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November is here and it's shaping up as a big month at home and abroad.

The Federal Budget on October 6 was the start of a pivotal month on the economic scene. Budget estimates released later in the month revealed a deficit of $132.5 billion in the year to September. While the deficit is expected to peak next year, there are also some positive signs emerging.

The Consumer Price Index (CPI), the main measure of inflation in Australia, rose 1.6% in the September quarter and 0.7% on an annual basis. This is a sign that the economy is beginning to move again after price falls in the June quarter. The biggest increases were childcare (as temporarily free childcare came to an end) and petrol. Consumer confidence also improved, with the weekly ANZ/Roy Morgan index hitting an 8-month high of 99.7 points in late October. Unemployment rose slightly from 6.8% to 6.9% in September, a little less than anticipated.

In another sign of confidence, the value of new loans for housing rose 12.6% in August. The value of owner-occupier loans was up a record 13.6%, with first time buyers accounting for almost a third. The value of investor loans was up 9.3%. And used car prices rose almost 30% in the year to September, a sign that when we do decide to spend, we're bargain-hunting.

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Getting retirement plans *back on track*

After a year when even the best laid plans have been put on hold due to COVID-19, people who were planning to retire soon may be having second thoughts. You may be concerned about a drop in your super balance, insecure work, or an uncertain investment outlook.

Whatever your circumstances, a financial tune-up may be required to get your retirement plans back on track. You may even find you're in better financial shape than you feared, but you won't know until you do your sums.

The best place to start is to think about your future income needs.

What will retirement cost?

Your retirement spending will depend on your lifestyle, if you are married or single, whether you own your home and where you want to live.

Maybe you want to holiday overseas every year while you are still physically active or buy a van and tour Australia. Do you want to eat out regularly, play golf, and lead an active social life; or are you a homebody who enjoys gardening, craftwork or pottering in the shed?

Also think about the cost of creature comforts, such as the ability to upgrade cars, computers and mobiles, buy nice clothes, enjoy good wine and pay for private health insurance.

It's often suggested you will need around 70 per cent of your pre-retirement income to continue living in the manner to which you have become accustomed. That's because it's generally cheaper to live in retirement, with little or no tax to pay and (hopefully) no mortgage or rent.

Draw up a budget

To get you started, the ASFA Retirement Standard may be helpful. It provides sample budgets for different households and living standards.

ASFA suggests singles aged 65 would need around $44,183 a year to live comfortably, while couples would need around $62,435.[i] Of course, comfort is different for everyone so you may wish to aim higher.

To put these figures in perspective, the full Age Pension is currently around $24,550 a year for singles and $37,013 for couples.[ii] As you can see, this doesn't stretch to ASFA's modest budget, let alone a comfortable lifestyle, especially for retirees who are paying rent or still paying off a mortgage.

Then there is the 'known unknown' of how long you will live. Today's 65-year-olds can expect to live to an average age of around 85 years for men and 87 for women. The challenge is to ensure your money lasts the distance.

Can I afford to retire?

Once you have a rough idea what your ideal retirement will cost, you can work out if you have enough super and other savings to fund it.

Using the ASFA benchmark for a comfortable lifestyle, say you hope to retire at age 65 on annual income of $62,000 a year until age 85. Couples would need a lump sum of $640,000 and singles would need $545,000. This assumes you earn 6 per cent a year on your investments, draw down all your capital and receive a part Age Pension.

Add up your savings and investments inside and outside super. Subtract your debts, including outstanding loans and credit card bills, to arrive at your current net savings. Then work out how much you are likely to have by the time you hope to retire if you continue your current savings strategy.

There are many online calculators to help you estimate your retirement balance, such as the MoneySmart super calculator.

Closing the gap

If there's a gap between your retirement dream and your financial reality, you still have choices.

If you have the means, you could make additional super contributions up to your concessional cap of $25,000 a year. You may also be able to make after-tax contributions of up to $100,000 a year or, subject to eligibility, $300,000 in any three-year period.

You might also consider delaying retirement which has the double advantage of allowing you to accumulate more savings and reduce the number of years you need to draw on them.

These are challenging times to be embarking on your retirement journey, but a little planning now could put you back in the driver's seat.

Get in touch if you would like to discuss your retirement strategy.

i https://www.superannuation.asn.au/resources/retirement-standard

ii https://www.servicesaustralia.gov.au/individuals/services/centrelink/age-pension/how-much-you-can-get

Inflation, deflation – what's in a name?

When the inflation rate fell into negative territory in the June quarter, it was so unusual it begged the question of what this means for the economy. Are we facing deflation or even stagflation and what is the difference?

In the June quarter the annual inflation rate fell to minus 0.3 per cent, only the third time in 72 years of record keeping that the rate has been in the negative.[i]

Much of the fall was attributed to free childcare (part of the special COVID-19 measures) and low petroleum prices during the quarter. The general view is that the September quarter will return to positive territory when childcare fees resume.

So what is inflation and why does it matter?

What is inflation?

In Australia, the main measure of inflation is the consumer price index (CPI). This measures the rate of change in the average price of a basket of selected goods and services over time.

While the index can move up and down, a negative inflation rate – no, that's not an oxymoron – is referred to as deflation.

Generally, the Reserve Bank of Australia (RBA) aims to keep the inflation rate between 2 and 3 per cent. But in the current environment, the RBA is now expecting the CPI to remain below 2 per cent until at least December 2022.[ii]

A falling consumer price index – particularly one that is in negative territory – sounds like it should be a good thing as it will give you greater purchasing power with the lower prices. After all, who doesn't like a bargain? But in reality, it can play havoc with retail businesses who are faced with lower profits but not necessarily lower costs. This can put a squeeze on their business, which can often lead to retrenchments and a spike in unemployment.

The other two occasions when Australia experienced deflation were in 1962 and in 1997-98.

The 1962 negative rate was after then Prime Minister Menzies implemented two credit squeezes to end the inflation caused by the Korean War Boom. The 1997 episode was in the wake of the Asian Financial crisis.

A slowing economy

Clearly, we are living in extraordinary times with COVID-19 and until the pandemic is more under control we can expect further slowing in the economy.

But at least this curtailment of economic activity is not coinciding with higher prices for goods. If that were the case, the country would be faced with stagflation which poses a far greater squeeze on households than deflation. Stagflation is a situation with rising inflation (prices) and slowing economic growth, often accompanied with high unemployment.

Of course, if your job is not in jeopardy, you will benefit from cheaper goods. But if lower prices become the norm, people may hold off major purchases on the expectation that they can buy even more cheaply in the future. This is not good news as consumer spending makes up 60 per cent of total economic activity, so a contraction in spending generally results in a contraction in the economy.

However, if your employment is insecure and the overall unemployment rate rises, this will depress household spending. It will also have an impact on the property market.

Unemployment takes its toll

According to the latest figures, more than one million Australians are currently unemployed and many more could face uncertainty going forward.[iii] Whether you rent or are buying your property, finding the funds can present problems.

In some areas, as demand dried up in the June quarter, rents dropped by as much as 25 per cent. This may be good for renters, but it is not for those with investment property as part of their retirement strategy. If rents fall – or indeed if your property is vacant for some time – it may jeopardise retirement income.

Property prices are also under attack with distressed sales coming to the fore as the unemployment rate grows. When property values fall, mortgages become more expensive in real terms as your equity may be reduced – and in some cases you could find yourself with negative equity in your property.

Hopefully, the measures introduced in Australia to counter COVID-19 will prove successful and the economy will begin to recover.

If you would like to discuss your overall investment strategy in light of these challenging times, then please call.

i https://www.abs.gov.au/ausstats/abs@.nsf/Lookup/6401.0Media+Release1June+2020#:~:text=am%20(Canberra%20time)-,CPI%20fell%201.9%20per%20cent%20in%20the%20June%202020%20quarter,Bureau%20of%20Statistics%20(ABS).

ii https://www.rba.gov.au/media-releases/2020/mr-20-18.html

iii https://www.abs.gov.au/ausstats/abs@.nsf/mf/6202.0

Life cover:
More essential than ever

Living through COVID-19 has brought many challenges and shifting priorities as we deal with the financial impacts of the pandemic, and that includes the issue of life insurance.

On the one hand, the pandemic has highlighted the importance of life cover. On the other, those who may have lost a job or lost income are questioning its necessity.

Many Australians continue to view life insurance as a discretionary item. This is in stark contrast to car or home insurance which are seen as necessities. It seems we are willing to insure our property but not the thing that matters most – our life and our ability to earn an income.

Conflicting priorities

A survey by KPMG found that only 35 per cent of Australians thought life insurance was essential and just 30 per cent believed they needed income protection.[i] But when it comes to car insurance, 79 per cent viewed cover as essential and yet, during COVID-19, car usage reduced as many were working from home and restricting their movements.

As the COVID-19 health crisis has reinforced our vulnerability in terms of health and the fragility of life, the need for life and income protection insurance has probably never been greater.

What would happen if you became too sick to return to work or if you passed away? Who would pay the mortgage, living costs, health insurance and utility bills for you or the family you left behind? For those with outstanding debt and dependants, life insurance will always be an important consideration.

It should also be remembered that the current health crisis does not rule out people getting sick with other illnesses, some linked to COVID-19 and some not. Mental health is one these health issues and is becoming increasingly prevalent.

Claims on the rise

In the June quarter, the life insurance industry reported a net after-tax loss of $179 million on its individual income protection products, driven largely by claims for mental health issues in the wake of COVID-19.[ii] Mental health claims are expected to grow even further as it is thought most people take more than a year to report such issues.

With claims on the uptick, this has meant the insurance industry is either looking to increase premiums or already has. This, in turn, may discourage people from keeping their cover.

Indeed, the KPMG survey said that 38 per cent of policy holders were looking to cancel their income protection insurance in the next 12 months, and 25 per cent were planning to drop life cover.

On the plus side, many Australians have some level of life and income protection insurance in their super. However, if you were to lose your job, then paying premiums on your insurance in super would come out of your fund balance, reducing your retirement savings over time.

Also, your insurance might well cease when you lose your job unless you opt to take out a private policy. You generally have 60 days to take up this option.

Redundancy payments

If your income protection insurance is outside super, then be mindful that not all policies include redundancy claims. And those that do may have restrictions. For instance, there is usually a wait period of up to 28 days before any payments will be made.

If you are thinking of taking out a policy now to cover you in case of redundancy given the current economic environment, then you will probably have to go through a six-month no-claim period before you can benefit. During that six-month period, there must be no indication from your employer that redundancy may be on the cards.

Many insurance companies recognise the financial and personal difficulties many people currently face and some have offered to reduce or even suspend premiums without any loss of continuity to your policy.

One alternative may be to look at reducing the cover you have so that your premiums reduce. But it's important to be mindful of your needs and ensure you have adequate cover.

The road ahead

The insurance industry, like many others, is being forced to look at a different way of doing business in a post-COVID-19 world, with simpler policies and flat premiums all being discussed.

In the meantime, making quick decisions on whether you still need insurance, or your current level of insurance, may prove a mistake. If you are thinking about altering your cover, give us a call first to discuss your insurance needs.

i https://assets.kpmg/content/dam/kpmg/au/pdf/2020/covid-19-call-to-action-insurance-wealth-sector.pdf

ii https://www.fsc.org.au/news/income-protection