Aptitude

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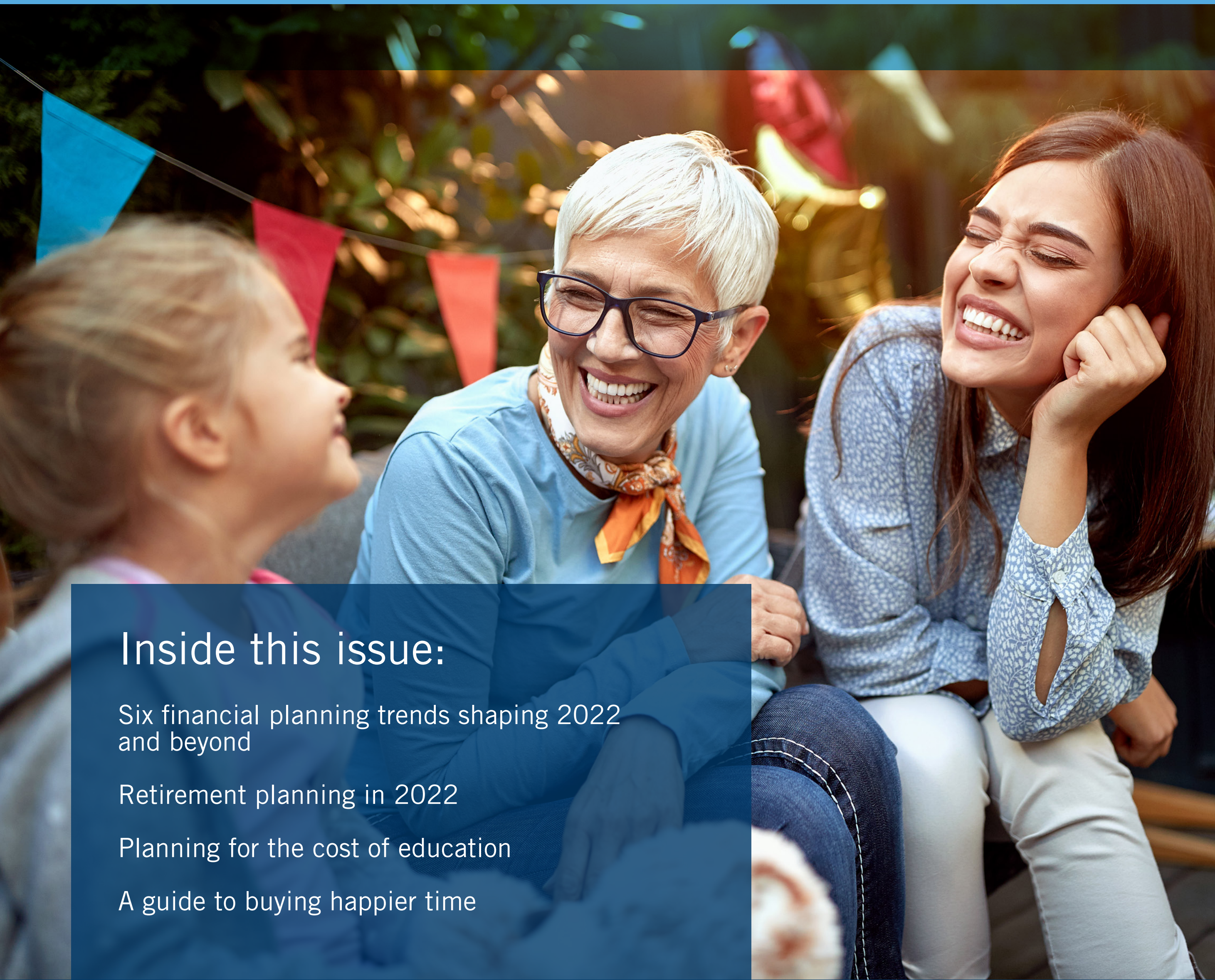
Live for today, plan for tomorrow



Inside this issue:

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WEALTH PARTNERS

Six financial planning trends shaping 2022 and beyond

As we enter a new economic cycle and a new lifestyle one for many, the way we think about our finances is changing. Here, Apt Senior Financial Planner Preston Foster, shares his insights on the financial planning trends that will shape 2022 and beyond.

"Financial planning really should be about helping people live their best lives, preparing for uncertainty but also living for today," Preston says. "In the wake of lockdowns, we are seeing more and more people recognising the true value of this holistic approach."

In 2022, he says, the key financial planning trends are about achieving this all-important balance while taking appropriate risk management measures to protect and grow our finances.

#1 Changing lifestyle and values

During the COVID pandemic, many of us had the chance to think about what we want out of life, which has led to changing value systems.

"From the smaller daily lifestyle changes to more significant decisions, like where we live or when we will retire, what we want out of life has changed," Preston says.

This values shift has led to revisiting financial plans, a critical step if you want to maintain momentum as life returns to some form of normalcy. "Your values impact everything from your everyday spending choices to long-term life goals. Therefore, it's important to make sure financial plans align, as this is key to sustainable change and making the most of your money."

#2 Younger generations entering the markets

Preston says recent data indicates that more Gen X and Millennials are getting more involved with investing, leading to an increased interest in financial planning.

"Many younger Australians are feeling locked out of the property market, so are looking for other ways to invest. They may have saved a significant deposit, but it's not quite enough to get in with the astronomical rise in our housing markets.

"It's fantastic to see younger people taking an interest in investing because, as we know, the earlier you start, the better the long-term outcomes."

#3 Increasing focus on social and governance issues

As younger generations enter the market, we are likely to see the focus on ESG increase further too, Preston says.

"We've all seen climate change in action, from bushfires to floods, and there is a wider acceptance that investors need to make conscious decisions around environmental issues.

"Now, we are seeing a spotlight on the social impacts and company governance, which can be harder to quantify but are essential to sustainability. And with NAB Trade data telling us that these generations are set to inherit $3.7 trillion in the coming years, their voices – and their choices – will have an impact."

#4 A growing need for aged care planning

With an ageing population comes an increased need for aged care planning, and it's something Preston says is growing amongst Apt clients.

"Whether for a partner, parent or even yourself, funding aged care is something more Australians have to think about as our population ages.

"And with entry costs as high as $600k for some residential facilities, it makes sense to consider this in your financial planning. Of course, we all want the best for our loved ones, but our aged care system can be a maze, so it's another area where your adviser can add value too."

#5 Rising inflation

"We are seeing rising inflation for the first time in a long while," Preston says. "And this must be factored into your financial plans."

According to Preston, it's vital for pre-retirees to understand and prepare for any potential impact on their retirement savings.

"With the cash rate at ten basis points and inflation at three, it's clear the value of money is changing," Preston says.

"We are already seeing the impacts at the pump and the checkout, and it is starting to impact some investment returns too."

While he says the attractiveness of some investments will change, he also points out that the changes you need to make will depend on your circumstances and life stage.

"Your adviser has a deep understanding of you and your goals, so it's important to discuss any financial moves with them as a first step."

#6 A focus on risk management

If the uncertainty of the last few years has taught us anything, it's that we don't know what's around the corner, and we need to prepare for the unknown. Preston says this has led to a rising focus on risk management, from insurances to legal protections.

"Unfortunately, insurance is often seen as an unnecessary expense until it is needed, and then the consequences can be dire. Australia has had an underinsurance problem for some time, but in the current climate, more and more people are starting to realise the value of having proper protections in place."

If you need to revisit your insurances, Preston points out that it's essential to act quickly as the stakes are high. "In our line of work, unfortunately, we see the devastation that underinsurance can cause. It can wreak havoc on your life, changing everything from where you live and your children's education to your ability to retire."

Retirement Planning in 2022

We have entered a new phase of the pandemic, and life has returned to some form of normal, with most domestic borders open and international travel back on the cards. But for many of us, life is forever changed, with different values and a new way of working. At the same time, we are seeing a shift in the economy, with inflation on the rise and the period of historically low interest rates coming to an end. Here, Apt Director Andrew Dunbar shares his insights on what all of this could mean for your retirement plans.

Andrew says it's important to revisit your plans in this new environment. "Our values play a significant role in our financial and life decisions, so it's not a stretch to imagine the last two years have changed what we want out of retirement too."

He points to three key areas to consider: when and how you will transition out of work, what you want out of retirement, and how you will protect your finances in a changing economic landscape.

Making the transition to retirement

"Prior to the onset of COVID-19, we were already seeing a rise in Transition to Retirement strategies, with more companies embracing part-time and flexible working options leading to people staying in the workforce for longer," Andrew says.

"However, this meant staying in cities and delaying the tree or sea change for many. Now, with the rise of remote work and the hybrid workplace, there will be more options than ever before."

In this new environment, Andrew says your transition can include moving out of the city before exiting the workforce. "This is an attractive option for many, shifting to part-time or remote work and moving out of the city to start enjoying a semi-retired lifestyle and making connections within the new community while still earning an income."

So, if you have put a date on your retirement, it might be worth revisiting. "Look at your options to scale back as there are more than ever before. It doesn't only make sense on a financial level; it can assist with the emotional transition to retirement, something that is often overlooked."

Reviewing what you want out of a retired life

Many of us don't consider the emotional transition to retirement until it's upon us, but according to Andrew, it's just as important as the financial one. "We often dream of retirement when we don't have to think about work anymore, only to find once we have left that it was a more important part of our lives than we ever imagined."

With more time on your hands than you've ever experienced, it's essential to look at how you spend your time at a granular level. "How will you fill the eight hours you spent at work every day? Do you have existing hobbies you can invest more time in, or will you find new ones? Is there a skill you've always wanted to learn? If so, how will you make that happen? It's planning for every day, not just the big-ticket items that will lead to the most enjoyable retirement."

However, Andrew points out that it's worth revisiting the bigger plans too, such as where you will live.

"Maybe you've always pictured yourself living in a particular area. But if this will take you further away from your loved ones, it might be something you want to revisit. We've seen how quickly borders can close, and we can be separated, even within our own country, so there are new considerations."

International travel was also high on the wishlist for many retirees, and although this is back on the cards, there is no denying it has changed. "Many people plan a once-in-a-lifetime trip during retirement, but it is still an uncertainty, and there are health and border risks we had never considered before."

At the end of the day, Andrew says retirement should be about doing more of what you love. "The key lies in understanding what that is and making the detailed plans that will ensure it is a reality – and this is about more than just your finances."

Protecting your finances in a changing economic landscape

"We've experienced 30 years of low interest rates driving the economy. In the wake of COVID, that is changing, and we are entering a completely new cycle," Andrew says. "In this environment, it's important to structure your investments in a way that protects your finances – not just from financial downturn but from the growing risk of outliving your money."

While much of the talk in the media is focused on rising interest rates, for retirees and those nearing retirement, Andrew says it's rising inflation that should dominate the conversation. "Put simply, rising inflation decreases the value of money, and this can be a concern for those nearing retirement who don't have time to make up the difference."

"Inflation can decrease returns on some investments or increase the return you require to keep pace, so it's important to consider how you structure your portfolio to manage this."

In addition, Andrew says, government entitlements often don't increase at the same rate. "For those who will receive the aged pension, the value is likely to be affected by inflation too."

He says this is an area where financial advice is critical. "Your adviser understands the current climate and your personal objectives and can use the combination to ensure you structure your investments in the right way."

While he says it's always important to have regular contact with your adviser, it's critical at a time of such significant change on personal, economic and global levels.

"We are here to support you to reach your goals and navigate uncertainties, so make sure you talk to your adviser about what you want out of retirement, particularly if that has changed."

Planning for the cost of education

Whether you intend for your children to be educated in the private or public school system, the cost of education can be significant, and is often underestimated. Here, Apt Director Andrew Dunbar shares his insights on planning ahead for schooling costs.

Every child is different and the type of schooling that will see them thrive can depend on a number of factors. Regardless, Andrew says it's important to prepare early and factor it into your financial planning as it can have far-reaching impacts, from where you live to your everyday financial decisions.

Understanding the true costs

Money isn't the only factor at play when deciding where to educate your children, but it is a critical one. Andrew says those opting for the public system often assume it is very low cost or free, but that doesn't take into account all the associated expenses, which can mount. "The latest Education Index from Futurity Investments reveals that a public education can cost as much as $83,869.

"This takes into account the varied costs, from uniforms and excursions to those extra activities that aren't included in public school fees. And with technology playing a bigger role in life and education than ever before, we've seen costs in this area skyrocket, up from $37 per month to $106, and that's per child."

When it comes to a private education, the costs can be as high as $349,404. And Andrew says it's important to look beyond the upfront fees.

"When it comes to independent or private education, there can be significant costs on top of the fee structure, and most parents won't be comfortable with their child missing out so it's important to realise it will be more than just the upfront fees.

"In addition, there can be an element of 'keeping up with the Joneses'. At a private school, the average income is likely to be significantly higher. This means your child's peers may have all the latest gadgets which can lead to extra financial pressures."

Weighing up the trade-offs

Once you have an idea of the costs associated with your school choice, it's important to understand how it will affect your long-term financial plans and your everyday decisions. Education is a financial choice as well as a lifestyle one and Andrew says it's important to consider the trade-offs.

"Education is expensive, particularly if you are opting for a private school. This means you need to look at it as part of your broader plan – how will your choice affect your long-term goals and what trade-offs will be required to make it happen?"

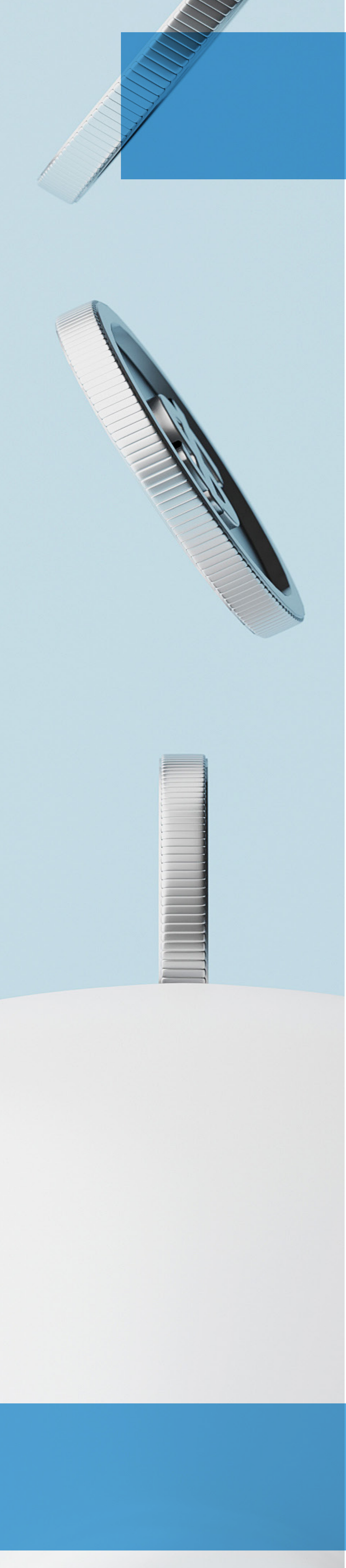
It can also affect significant life decisions, such as where you choose to live. "Where you live will affect your schooling choices and more and more we are seeing home buyers make lifestyle choices based on this, particularly when it comes to public schools. Living in the catchment for the top schools can be competitive, and can lead to higher housing prices as a result. So it may be a case of also factoring in higher living costs, whether that be renting or buying," Andrew says.

Structuring support from family members

"We are seeing a rise in grandparents contributing to the costs of education because it's a great way to give grandchildren a head start," Andrew says. However, he warns that it is important to consider how this is structured, to make sure it doesn't affect the financial position of those who want to help.

"Any financial gift can have implications for the giver, so this is an area where it's important to seek financial advice to ensure the generosity has a positive outcome for everyone. There are ways to structure this type of gift — as loans or trusts for example — to ensure it is in the best interests of all parties.

"The best structure for your family really depends on personal circumstance, so if you are fortunate enough to have family members who are able to contribute, speak to your adviser and encourage them to speak to theirs so it's set up correctly from the outset."



Building the costs into your financial plan

"Make sure your financial adviser understands your education plan, as they can help you build it into your investment strategy, and ensure you make decisions that support your goals," Andrew says.

He says that for those who have started a family or are planning to, factoring in the cost of education early is critical. "Often, the cost of education is not considered a big-ticket item when you are thinking about your financial plans, but it really should be.

"When you are looking at something that could cost you around the $500,000 mark, that can have significant long-term impacts. No doubt every parent would agree that the best education they can afford is a worthwhile investment, but it's important to consider how you will fund it as early as possible to put yourself in the best position to make it a reality."

MONTHLY INVESTMENT REQUIRED TO COVER K – 12 SCHOOLING FOR A CHILD BORN IN 2022

Investment Option*	Independent System Total Cost $349,404^	Catholic System Total Cost $143,944^	Public System Total Cost $83,869^
Investment Bond##	$1,280	$456	$286
ETF/Unlisted Management Fund**	$1,211	$428	$271
Mortgage^^	$1,345	$480	$300

Source: Apt Wealth Partners aptwealth.com.au *Assumes savings are indexed by CPI (2.15%) annually over a 19-year period. ^Total education costs for a child born in 2022, commencing kindergarten in 2027 and completing Year 12 in 2040. ## Assumes earnings of 6.0% pa and MER of 1.30%. **Assumes to focus on Australian shares, with 6.50% pa earnings and MER of 0.50%. ^^Assumes 3.5% pa interest rate

A guide to buying happier time

It's a common misconception that financial planning is only about saving for the future; however, the reality is that it is about striking a balance between living for today and planning for tomorrow. It's said that money can't buy happiness, but it certainly can buy happier time. Here, Apt Senior Financial Planner Suzanne Johnston discusses how to buy it - and why you should.

Suzanne says it's a good idea to use a bucket strategy for your finances – saving and giving yourself that emergency buffer, investing and planning for the future, and allocating funds to enjoy today. And it's this third one that often gets neglected.

"Nobody knows how long they have on this planet, so putting everything away for a 'tomorrow' isn't the wisest strategy because that may never come. But, conversely, you also want to be able to enjoy retirement without financial stress, so it's about finding a balance that allows you to enjoy today and prepare for tomorrow."

She says it's essential to start by setting a realistic budget that aligns with your financial goals and your values. But, once you have allocated funds for today, how do you make the most of them? According to Suzanne, it's about buying happier time.

#1 Buying away negative experiences

From cleaning the bathroom to doing our taxes, we all have those tasks that fill us with dread, yet many of us feel a sense of guilt if we outsource them. However, Suzanne says there can be many benefits to outsourcing.

"When it comes to deciding whether to outsource, there are three major areas to weigh up," she says.

"The first one is the straightforward financial argument. Can you make more money by not doing the task yourself? For example, if a cleaner costs you $90 for two hours, will you make more than that in the same time period?"

"Secondly, there is the expertise element. Are you the best person to do the task? From your cleaner to your financial planner, leveraging someone else's expertise can save you time while leading to better outcomes, so in that case, it just makes sense."

Thirdly, Suzanne says, there is the emotional consideration. "Could you be doing something that makes you happier and adds to your wellbeing instead, like spending time with family and friends? That might not have a direct price tag, but it certainly has significant value."

#2 Creating memories with loved ones

While there are times when physical purchases bring us joy, it's often fleeting. In comparison, experiences create memories that will last a lifetime.

"Buying experiences connected to the people and things you love will likely lead to more long-term happiness. The memories you create will bring joy for some time to come, long after a physical purchase has been relegated to landfill," says Suzanne.

"It's also about wellbeing and health. Numerous studies highlight how those who have more social interaction live longer, happier and healthier lives."

Suzanne points out that creating memories and buying time with loved ones can come into play in many financial decisions.

"There are straightforward ways to spend money on memories, such as booking a family holiday.

"Then there are the less direct but often more impactful decisions. For example, if it is more affordable to live further from loved ones, you may need to weigh that up against the lifestyle and wellbeing benefits of being close to them. And the latter may well be an investment in happier time."

#3 Making a difference

We've all heard that it's better to give than receive, and when it comes to philanthropy, this is truer than ever.

"Giving makes us feel good and can have a raft of positive impacts on our mental health and wellbeing," says Suzanne.

She points to an iconic piece of Harvard research that used MRI scans to analyse responses to charitable giving. "The study found that giving activates similar regions of the brain to pleasure and reward, so there is some truth in the adage 'giving is better than receiving'. When it comes to our physical response, the evidence says it's at least as good as."

Suzanne says the key to giving – and getting – the most out of philanthropy is to consider causes that have personal meaning.

"Whether you are giving money, time, or both, look for something that aligns with your life circumstances, values and beliefs. This might be a cause that has personally affected your family, or it might be something that matches with your life stage. For example, if you have school-aged children, you might look at helping a disadvantaged family to cover education costs through programs like The Smith Family's child sponsorship program."

Interested in buying happier time? Speak to your Apt Adviser about how your financial plan can support you to do more of what you love this year.

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