PortfolioWatch

Quarterly newsletter | Issue 3, 2019

Toxic tech

Is it time to take a break?

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What's new in super and tax this financial year?

The 2019/20 financial year introduces some new opportunities to allow you to save for your retirement through super. We also provide an overview of the 'Protecting Your Super' legislation and personal income tax changes.

Superannuation

Claiming a deduction on personal super contributions

Since 1 July 2017, employees, as well as the self-employed, can claim a tax deduction on personal super contributions.

If you are aged between 65 and 74 you can make a contribution to super but you need to meet a work test. To pass the work test, you need to have been 'gainfully employed'[1] for at least 40 hours over 30 consecutive days during the financial year in which you plan to make the contribution. That's a little over one week's worth of full-time work in a single month.

Also, if you're aged between 65 and 74 and have a 'total super balance'[2] under $300,000, you can make personal contributions to super in the first financial year in which you no longer meet the work test. This is likely to be the first year following your retirement.

Unfortunately, if you are 75 or over you are not eligible to make a personal contribution to super.

Generally, the cap on concessional contributions is $25,000 each financial year.

What if you didn't contribute last financial year – do you miss out?

For the first time this financial year, if you have a total super balance of under $500,000, you can contribute the unused portion of your concessional contributions cap, or 'carry-forward' amount, from last financial year. That is, if you didn't contribute in the 2018/19 financial year, you may be able to carry forward $25,000 to this financial year and contribute up to $50,000.

Currently, only the unused concessional contribution cap amount in the 2018/19 financial year can be carried forward. Then, for future financial years, the unused concessional contribution cap amounts can be carried forward, on a rolling basis, for five years.

So, if you've accrued a carry-forward concessional contribution amount, you may want to start, or increase your salary sacrifice contributions, or make a personal concessional contribution to super. This can be particularly beneficial for your tax bill if you've significantly increased your income, for example, if you've sold an asset with a large capital gain.

Protecting Your Super legislation

The 'Protecting Your Super' legislation came into effect on 1 July 2019 and is designed to protect people's super balances. The three main changes are:

Insurance in super

If you have an inactive super account, defined as an account where you have made no contributions in the last 16 months, your insurance will be cancelled unless you take action. You can retain your insurance by contacting your super fund and 'opting-in' to keep your insurance or having a contribution made into your account every 16 months.

Exit fees

When you exit a super fund you will no longer be charged an exit fee.

Low super balances

If your super account balance is under $6,000 there is a cap placed on fees, limiting them to no more than 3% per year. Also, if you have an 'inactive low balance' account, the Australian Taxation Office (ATO) is now responsible, where possible, for consolidating this money with your active super account. An inactive low balance account is broadly defined as an account with a balance of under $6,000 where no activity has occurred in the last 16 months. This includes where no contributions have been made to the account in the last 16 months and where there is no active insurance on the account. Other new definitions apply.

1 The ATO defines gainful employment as employed or self-employed for gain or reward in any business, trade, profession, vocation, calling, occupation or employment.

2 Your 'total super balance' is measured on 30 June of the previous financial year and is calculated by adding several items together including both accumulation and pension components of your super.

Personal income tax rates

Australians can continue to enjoy the first round of personal income tax changes that started in July 2018.

From 1 July 2022, the Government will increase the 32.5% tax threshold from $90,000 to $120,000. This means there will be less people in the 37% tax bracket and more in the 32.5% tax bracket. On 1 July 2024, the 37% tax bracket will eventually disappear and the 32.5% tax bracket will reduce to 30%. It's estimated that 94% of personal taxpayers will have a marginal tax rate of 30% or less in the 2024/25 financial year.

Tax offsets

In addition to the changes to income tax, the Government has introduced a temporary tax offset called the low and middle income tax offset (LMITO), of up to a maximum of $1,080 per person and which phases out for those earning over $126,000 per annum.

This is in addition to the low income tax offset (LITO) for those earning under $66,666 per annum.

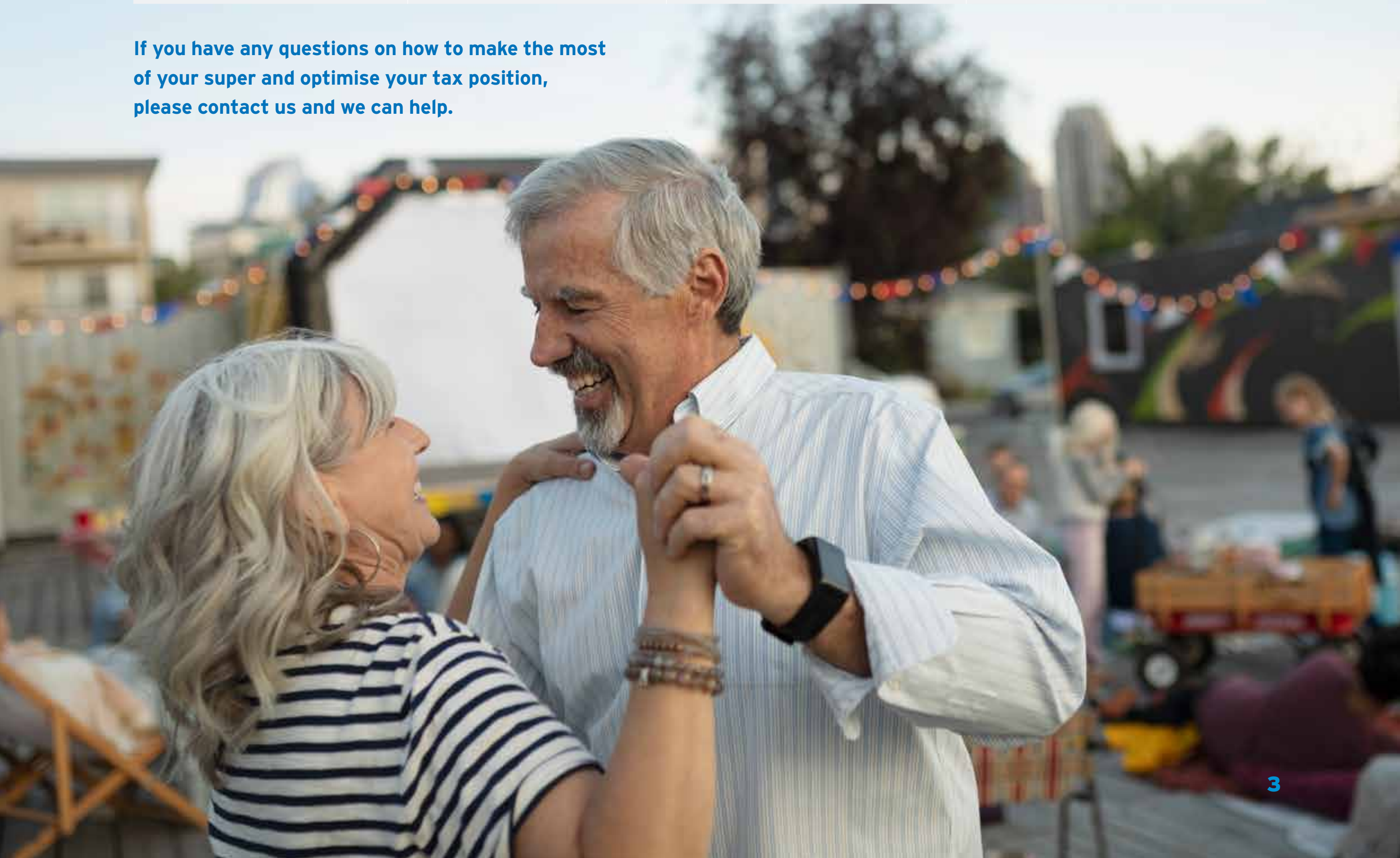
The LMITO offsets will end after the 2021/22 financial year. However, from 1 July 2022, the Government will increase the LITO, from $445 to $700 to continue to support low income earners.

You don't need to do anything to receive the tax offsets, the ATO will assess your eligibility when you complete your personal tax return.

Future changes to tax rates and thresholds

Tax rate	Current threshold	Threshold from 1 July 2022	Threshold from 1 July 2024
Nil	0 – $18,200	0 – $18,200	0 – $18,200
19%	$18,201 – $37,000	$18,201 – $45,000	$18,201 – $45,000
32.5% (current and from 1 July 2022) 30% from 1 July 2024	$37,001 – $90,000	$45,001 – $120,000	$45,001 – $200,000
37%	$90,001 – $180,000	$120,001 - $180,000	–
45%	$180,000+	$180,000+	$200,000+
LMITO (max)	$1,080	–	–
LITO (max)	$445	$700	$700

If you have any questions on how to make the most of your super and optimise your tax position, please contact us and we can help.



Toxic tech: is it time to take a break?

In today's technology-driven world, we're expected to be available, online, at any time. But with frequent studies telling us technology overuse is bad for our productivity, our sleep, our relationships and even our mental health, is it time to go offline?

The average person checks their phone 200 times a day – that's once every six and a half minutes[1], so it's not surprising 44% of people in Australia think their phone use is a problem and are trying to reduce how much time they spend using it.[2]

But technology use isn't limited to our phones. We're sitting in front of computer screens at work, at home with our smart TVs, tablets and laptops, we even have technology on our wrists with our Fitbits and smart watches. Online connections are sometimes prioritised over real-world ones, we're bombarded with information and a never-ending news cycle, and we can purchase just about anything with the click of button from the comfort of our own homes.

While this level of connectedness has benefits – it's easy to stay in touch with friends and family, you can choose to work from anywhere, you can do your banking and other financial transactions online - there are also drawbacks.

What does tech overuse do to us?

- **Social media use can have a negative impact on our mental health:** Many studies have shown the relationship between social media use and a number of mental health issues, specifically, narcissism, anxiety, depression, and low self-esteem – especially among teens.[3 4]
- **Overusing technology makes you less productive:** Do you need to concentrate on a problem at work? It may be impossible to reach a state of true concentration and productivity when you're constantly distracted (and stressed) by notifications.
- **Overusing technology can be damaging to your relationships:** If you're stuck in cyber world too long, your social connections in real life can take a back seat. 43% of people in Australia who are in a relationship believe their partner uses their phone too much and 70% admit to using their phone during mealtimes with family or friends.[5]

1 The telegraph UK, '9 ways to start (and stick to) a digital detox', 1 June 2016.
2 Beyond Blue website, 'The benefits of a digital detox'.
3 Addictive Behaviours, 'The relationship between addictive use of social media, narcissism, and self-esteem', January 2017.
4 Journal of Adolescence, 'Sleepyteens' August 2016.

- **Using technology after dark messes with your sleep:** Blue light from screens affects your natural sleep-wake cycle by tricking your brain into thinking it must remain alert and awake, preventing melatonin (the sleep hormone) from being released.

What impact is technology having on kids?

It's common to hear parents complain about the amount of time their kids spend playing video games, in front of a TV or on a tablet. But, while these leisure activities can (theoretically) be limited, the reality is that most of our kids' world is geared towards screen time–their homework is often completed on laptops, their schools are fitted out with computers, their downtime of choice is to go online.

Because their brains are still developing and malleable, frequent exposure to technology is actually wiring this generation's brains in different ways to previous generations – rather than reading, which encourages our brains to be focused and imaginative, the internet is strengthening the ability to scan information rapidly and efficiently. The use of search engines like Google means children are becoming less adept at remembering things and more skilled at remembering how to find the answer to things.

And while over use of technology has been linked to social interaction issues, learning difficulties, eye problems and increased rates of obesity amongst our kids, it isn't all bad. For example, research shows that video games and other screen media improve visual-spatial capabilities, increase attentional ability, reaction times, and the capacity to identify details among clutter.[6]

Is it time for a digital detox?

Taking time out from technology every now and then is helps your brain to reset and recharge. Here are five simple ways you can start reducing your technology use.

1 Put the phone away

If you're going to go see a movie or attend your child's soccer game, leave your phone in the car. If you're exercising during your lunch break at work, leave your phone at your desk. Give yourself permission to spend a few hours concentrating on just one thing.

2 Commit to changing one habit at a time

Choose one technology habit to change at a time. Maybe this would be banning all devices from the dining table, or from the bedroom, or only checking emails every two hours.

3 Replace technology with rewards

As you decide what you're going to reduce, determine something positive, healthy, and uplifting you're going to replace it with. If you want to reduce your Facebook time from daily to every other day, arrange to meet a friend in person or take the dog for a walk in the park on the non-Facebook days. You may even find you have time to do some volunteering.

4 Shut down your most-used social media app for a week

If you feel like you overuse one app in particular, try completely turning off notifications for that app for a week so you're not tempted to check it. Tell friends they can call or text you if they want to reach you.

5 Set yourself up for success

Turn off your phone notifications during work hours and only check your messages at designated times throughout the day. If endless emails throughout the day (and night) leave you feeling stressed, set up your email system to only download messages once every two hours.

If you find yourself feeling time-poor and pulled in every direction by this 'always-on' age of technology, financial stress is the last thing you need. We are here to alleviate some of that stress by helping you make important financial decisions – contact us and we can help.

5 Beyond Blue website, 'The benefits of a digital detox'.
6 University of Rochester, 'Video games lead to faster decisions that are no less accurate' September 2010.

Investment market review Quarter-ended 30 June 2019

Australian shares

The S&P/ASX 300 Accumulation Index outperformed global markets in the June quarter, rising 8%.

At a sector level, the best performers were Communication Services (up 12.7%), Health Care (up 10.6%) and Materials/Mining (up 7.3%). Energy was the worst performing sector (down 0.4%), followed by Utilities (up 0.7%) and Property Trusts (up 2.4%). The energy sector performance was driven by global oil prices declining during the quarter due to concerns about global growth offsetting geopolitical fears in the Persian Gulf. The strong performance of Communication Services was driven by Telstra and real estate portals REA Group and Domain. Telstra benefited from a mix of its 5G rollout, new mobile plans and shareholders being attracted to its yield following Reserve Bank of Australia (RBA) rate cuts in June and July. The property portals benefited from stronger interest in property markets after the Coalition's election win in May. This ended the possibility of a Labor government exacerbating the property market decline with changes to tax policies. The RBA rate cut was also supportive of property markets.

	1 year (%)	5 year (% pa)	10 year (% pa)
Australian shares	11.4	8.9	9.9

Listed property trusts

The Australian real estate investment trust (A-REIT) sector generated a strong return of 4.1% for the June quarter with the decline in bond yields providing a tailwind for the sector.

A-REITs are viewed as a proxy for bonds and often falling bond yields results in stronger performance for this asset class. The trigger for lower yields was weaker Australian economic data. Another factor in the A-REITS relative underperformance was the substantial capital raising undertaken by a number of major REITs. According to the Australian Financial Review[1] the amount of capital raised this year was $4.4 billion, the largest amount since 2010 (in the wake of the Global Financial Crisis). An influx of new capital can weigh on share prices helping explain the relative underperformance of the broader Australian market even as bond yields fell.

	1 year (%)	5 year (% pa)	10 year (% pa)
Listed property trusts	19.4	13.8	14.0

International shares

Global markets had a strong quarter with the MSCI World Index in Australian dollar terms recording a gain of 5.3% for the quarter.

Globally, most markets rose during the quarter led by positive performance during April and June which offset some weakness in May. One factor in the gain was the resumption of a trade truce between the US and China. Another driver was further stimulus by central banks, as a number cut cash rates over the quarter or indicated their intention to do so soon.

	1 year (%)	5 year (% pa)	10 year (% pa)
International shares	12.0	13.1	12.3

1 'One thing missing from property's $26b gold rush', Australian Financial Review, 27 June 2019.

Fixed interest

Australian and global bond yields fell further during the quarter with the AusBond Composite rising 3.1%.

In Australia there has been a continuation of weak data for the domestic economy, including disappointing retail sales, an underlying measure for consumer demand, weaker jobs growth in cyclical parts of the economy and low inflation of 0% for the March quarter and only 1.3% for the previous 12 months. These factors suggest weaker growth for the June quarter (which will be reported in September). Lastly, the RBA determined that the target rate for unemployment could be lower than it had previously forecast without triggering excessive inflation. This target rate has fallen from 5% to 4.5% in its assessment. Given this view it felt justified in cutting rates in both early June and July.

Weaker economic news in the US and volatility on trade talk disruptions with China helped drive global yields lower.

	1 year (%)	5 year (% pa)	10 year (% pa)
Fixed interest	9.6	5.1	6.0

Cash

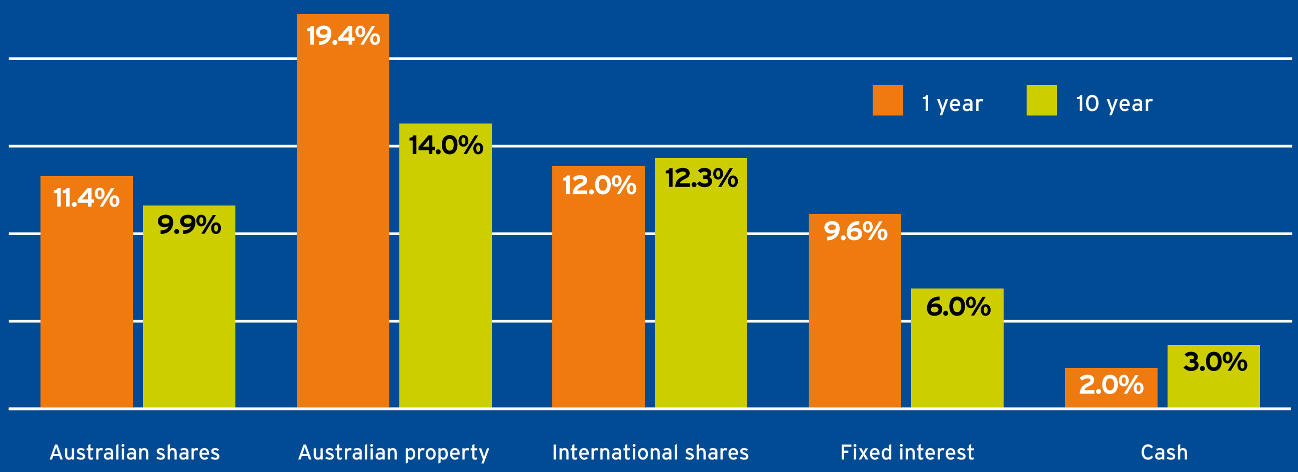
The RBA cut interest rates by 0.25% in June, this was their first change of interest rates since August 2016. The RBA was motivated by concerns around a slowing economy and their assessment that unemployment could fall further to 4.5% (5.2% as of June) without triggering excessive inflation.

This move was followed by another interest rate cut in early July to leave the cash rate at 1%.

	1 year (%)	5 year (% pa)	10 year (% pa)
Cash	2.0	2.1	3.0

One and 10 year returns as at June 2019

Overall, last financial year saw strong returns for Australian shares, fixed interest and Australian property compared to their 10 year average. Conversely, international shares and cash have had weaker returns compared to their 10 year average. Over time these returns are likely to move closer to their long-term averages.



Source: Bloomberg

Advantages and disadvantages of insurance in super

Holding insurance in your super fund differs from holding insurance outside of super. Here are some of the advantages and disadvantages of holding insurance in super.

Advantages

Premiums can be tax-effective in super

If you make, or your employer makes, pre-tax contributions to your super fund and your fund deducts a premium for life and total and permanent disability (TPD) insurance from your super account, the premium is effectively paid from your pre-tax income. Pre-tax contributions include compulsory Super Guarantee and salary sacrifice contributions made by your employer and personal contributions made by you. These are taxed at just 15% within the fund which could result in a significant cost saving compared to paying for premiums outside of super, with your after-tax income.

No medical underwriting

Most super funds offer a basic level of life and TPD cover without you needing to complete a medical questionnaire to assess the risk of insuring you (known as 'medical underwriting'). This makes it easy to obtain a basic level of life and TPD cover and can be beneficial if you have pre-existing health issues. However, if you want to increase your level of cover, you will need to undergo medical underwriting.

Group premiums

Super funds offered to the public usually have a large number of members and can negotiate group discounts for members. The premiums for insurance in super may be cheaper than the premiums for equivalent insurance outside of super.

Limited cash flow

Insurance premiums deducted from your super account won't affect your cash flow. This can be useful if your cash flow is limited.

Disadvantages

Restrictions on type and terms of insurance in super

Only life, TPD and income protection insurance is available in super. You cannot have trauma insurance in super, which covers you if you suffer a critical illness. TPD insurance in super is generally only payable if you become unlikely to work in 'any' occupation for which you are reasonably qualified. Outside of super, you may be able to get TPD insurance which covers you, if you are unlikely to work in your 'own' occupation, which might be more appropriate for you depending on your personal circumstances. If you choose income protection in super, the cover is basic compared to cover you might be able to get outside of super.

Taxation of proceeds

TPD and life insurance proceeds received from your super fund may be taxed depending on your or your beneficiary's circumstances. If you own life insurance or TPD insurance outside of super, the proceeds are generally not taxed.

Premiums reduce your retirement savings

Insurance premiums deducted from your super account reduce your super balance.

Insurance may be cancelled

If you have insurance in super, you need to ensure contributions continue to be made as your insurance will be cancelled if you haven't contributed in 16 months or advised the fund you want to opt-in to retain the cover.

Trustee owns the policy

The trustee of the super fund owns the policy and may make changes to the policy including changes to definitions and payment terms. Holding insurance outside of super means that, provided the premiums are paid, the terms of the policy don't change.

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