PortfolioWatch

Quarterly newsletter | Issue 1, 2020

The electric car revolution

Top tips for preparing your Will

67 is the new 65

Investment market review

Apt.

WEALTH PARTNERS

67 is the new 65

Over the last 20 years, since 1999, the percentage of Australians age 65 years or over increased from 12.3% to 15.9%. This group is projected to increase more rapidly over the next decade, as more baby boomers (people born between 1946 and 1964) turn 65.[1] What is the Government's response to tackle the changing demographic landscape in Australia?

For the Government, an ageing population means less people in the workforce generating revenue through income tax and more people in need of government support such as the Age Pension.

To reduce the cost of an ageing population on society, there are a number of policies the Government has proposed or implemented.

Increase in the Age Pension age

To encourage people to stay in the workforce longer and save more for retirement, the Government has commenced an incremental increase to the Age Pension age from 65 to 67. This began in the 2017/18 financial year, with the qualifying Age Pension age to increase to age 67 by 2023/24. A further increase to age 70 was proposed in the 2018/19 Federal Budget, but the Government did not go ahead with this increase.

Your birth date	Your Age Pension age	Date the change starts
1 January 1954 to 30 June 1955	66 years	1 July 2019
1 July 1955 to 31 December 1956	66 years and 6 months	1 July 2021
On or after 1 January 1957	67 years	1 July 2023

1 ABS, Australian Demographic Statistics, June 2019 'Twenty years of population change'
2 Reference: Parliamentary Budget Office, Australia's ageing population: Understanding the fiscal impacts over the next decade

The superannuation system as we know it today was introduced in 1992. People retiring this year would have received compulsory super for about 28 years. People retiring in 2040 may have been receiving compulsory super contributions for their entire working life which could be up to 50 years.[2]

Increase to employers' compulsory super obligation

The Government has legislated for the compulsory superannuation contribution (the Superannuation Guarantee made by employers) to be increased from 9.5% to 12% by 2025.

This will result in increasing average super balances for Australians over the coming decades, potentially taking the pressure off government resources and taxpayer funding.

Extension to the work test age requirement

The Government has also proposed increasing the age that people can make a voluntary contribution to super without satisfying the 'work test' or work test exemption. This brings it in line with the new Age Pension age of 66.

Currently, people between age 65 and 74 must satisfy the work test or work test exemption before making a voluntary super contribution.

To satisfy the work test exemption, you need to have worked a minimum of 40 hours over a 30-day period in the previous financial year. You must also have a total super balance of less than $300,000 as at the end of the last financial year.

Recently redundant and just over age 65?

If you have recently been made redundant and are just over 65, you may be eligible for a tax-free component that your employer was not aware of.

Currently, these payments are tax-free up to a base amount of $10,638 plus $5,320 for each completed year of service.

Before 1 July 2019, for a termination payment to be considered 'genuine redundancy' and therefore eligible for generous tax concessions, your redundancy needed to occur before you reached age 65.

From 1 July 2019, people up to Age Pension age (currently 66) who are made redundant and receive a termination payment may qualify to treat the termination payment as a concessionally taxed genuine redundancy payment. This change did not become law until 28 October 2019 meaning some employers may not have recognised the payment as a genuine redundancy and withheld too much tax. This means you may be eligible for a generous tax refund when you lodge your tax return.

Please contact us or your accountant to discuss.

Bushfire assistance

If you or anyone you know is in need of financial assistance due to the bushfires, the Government has implemented the following support.

Support for individuals and families

Disaster Recovery Payment

People who have been seriously injured or had their house damaged or destroyed may be eligible for a payment of:

- $1,000 per adult
- $400 for each child younger than 16.

Eligible people have until 21 July 2020 to make a claim.

Information for each state is on the Government's Services Australia website: www.servicesaustralia.gov.au

Disaster Recovery Allowance

People who have lost income as a direct result of the bushfires may be eligible for an allowance of up to the rate of Newstart, the main income support payment for people who are unemployed, for up to 13 weeks.

Information on these payments and other support is on the Government's Services Australia website: www.servicesaustralia.gov.au

Support for small businesses

The Prime Minister has outlined several measures designed to support small businesses affected by the fires including:

- grant funding of up to $50,000
- concessional loans with low interest rates
- local economic development plans for communities
- tax relief to help with cashflow.

More information is on the Prime Minister of Australia website.

We acknowledge that the road to recover will be long. Please contact us if you need financial advice during this time.

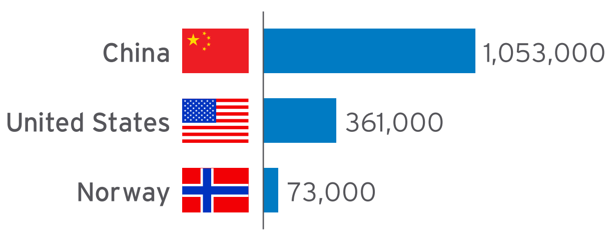
The electric car revolution

Vehicles powered by fossil fuels are one of the major contributors to global warming and air pollution. With transportation the third-largest source of greenhouse gas emissions in Australia[1], one way of reducing your carbon footprint, living more sustainably and saving money, could be through the purchase of an electric vehicle (EV).

Previously occupying a niche luxury market dominated by Nissan and Tesla, EVs are growing in popularity and are set to become more mainstream with manufacturers such as Hyundai, Kia and Mini releasing more affordable options later this year.

Besides price, other barriers to ownership such as recharging are being addressed with innovations and improvements to the electronic EV charging network. In this article we examine the rise of the EV and the role it will play in a green transport future.

Top 3 markets by total EV sales in 2018



Source: Electrive website ‘Number of plug-in cars climbs to 5.6M worldwide’ February 2019.

The global growth of electric cars

Over the past ten years, electric car popularity has grown steadily and at the beginning of 2019 there were 5.6 million on the road across the world.[2]

As the graphic below highlights, China leads the way in terms of total EV sales with 45% of the market, closely followed by Europe and the US.

Norway remains the global leader with 46% market share. This position is supported by a number of Government incentives including placing a high stamp duty on internal combustion vehicles and exempting EVs from both stamp duty and their GST equivalent of value-added tax (VAT). They also provide their owners with a total exemption from road tolls, free car ferry travel, free recharge sites, free parking and access to bus lanes for all EV drivers.

Globally, electric cars are gaining momentum. UK Prime Minister Boris Johnson recently announced his intent to ban the sale of petrol and diesel cars from 2035 and China is rolling out initiatives to wean the country off fossil fuel-powered cars. As a result, EV sales are set to hit nearly 5.5 million units by 2025.

In Australia, while sales of electric cars tripled in 2019, that figure only amounted to 6718 vehicles compared to over one million sales of fossil-fueled vehicles.[3]

The benefits of going electric

The most obvious benefit of going electric is cutting down on fossil fuel use to reduce your carbon footprint. The average new car emits 182 grams of carbon dioxide per kilometre, with older vehicles emitting even more.[4]

EVs have no exhaust emissions meaning they don't directly pollute the air. Of course, you need to consider the source of your electricity in the first place. If you use 'green' or renewable electricity to charge your car, or if you have a home-based solar-powered charging station, you'll be minimising your carbon footprint.

Cost-wise, EVs are more economical to run. Even charging from the main power grid, a fully-charged car will cost you around a third of the price of a tank of fossil fuel.

And then there's maintenance. As EVs have significantly less moving parts than a traditional petrol or diesel car, the cost of servicing is also greatly reduced. No exhaust systems, starter motors, fuel injection systems or radiators means less maintenance and fewer service bills. Battery packs are expensive, however, and may need replacing during the lifecycle of the vehicle.

When it comes to registration and stamp duty, there are also benefits depending on which state you live in. In the ACT, new EVs pay zero stamp duty and are eligible for a 20% registration discount. In Victoria, EVs have a $100 annual registration discount, while in Victoria and Queensland you'll benefit from a reduced rate of stamp duty.[5]

While running costs of an EV are much less than a petrol or diesel car, it's worth noting that, at present, the costs of an EV are significantly higher. If you buy a brand new EV you won't be left with much change from $50,000 and when a comparable fossil-fueled car is around half the price, you've got to be in it for the greater good – and the long term.

How far will it go?

The biggest practical stumbling block for many people in relation to EVs is refueling. When driving a petrol or diesel car, it's easy to get a tank full of fuel in a matter of minutes and be on your way.

This is known as 'range anxiety' and it's often cited by people as a major reason for why they decide not to purchase an EV. Depending on where you live and how far you travel, an EV requires more forethought and planning – at least for now.

In a country the size of Australia, range is critical. The top-of-the-range Tesla can manage to drive up to almost 600km and, while more 'everyday' EVs have a range closer to 300km, you can still comfortably go about your day-to-day travel.[6]

It's when you want to go further afield that it gets tricky. Any holiday plans will need to include stop-offs at recharging locations. Every EV sold comes with a charging cable that can be plugged into domestic power outlets. A wallbox charging station will set you back more than $1000 to purchase and install, however with at least double the output and therefore half the charging time, it could be worthwhile.

When it comes to public charging infrastructure in Australia, there's been a dramatic upward trend. The International Energy Agency reports that the number of public charging stations increased by 143% between June 2018 and July 2019 and there are now almost 800 across Australia.[7]

Another benefit is safety. EVs are less likely to roll thanks to their lower centre of gravity. Their body construction and durability makes them a safe option in a collision and they are also less likely to catch fire or explode.

Contact us if a big purchase like an EV is likely to affect your financial plan.

1 Climate Council website, 'Transport emissions: driving down car pollution in cities', September 2017.
2 Electrive website, 'Number of plug-in cars climbs to 5.6M worldwide', February 2019.
3 The Conversation website, 'Electric car sales tripled last year. Here's what we can do to keep them growing', February 2020.
4 Emissions Australian Government website, 'Green Vehicle Guide'.
5 Tesla website, 'Vehicle & energy incentives'.
6 Canstar Blue, 'Electric cars available in Australia', April 2019.
7 Electric Vehicle Council, 'State of electric vehicles', August 2019.

Investment market review Quarter-ended 31 December 2019

Australian shares

The S&P/ASX 300 Accumulation Index rose 0.7% during the December quarter, underperforming global markets.

Most sectors performed positively, except for the banking, property and consumer staples sectors.

The banking sector, as a major component of the overall market, struggled as both Westpac and NAB faced regulatory scrutiny. Westpac was in the process of raising capital (which would normally negatively affect the share price) when regulator Austrac launched civil proceedings against the bank, alleging numerous breaches of anti-money laundering and counter-terrorism legislation. Westpac may be facing a fine in the hundreds of millions while CBA settled a previous case with Austrac for $700 million. This development saw the Westpac share price fall substantially.

Energy stocks did well on the back of a new deal by nations in the Organisation of the Petroleum Exporting Countries (OPEC) such as Iraq, Kuwait, Libya and Saudi Arabia, to cut back global oil production. The prospect of reduced supply helps drive oil prices higher.

	1 year (%)	5 year (% pa)	10 year (% pa)
Australian shares	23.8	9.1	7.8

Listed property trusts

The Australian real estate investment trust (A-REIT) sector fell -0.7% during the December quarter.

This was predominantly interest-rate driven. A-REITs are often held for their income generation as an alternative to bonds. As such they are sensitive to changes in bond prices. As bonds become cheaper and offer more attractive yields to investors, REITs will tend to follow suit with negative capital returns as a result.

Company news was focused on annual general meeting (AGM) updates and guidance for the 2020 financial year. Property fund manager, Cromwell Property Group was the target of activist shareholder ARA Asset Management over excessive management compensation and paying unsustainable dividends. ARA also unsuccessfully tried to appoint lawyer Gary Weiss as a Director and as its representative on the Board at the Cromwell Annual General Meeting. This activism, in addition to rising bond yields, weighed on the Cromwell's share price.

	1 year (%)	5 year (% pa)	10 year (% pa)
Listed property trusts	19.6	11.2	11.6

International shares

Global markets had a strong quarter with the MSCI World Index in Australian dollar terms recording a gain of 4.2% for the December quarter.

Most global share markets rose during the quarter (in local currency terms) led by positive performance in US technology shares with Chinese shares close behind. Expectations of a resolution to the trade war between the US and China contributed to improved investor risk appetite, as did easing by central banks during the quarter. In addition, positive economic reports, such as the JP Morgan Global Composite Purchasing Managers Index (PMI), signalled improvement in global growth.

The Australian dollar rose during the quarter which slowed unhedged global share returns. Key drivers for this was progress on trade talks between the US and China as well as stronger underlying Chinese growth as signalled by the Chinese Manufacturing PMI.

	1 year (%)	5 year (% pa)	10 year (% pa)
International shares	27.9	12.1	12.2

Fixed interest

Australian and global bond yields fell further during the quarter with the Bloomberg AusBond Composite index declining by -1.3% during the December quarter, which was driven by higher bond yields.

In Australia, there has been a continuation of weak data for the domestic economy, including weaker economic growth and poor consumer and business confidence, as measured by Westpac and NAB surveys respectively. While inflation rose slightly by 0.6% during the June quarter (reported in July) on an annual basis it was only 1.6%. This remains below the Reserve Bank of Australia (RBA) target range of 2-3%.

In addition, the unemployment rate at 5.2% (as of September) remains above the RBA target of 4.5%. Taken together, these factors contributed to the RBA's rate cut decisions in June, July and, following quarter-end, in October.

Concerns over rising trade tensions between the US and China, as well as weaker global growth fears, contributed to falling yields globally which also affects Australian bond yields.

	1 year (%)	5 year (% pa)	10 year (% pa)
Fixed interest	7.3	4.2	5.7

Cash

The RBA cut interest rates early in the quarter by 0.25% and subsequently left the cash rate on hold at 0.75%.

The RBA outlook continues to be driven by concerns over slowing economic growth and their view that rate cuts can continue supporting lower unemployment without increasing inflation. The ultimate impact will be mixed. Borrowers benefit from greater spending power while investors and savers will see lower future returns as a result.

	1 year (%)	5 year (% pa)	10 year (% pa)
Cash	1.5	1.9	2.9

Events around the world in 2019

Australian share market movements and some key social, economic and political events that shaped the 2019 calendar year.

Top tips when preparing your Will

Preparing a Will can be complicated, especially if you have a complex family or asset structure. Here are some tips to consider when writing a Will.

Make a list of your assets and beneficiaries

Your Will should include a list of your assets that you wish to pass on to your loved ones. Your list of assets should include, for example, property, life insurance, super, bank accounts and valuables. Then, list all your beneficiaries including those who are financially dependent on you and those who you would simply like to leave an inheritance. Make sure you spell out their first, middle and surnames correctly.

Consider your super

Contrary to popular belief, your super doesn't automatically become part of your estate and is not covered by your Will. If you do want it to form part of your Will, a correctly worded death benefit nomination, which outlines who you wish to receive your super, should be made to notify your super fund. The tax consequences of these nominations should also be considered and understood.

Choose your executor

The role of your executor is to communicate with your beneficiaries and distribute your assets according to your wishes (as outlined in your Will). An executor should be someone who can be trusted and who is reliable. They should be organised, financially savvy, fair and impartial. You can also nominate a professional trustee company to manage the administration of your Will on your behalf. It is important to have a detailed understanding of the nature of the executor role prior to deciding who is most appropriate in your circumstances.

Check the details

When including an organisation in your Will, such as a charity, it is essential to get the name and other details, for example, ABN or ACN, correct. If an organisation is incorrectly described, it may not receive the benefit or there may be significant legal costs incurred before it does.

Keep your Will in a safe place

Tell your executor and (if appropriate) family members where they can locate your original, signed and witnessed Will. If your Will is damaged or if your executors can't find it after your death, then your wishes might not be followed. Never attach other documents to your Will. Marks made by, for instance, staples, paper clips or sticky tape can raise questions about whether the Will has been tampered with or whether pages and amendments are missing.

Review your Will

Your Will should be reviewed regularly including for example whenever your personal circumstances, family dynamics or ownership of assets changes. A good rule of thumb is to review your Will every three to five years. A review doesn't need to mean that adjustments will be required, particularly if your Will has been well drafted to take into account various contingencies at the outset.

Get professional advice

Writing a Will isn't straight forward. We recommend you consult a solicitor, estate planning lawyer or trustee company that specialises in estate planning to make sure you get it right.

Contact us and we can help.

Source: Australian Executor Trustees

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