and now we're seeing the volume of exports rise dramatically. This is especially the case for iron ore and LNG. Services exports have been increasing as well – particularly in tourism and education – that is, foreigners coming to our shores for either a holiday or to further their education. We also have an infrastructure spending boom, which is going to be a great source of growth for the economy now and into the future.

One source of softness in the Australian economy is, however, the housing market. With house prices in both Sydney and Melbourne now declining and household debt at high levels, this is likely to keep the household sector relatively subdued.

The combination of some softness in housing and the low inflation environment means that the Reserve Bank can continue to hold the official interest rate at a very low 1.5% until the end of 2019 – if not longer. Overall, therefore, the Australian economy is expected to grow at least at its long run average for the next few years.

Q. What do you see as the key issues facing Australian consumers at the moment?

While the unemployment rate has declined, the underemployment rate is still relatively elevated – so we have an increase in labour participation, but still plenty of spare capacity in the labour market. This is one reason why wage growth is very modest, about 2% per annum, which is on par with inflation. So in real terms wages growth is close to zero.

Meanwhile, household spending is growing at around 3% a year – but because wages growth is low, people are having to spend more of their income to maintain their consumption. For consumption to continue to improve and support the economy we will need to see an increase in wages growth. The alternative is either that consumption growth slows or people reduce their savings even further or increase their already high level of debt – which would not be a good outcome for the economy more broadly.

Facts and figures

$39,442
the average annual cost of a modest retirement lifestyle for a couple[1]

$60,604
the average annual cost for a couple to enjoy a comfortable retirement[2]

$545,000
the average savings a single person needs to retire comfortably at age 65[3]

13%
of Australians aged 65+ are still working[4]

38%
of older Australian workers say financial security is the main factor influencing their retirement plans[5]

$1,258
the maximum combined Age Pension a couple can receive per fortnight[6]

84.6 YEARS
the current life expectancy of females born in Australia[7]

80.4 YEARS
the current life expectancy of males born in Australia[8]

1 ASFA Retirement Standard, June 2018.
2 ASFA Retirement Standard, June 2018.
3 ASFA Retirement Standard, June 2018.
4 Australian Institute of Health and Welfare, *Older Australia at a Glance*, September 2018.
5 Australian Bureau of Statistics, *Retirement and Retirement Intentions*, Australia, December 2017.
6 Department of Human Services, *Age Pension Payment Rates*, September 2018. This figure excludes the Pension Supplement and Energy Supplement.
7 Australian Institute of Health and Welfare, *Deaths in Australia*, July 2018. Females and males born in 2014–16.
8 Australian Institute of Health and Welfare, *Deaths in Australia*, July 2018. Females and males born in 2014–16.

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