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Apt Wealth Partners - Quarterly News

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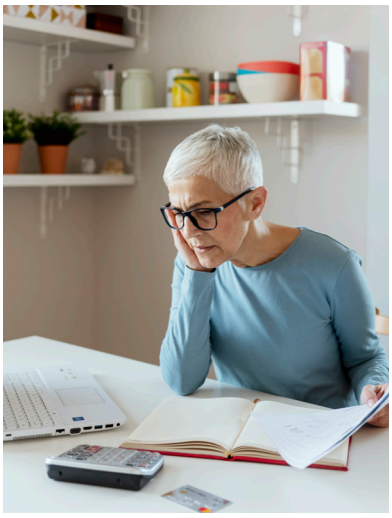

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Understanding and **building retirement income** sources

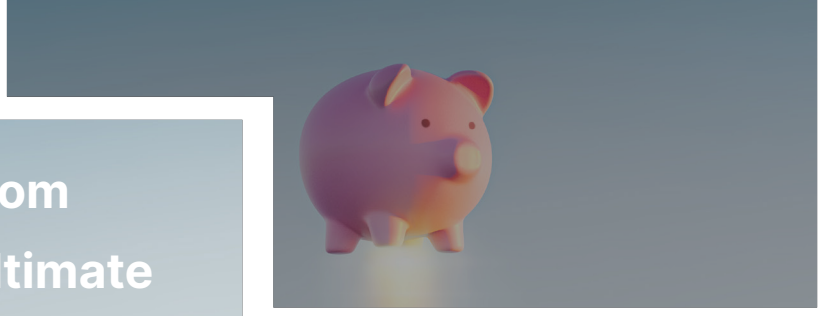
Most of us dream of our retirement years, that golden time when work takes a back seat and we can enjoy life to its fullest. Yet, according to a recent study by the Australian National University, over 55% of Australians don't believe they will have enough to live comfortably in retirement. Here, Apt Director Andrew Dunbar talks to us about retirement income sources and how we can build and protect them.

Age Pension

More than 60% of Australians aged 65 or over receive a full or part Age Pension, and according to Andrew, it can be a great supplement to other income streams. But, he cautions that it shouldn't be solely relied upon to provide a comfortable retirement.

"Currently, the maximum basic rate Age Pension is $900.80 a fortnight for a single and $1358 for a couple, equating to approximate annual payments of $23,420 and $35,308, respectively. This doesn't align with the costs of a comfortable retirement, which The ASFA Retirement Standard sets at $46,494 p.a. for a single and $65,445 for a couple."

While Andrew says it's important to explore and make use of the government entitlements you've earned, your focus should be on building the right income streams to achieve the retirement you want and deserve. And the key is to start planning as early as possible.



"Financial freedom should be the ultimate goal, and it's never too early to set yourself up for success."

Account-based pensions

One common option for retirees who have reached the preservation age is an account-based pension, a roll-over account for your superannuation savings.

"This is an incredibly flexible income stream that works well for many Australians. You can choose the amount you want to draw down as long as you meet minimum withdrawal requirements, and it's essentially paid to you as a regular 'paycheque'. You choose the frequency – monthly, quarterly, half-yearly or annually – and you can also easily access your funds as a lump sum if required for one-off expenses, such as renovations, holidays or helping the kids."

Andrew says account-based pensions can also be a tax-effective option, as investment earnings and pension payments can be tax-free for many recipients.

While all of the above make account-based pensions a great option, Andrew says it is also vital to understand that there are still risks as these accounts typically maintain links to the markets.

"When the money in your account runs out, your payment ends, and as with any superannuation account, your balance remains invested in shares. So, how long your account-based pension lasts may be at the mercy of market movements. Of course, this can mean it grows and lasts longer too, but with any investment comes risk, so it's important to understand your exposure."

Annuities

An annuity is an income stream purchased from a super fund or insurance company using a lump sum from superannuation or other savings. At the time of purchase, you can choose whether you want your annuity to last for a fixed period, the term of your life expectancy or the rest of your life, and of course, the price differs accordingly. Annuity payments may include some concessions that can help with your government entitlements.

"An annuity can be a great way to have certainty over your access to funds," Andrew says. "Market movements do not impact them, so they can give you that peace of mind."

He highlights, however, that there is limited to no flexibility when it comes to your payments. "You can't change the payment amount or frequency, and lump sums are generally not an option, which can make things challenging if an unexpected expense arises."

Andrew points out, however, that you don't have to choose between an annuity and an account-based pension, and both options may be a part of your retirement income plan. "There is a misconception that it is one or the other, but in some circumstances, you may opt for both. Your Apt Adviser will help you understand the pros and cons and determine what best suits your lifestyle and goals."

Investment income

An investment portfolio consisting of shares, cash, bonds and property trusts can provide a substantial income, according to Andrew.

"Investing can be a great strategy to build retirement income while you are still working, because unlike superannuation, you can access your funds at any time should things change."

He adds that it can be a tax-effective strategy with the benefit of franking credits, however, cautions that you don't get the tax concessions of superannuation. "Income and capital gains are taxed at your marginal rate, so it's important to weigh this up and ensure it makes financial sense for you.

"In addition, of course, your investment income can vary with market movements and may not last as long as you had planned if you are drawing down on them."

Rental income

For some retirees, income from investment properties can be a significant income stream. "Rental income can be a great ongoing income source," says Andrew. "It's not static, and the amount will usually fluctuate in line with the cost of living. And, of course, you have equity in the home, which may be appreciating over time."

However, he says, rental income is far from passive; there are risks, and there can be periods of no income during vacancies, or unexpected costs such as maintenance and repairs, or special strata levies.

"With April 2022 vacancy rates sitting at 1.6% in Sydney and 1.9% in Melbourne, it may feel like this is a foolproof investment, but it's important to remember that there are no guarantees, particularly as we enter a new economic cycle.

"If your property sits empty for even a few weeks, this can be costly. You also need to factor in ongoing property management costs, including real estate fees, strata fees and regular maintenance," Andrew says.

He also adds that property doesn't attract the same tax benefits as other retirement income sources while also being treated as income when it comes to your government entitlements.

Diversification and planning are key

As with any investment portfolio, Andrew says that diversification is essential as you don't want all your eggs in one basket.

"Relying on a single income stream is not a good idea. We all know how unpredictable life and markets can be, so you want to build a solid strategy with the right risk management strategies to weather changing financial circumstances."

Andrew adds that the earlier you start considering these income sources, the better. "It's never too early to think about how you will fund your retirement. Thinking about it earlier in your life doesn't mean you have to sacrifice what you want today, but it does mean you can get the foundations in place and ensure you are on the right path.

"Financial freedom should be the ultimate goal, and it's never too early to set yourself up for success," he concludes.

7 tips to future-proof your financial plans

With today's changing economic conditions, many Australians are wondering how to future proof their financial plans in an uncertain world. According to Apt Senior Financial Planner Preston Foster, the answer lies in sticking to the tried and true principles.

In today's landscape, there are many uncertainties, but Preston says your financial plan shouldn't be one of them. "When it comes to future-proofing financial plans, it's about understanding the basics and getting them right, rather than worrying about what you can't control," he says.

And according to Preston, the first step in any financial plan is to know where your money is going.

#1 Understand your cash flow

"You can't make any financial decisions until you know how much money is coming in and where it is going at a detailed level," he says. "Once you understand these critical figures, you can make informed choices on where and how to use your money – which is essentially what a financial plan is."

He adds that this is something you should be doing regularly. "While our incoming funds probably won't fluctuate too often, our outgoings will, so staying on top of it is essential."

Preston recommends looking at your spending for the previous 12 months to understand where and when costs increase. "Knowing which months are your most expensive will help you plan for them effectively, and you can factor that into your planning for the year ahead."

2 Build your emergency fund

The recommended emergency fund is enough to cover six months' living expenses, but if you don't have this to hand, you're not alone. In fact, according to Finder research, only 1 in 3 Australians have achieved this goal, a statistic Preston says is concerning.

"If you don't have access to these funds, you are putting yourself at unnecessary risk as we don't know what's around the corner."

Preston says not having access to emergency funds is also a growing trend amongst younger generations, so it's worth discussing with children or grandchildren. "It can take time to build, particularly for younger people, but it is possible and should be a financial priority."

#3 Manage controllable risks

While there is much in life we can't control, the right personal insurance can go a long way to softening the blow.

"If you can't work for some time, the financial ramifications can be huge. Not just on your lifestyle today but on your future and your retirement plans. While insurance can seem like an additional expense, it is an investment in your future so make sure you have the right protections in place."

Preston highlights that many Australians rely on the insurance in their superannuation without knowing whether they've got the right cover. "It's important to understand whether this cover is right for you and how much you are paying for it. Speak to your Apt Adviser, as we can help you find the best cover, often at similar costs."

#4 Align your spending and your financial goals with what's important to you

"Your money should help you live a more meaningful life, enabling you to do more of the things you love, so your values must be at the heart of your financial goals and your everyday spending," Preston says.

Some people already have a strong understanding of their personal values, but it requires more exploration for others. The Apt Wealth Values Roadmap is designed to take you through steps to determine what's most important and align your spending. Speak to your adviser to request your copy.

#5 Understand the long-term impact when making short-term decisions

Preston says its important to remember money is finite, so using funds for one thing simply means they aren't available for something else. "It's a good idea to use your financial plan as a compass to understand how decisions today may impact you in the long term. For example, if you take a holiday this summer, there will be a financial impact. It doesn't mean you shouldn't take a holiday, simply that you should be aware of the trade-off when you make the decision."

#6 Be prepared for retirement earlier than planned

Preston encourages Australians to get ahead of the curve when it comes to their retirement savings and spending regime.

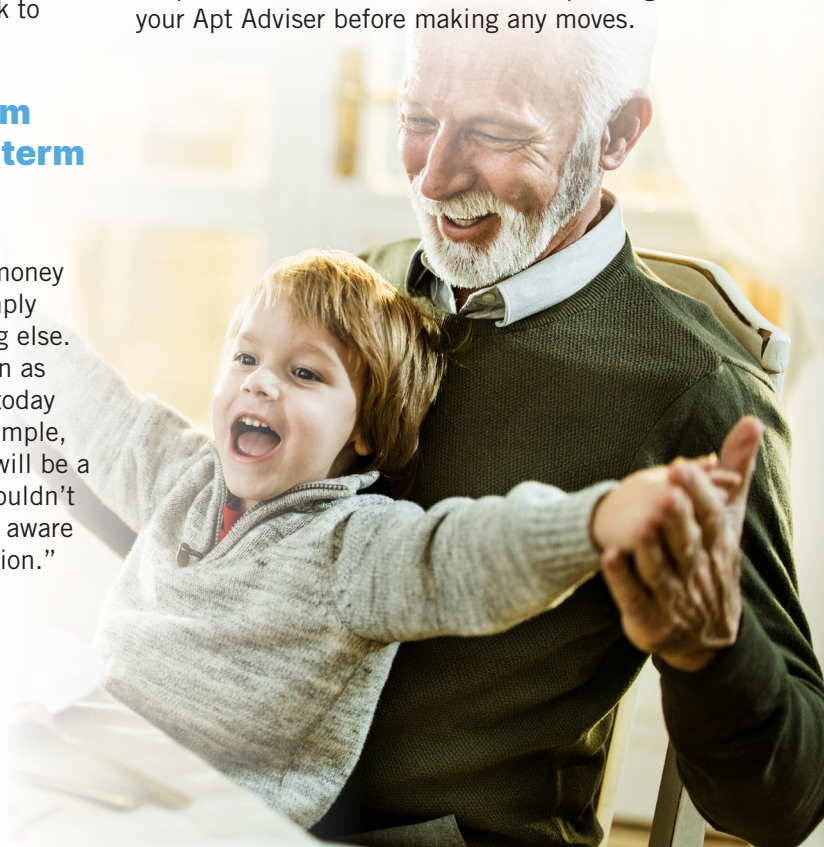
"We might be planning to retire at 65, but there are aspects that we can't control. For example, if you are made redundant in your late fifties or early sixties, it may mean early retirement, and you need to be prepared for that."

Preston adds that for business owners, this is about making a plan to reduce dependence on you. "If you remain a key player in your business as you near retirement age, it will be much harder to sell."

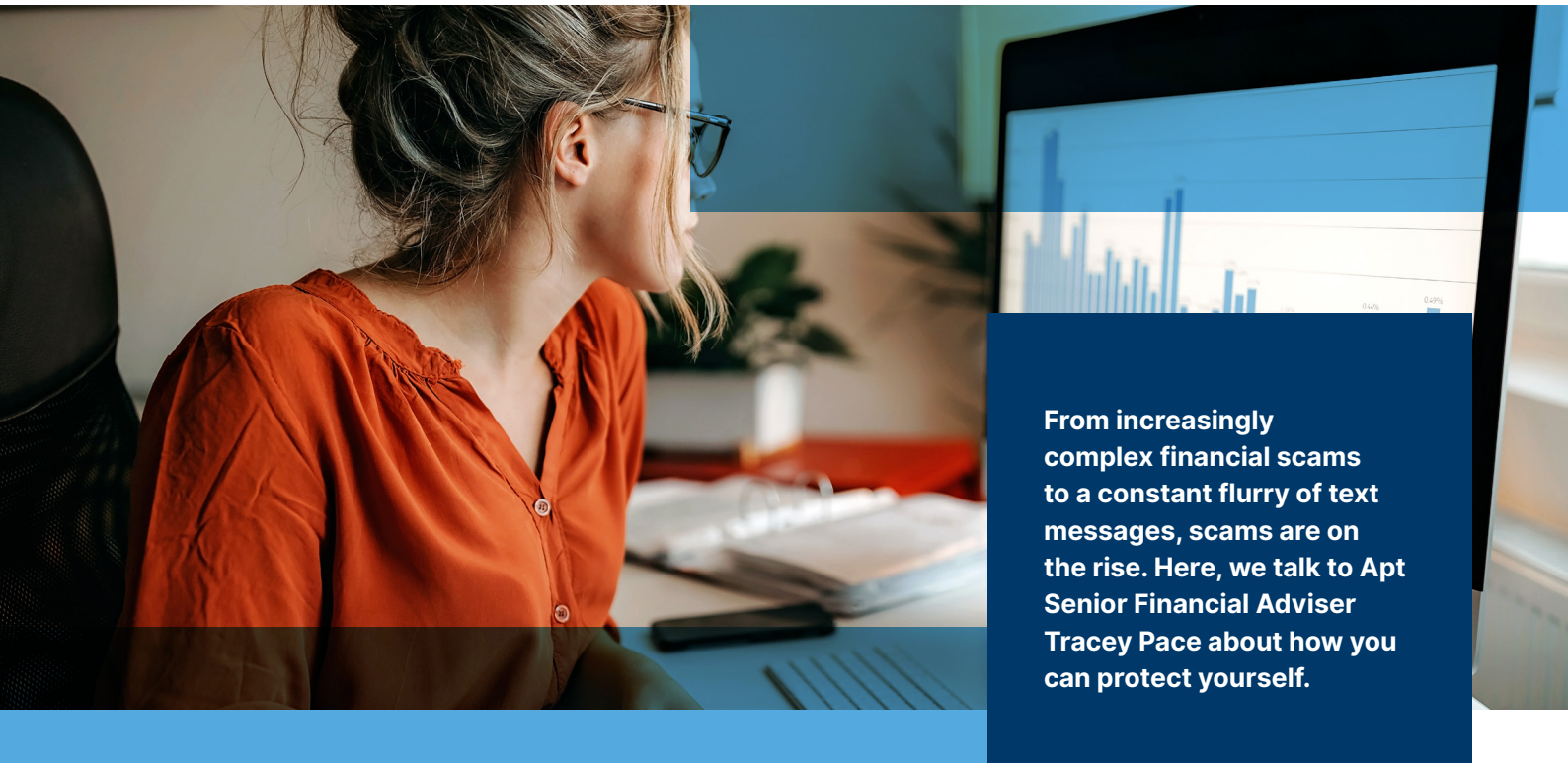
And even if you are transferring ownership to a family member, Preston says, it's essential to work towards your exit with a clear plan for how and when you will leave the business.

#7 Remember why you are investing and stick to your long-term plan

"We are experiencing a period of global uncertainty leading to market volatility," Preston says. "But it's important to remember that your investments are part of a longer-term strategy, so you shouldn't overreact to market movements." While he says those nearing retirement may need to respond differently to those with more time to weather market changes, it's critical to keep a clear head. He recommends speaking to your Apt Adviser before making any moves.



Staying vigilant in a world of ever-emerging scams



From increasingly complex financial scams to a constant flurry of text messages, scams are on the rise. Here, we talk to Apt Senior Financial Adviser Tracey Pace about how you can protect yourself.

In today's increasingly digital world, many of us can attest to being bombarded with phone calls, text messages and emails demanding action. Unfortunately, the sad reality is that scammers are using these channels to create confusion and ultimately get their hands on people's money, or even their identities.

Keeping informed

According to Tracey, the first step to protecting yourself is staying aware of emerging threats.

"Today, there is an ever-increasing range of scams, and they often centre on the intended victim's real circumstances. For example, we see a rise in messages claiming to be from Centrelink or the ATO around tax time," she says.

"It's an insidious attempt to get the targeted individuals to take action by tapping into what's actually happening in their lives."

Tracey says those wanting to stay in the know can keep up to date through trusted sources, such as the Australian Government's Scam Watch website (www.scamwatch.gov.au), which also offers a regular newsletter detailing the latest scams.

Spotting scams

And when it comes to spotting scam communications, Tracey says there can be a few tell-tale signs.

"While some of these scams can be quite sophisticated, there are a few things to look out for. First and foremost is recognising that a government department, financial institution or reputable company will never ask for passwords or other personal details via a text message or email."

She adds that threatening consequences is another common tactic. "Often, with these scams, we will see an urgent deadline. Tax scams, for example, often use the threat of immediate legal action to create a sense of panic. Or it might be that you will 'miss out' on an opportunity. Scammers play on our fears in these areas."

Other tell-tale signs may include poor grammar and spelling and an email sender address, phone number or website that doesn't match the company or department's genuine details.

Protecting yourself

"If you receive a communication asking you to take action, the most important step you can take is to contact the company or department directly before clicking on any links or doing anything with it," Tracey advises.

And, she warns, it's essential to look up the contact details yourself.

"Don't use any contact details provided in the communication. Go to the company's website yourself, or get the number off a statement or bill. It might take a little bit of your time on hold, but it could save you a lot of money and heartache."

Tracey adds that if it's genuine communication, the company or department will not mind you verifying. She says this also goes for phone calls.

"If you receive a call from a company asking for details or action, tell the caller you will call back on the main number. If they threaten you with adverse action or try to coerce you to stay on the line, that's a big red flag."

Staying safe online

With the digital nature of the world today, much of our lives are carried out online, from banking to dating, which means taking extra precautions.

Tracey points to a few key areas, starting with our passwords.

"According to industry research, around two-thirds of Australians use the same password for more than one site. However, this can be dangerous. If scammers get a hold of passwords from one site through a data leak or otherwise, they can now access a number of your accounts."

She highlights that technology can help. "Many sites now offer something called two factor or multi-factor authentication. This essentially means whenever you log in to the site, you must also use a one-time code provided at the time via email, text message or phone call."

While she says this can add a few minutes to the log-in process, it's well worth it to protect yourself. "Using these tools means that if someone tries to access your account with a password alone, they won't be granted access without the code."

And when it comes to social media, Tracey warns readers to reconsider those 'fun' quizzes that may be harvesting your information.

"Often, these quizzes are posed as fun games where you provide the name of your first street or pet, for example. However, the answers to these often match account security questions, and this may be the real intention behind them, so they are best avoided."

No silly questions

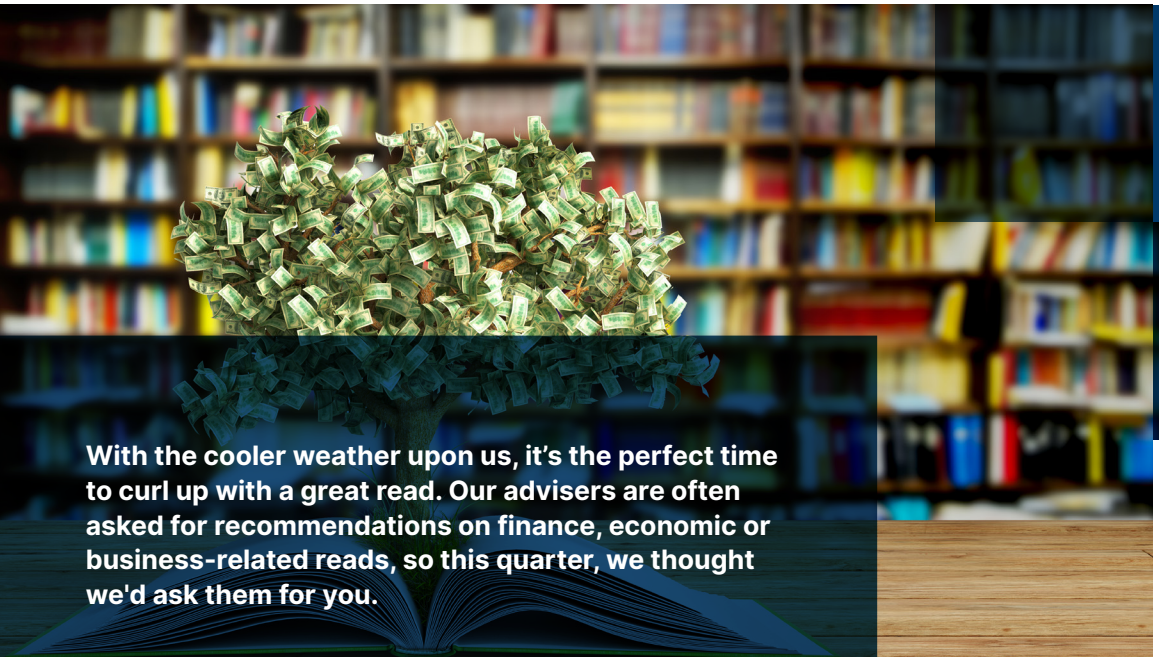
When it comes to protecting yourself from scams, Tracey's most simple piece of advice might be her most critical.

"Remember, there are no silly questions when it comes to your safety, finances or personal information," Tracey says.

"From family and friends to your Apt Adviser, everyone involved would rather be answering your questions before you've acted than helping you deal with the potentially devastating aftermath.

"Whether it's a new friend or partner asking for money, or your bank or the ATO asking you to take action, stop and take the time to seek advice. Any genuine source will understand that you need to take precautions in today's world," she concludes.

Four recommended **finance reads**



With the cooler weather upon us, it's the perfect time to curl up with a great read. Our advisers are often asked for recommendations on finance, economic or business-related reads, so this quarter, we thought we'd ask them for you.

1 Your Money or Your Life: 9 Steps to Transforming Your Relationship with Money and Achieving Financial Independence by Vicki Robin

Recommended by: Lisa Haley, Senior Financial Adviser, Melbourne

A bestseller with a cult following, this book offers a nine-step plan to achieve a better relationship with money and, ultimately, better financial outcomes, no matter your age or life stage.

Recommended for: Those looking to improve their relationship with money and use it better to live a meaningful existence.

Lisa says: "This is the 'Marie Kondo' of finance books for those who want to achieve better outcomes through a better relationship with money. It's different from other personal finance books in that it talks about choice, freedom and fulfilment—not deprivation and discipline.

It's very practical too. You'll learn how to use your money to achieve your real dreams and escape the modern traps of consumerism, clutter and debt."

2 How to Decide: Simple Tools for Making Better Choices by Annie Duke

Recommended by: Sean Moran, Senior Financial Adviser, Geelong

Ever thought about how your life would be better if you knew how to make better decisions? Have you suffered from paralysis by analysis? Or wondered why doing up a pros and cons list doesn't seem to give you the best results? This book teaches you to think about which decisions are important, how much time you should spend on a decision, why a good or bad result doesn't mean it was a good or bad decision, and how to make the big decisions in your life.

Recommended for: Anyone interested in tools and frameworks to make more informed, confident and deliberate choices.

Sean says: "This book looks at decision making as a teachable skill. It offers a range of tools to understand the weight of a decision, explore and evaluate options, identify hidden biases and ultimately, become a more confident decision-maker.

It's full of practical examples, exercises and stories that can easily be applied to our day-to-day and major life and financial decisions and may just get you thinking differently about decision-making."

3 Family Wealth: Keeping it in the Family by James E. Hughes

Recommended by: Preston Foster, Senior Financial Adviser, Sydney

Considered a seminal work in its field, Keeping it in the Family challenges the ways families think about heritage, wealth and legacy. The book centres on the concept that to capitalise on family wealth and avoid financial dependency or loss of initiative across generations, exceptional families employ strategies to preserve human and intellectual capital as well as financial assets.

Recommended for: Those interested in how advantage and wealth can be not only conferred to but successfully maintained by future generations.

Preston says: "This book examines how we can both build and optimise wealth across generations, transferring not just financial wealth but the human and intellectual capital that will see future generations thrive.

The author challenges traditional beliefs when it comes to intergenerational wealth transfer and combines social sciences, finance and legal aspects to deliver powerful insights. It also dives into the weeds, offering practical advice on how to set family rules and hold meaningful meetings.

Although designed for High Net Worth Individuals, it is a must-read for anyone who wants to leave a lasting legacy."

4 What Matters Most: The Power Of Living Your Values by Hyrum W. Smith

Recommended by: Andrew Dunbar, Director, Melbourne

This book explores what happens when we lose touch with what's important to us in the rush of daily life. Through storytelling and drawing on his own experience, the author offers a powerful formula to identify personal values and ensure you are living them.

Recommended for: Those wanting to better align their values and their decisions to live a more meaningful existence every day.

Andrew says: "This book offers some excellent strategies to uncover your personal values and what's really important to you. It also provides advice on aligning what's important to you to your daily life and decision making to live life to its fullest.

At Apt, we are passionate about aligning values and finances and this book provides some great insights for anyone looking to improve this alignment. It's also a great read, with a powerful message and compelling stories that illustrate the author's point."

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