Financial **Focus**

Autumn 2020

Welcome to the Autumn 2020 edition of Financial Focus. In this edition, we consider the changing nature of Australian families, and whether your retirement plan can adapt to your family's evolving needs. If you have any feedback, questions, or would like to review your financial plan, please feel free to contact me.

Forecasting your family's future

Most of us don't have to look far to see that modern Australian families encompass more than the traditional form of mum, dad and a couple of kids.

The Australian Bureau of Statistics says there have been considerable changes to our family dynamics in the past 25 years, with the traditional family unit making up only 45 per cent of the 6 million families in Australia. This has declined from 54 per cent in 1991. In that same period, single-parent families grew from 13 per cent to 16 per cent of all families.

On a smaller scale there are blended families – in which two people come together with children from previous relationships and go on to have children together – and stepfamilies, as well as families with same-sex couples as parents.

"Just as the types of households and life stages are far more diverse these days, retirement planning has to be pretty flexible and adaptive," says social researcher and demographer Mark McCrindle.

However, he says one change is affecting the retirement plans of all types of families with children: parents are financially responsible for their children for longer, often into their adult years. This includes couples who may have had children later, and are raising them beyond their 50s, or have adult children living at home burdened with student debt and finding it hard to afford to rent or buy in an expensive property market.

"It's not unusual for people in their late 50s who are thinking very seriously about retirement or downshifting from full-time roles to still have dependants," McCrindle says. This means would-be empty-nesters are delaying downsizing their family home and any opportunity to invest excess money from the sale, he says.

Pressure to help adult children is a challenge for older Australians

Pressure to help adult children financially, especially with buying a property, is a big challenge for older Australians, many of whom "just can't afford to give away large sums of money", says Laura Menschik, a director at WLM Financial Services. The risk is that they leave themselves with little for their own retirement.

Retirement planning and intergenerational wealth transfer are emotive and complex issues for all families. Yet they can become even more complicated in blended families and stepfamilies, Menschik says.

Blended and stepfamilies should resist putting retirement planning off

Blended households make up 3.7 per cent of Australian families, while stepfamilies account for 6.4 per cent. Menschik says couples in these households should resist putting retirement planning in the too-hard basket. "They need to sit down with a clean slate and work out what each brings to the relationship, and also what they want to happen in the future," she says. As well as financial concerns, such as paying for education, they need to agree on living arrangements, including what would happen if one or both of the parents in the new couple were to die or become disabled.

Retirement planning for same-sex couples has become easier

Menschik says planning for a post-working life has become easier for same-sex couples with children. This is because of improved legal rights, such as same-sex marriage and being able to nominate a same-sex partner as a superannuation beneficiary.

Single parents continue to face challenges

However, single parents face the challenge of planning a retirement with only one income. And while, as McCrindle notes, the divorce rate is generally declining, it has increased slightly among those aged 65 and over. "This is where the idea of 'un-retirement' comes in," he says. "Where someone was retired but suddenly needs to go back to work.

Or perhaps they're moving from a couples pension to a singles pension." When it comes to divorce at an older age, Menschik adds that women who haven't been the main breadwinners and who weren't across the couple's finances often come off worse in this scenario.

Composition of Australian families continue to evolve

Looking ahead, the composition of Australian families is expected to continue to evolve. The Australian Bureau of Statistics predicts that by 2029 the most common type of family will be couples without children.

These couples will accumulate much more wealth for retirement, McCrindle says. Whatever your family situation, there is no room for complacency, says Menschik, who argues retirement planning should start as early as possible. "When you've got a plan, you can always go back and revisit it," she says. "But at least you can relax a bit.

By Laura McGeoch. Article originally published in the *Good Weekend*.

Planning essentials for comfortable retirement

As we approach and enter retirement, it's important to ensure our investment strategy is appropriate for our time of life.

Our circumstances change over time – even in retirement. For instance your home may need a new roof, or one of your children may fall ill and need to be cared for at home. What's essential is to work towards a position where you have sufficient capital and income so you can live the life you want.

Some people want to take an overseas holiday each year. While others are happy to take a trip to the beach as their annual vacation. Working out what a comfortable retirement looks like for you is the first step in understanding how much income you will need to do that.

John Owen, a portfolio specialist with MLC, says you can start working towards this right from the time you enter the workforce.

"A lot of people leave it too late and there are number of reasons for that. Apathy is one. It's easy in your twenties and thirties not to pay attention to your super because the amount invested is low. But if you start planning for your retirement then, you'll be a lot better off down the track," he advises.

Understanding how your super is being invested

Owen says it's essential to take an active interest in your super early on to maximise your retirement funds.

This includes ensuring you are invested in the right option for your age, circumstances and risk profile.

"A lot of investors don't make an active choice with their superannuation. Most working people are invested in their company's default super option, which may not be appropriate for their circumstances and aspirations."

"Most funds' default options have a significant exposure to shares and growth assets, but in some cases the default option may be more conservative. If that's the case, investors who don't make an active choice may retire with less money than they need. So it's important to understand how your money is invested and ensure it's appropriate for your stage of life," he recommends.

Taking on risk as you approach retirement

Risk is an inherent part of financial markets. But it's important to approach risk in the appropriate way for your time of life. Often, younger investors can afford to take on more risk because it will give them the opportunity to build their nest egg, while also having the time to ride out market cycles.

Says Owen: "People in their twenties could consider a high-growth option because they have plenty of time before they need to access their superannuation. If anything, people in this cohort should take advantage of market weakness to boost their retirement savings and buy assets when values are down."

Typically people's risk appetite drops as they age, amid concerns about capital preservation when they have less time in the workforce to make up for any share market falls. But even as people approach retirement, it can make sense to have some allocation to growth assets.

"It's worth having a meaningful exposure to growth assets to continue to grow your nest egg. Assets like Australian shares, many of which pay a healthy dividend, also provide good income along the way," Owen says.

Investing in managed funds

It's difficult for the average retail investor to get this balance right. Which is why it makes sense to invest in a managed fund run by professional managers who can do this for you. Given they typically manage millions or even billions of dollars in assets for their investors, fund managers are also able to properly diversify the assets in a portfolio, which also helps investors to ride out market cycles.

"Everybody loves a sale. But when the market falls, the risk for retail investors is selling assets when prices are down. Life's distractions also get in the way. People in their thirties and forties have so many financial responsibilities in addition to building wealth – paying the mortgage is a big one. There's often not a lot left over to salary sacrifice or make voluntary contributions to superannuation," Owen says.

Taking advantage of compounding interest

But the risk is you won't be able to live the life you want if you wait until after the mortgage has been repaid and kids have left home to contribute a little extra to your super fund. You also won't benefit as much from the power of compounding if you wait until down the track to add some extra funds to your retirement savings account. Which is why it can be very powerful to contribute some extra money to your super in your twenties before life's responsibilities get in the way.

"Even adding $50 a week or $100 a month while you are young can really help to boost your retirement savings down the track," he adds.

The value of speaking to a professional

The right path for you, however, will depend on how long you have until retirement, your salary and lifestyle aspirations in retirement. Which is why it's a great idea to ensure you seek professional financial advice. That will help to build your super and have the lifestyle you want down the track.

By Alexandra Cain. Article originally published in the *Sydney Morning Herald* and *The Age*.

Why offshore investing is the right move for retirees

Most Australian retirees would admit they prefer to invest in Australia. But Myooran Mahalingam, Portfolio Manager – Global Equities and Listed Property at MLC, says retirees should be increasing their exposure to international assets now to diversify away from a subdued Australian economy and seize greater opportunities.

By investing more offshore, retirees can cut the risk and volatility of their portfolios while still generating decent returns.

Mahalingam says he understands why Australian retirees favour local investments. "It's natural that Australians want to invest in things that they know and can touch and feel," he says. "Dividend yields in Australia are higher and there's the additional boost from franking credits. Overseas investments may also have a perception of being risky."

But the Australian market has its own downsides and risks.

Downside to investing domestically

The Australian equities market accounts for just four per cent of listed equities globally. Some 96 per cent of opportunities, therefore, lie outside Australia, providing greater opportunities for retirees.

Many international shares are in exciting and innovative companies. "If you take a simple example like your smartphone, you simply can't get domestic exposure to companies such as Apple and Samsung," Mahalingam says.

"The best IT companies, consumer companies and healthcare companies are seldom located in Australia," he adds. "Apart from mining, what is Australia's competitive advantage from a resource perspective?"

Biggest risk in Australia is a subdued economy

The Australian market is also concentrated in a handful of major bank and resource stocks, which increases the risk if one of those stocks underperforms. The top 10 stocks on the ASX account for 40 per cent of the index, while the global market is much less concentrated, with the top 10 stocks accounting for just over 10 per cent.

But the biggest current risk in Australia is the subdued domestic economy, particularly given valuations are not cheap. That's putting company profit growth and dividends at risk – and could trigger a surge in market volatility.

"We've had a long run of uninterrupted economic growth, but the domestic economy is now soft," Mahalingam says. "The Australian economy isn't growing strongly. That's why the Reserve Bank has interest rates at record lows."

Mahalingam notes that most retirees own their own home, which increases their exposure to the vagaries of the domestic economy.

Managing risks

Retirees aren't restricted to equities when investing internationally. They also have opportunities in other asset classes including listed and unlisted property, cash and fixed income. "Whatever you can buy here is also available offshore," Mahalingam says.

Retirees do face some additional complexities when investing overseas, including the need to manage currency and geopolitical risks. That's why Mahalingam says it makes sense for a retiree to consult with a financial planner or outsource to a fund manager when it comes to international investment. Retirees can also buy passive index funds that track international markets, including specific countries and sectors.

Global equities delivered the same returns as Australian stocks

Mahalingam says some retirees may be reluctant to invest in global equities because local stocks have attractive dividends and franking credits.

But he says the lower income from overseas stocks is often offset by higher capital growth.

Over the long run, global equities have delivered the same returns as Australian stocks. But those returns are achieved with less volatility than the Australian market, Mahalingam says.

"Over the last 40 years, Australian and international equities have produced similar returns, but international equities have been 15 per cent less volatile."

Less volatility means a smoother ride for retirees who need to avoid big falls in their portfolios.

Risk-controlled returns

While retirees feel more comfortable with the Australian market, and it does offer good income, global markets offer a whole new world of opportunities.

"The global economy is also subdued, but there are select and more diverse opportunities overseas that can increase a retiree's wealth," Mahalingam says, adding that if investors are selective, there are currently good global market opportunities in banking, insurance and healthcare stocks.

Retirees also need to recognise that the Australian economy is subdued, which could increase risk and volatility.

In this environment, Mahalingam says retirees should bolster their allocations to international investments.

"There's far greater opportunity available offshore in innovative businesses. Going global will help retirees generate decent returns in a risk-controlled and diversified manner."

By Ben Power. Article originally published in the *Sydney Morning Herald*.

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