Robertson deRooy associates FINANCIAL SERVICES

June 2021 Newsletter

Client Newsletter
End of Financial Year 2021

We are proud to provide you with our mid-year Newsletter.

The last 15 months have seen some amazing developments following the pandemic induced share market crash in March 2020. The health crisis initially saw investment values seriously impacted– before a sustained recovery in global and domestic share markets which has led to significant improvement in portfolio values.

Whilst the development and rollout of the COVID vaccine in record time has boosted confidence, continued waves of high infection rates around the world has seen major shortages in medical supplies and increasing death rates.

Australia has dealt with the pandemic very well– both in terms of rates of infection, as well as a swift recovery in the domestic economy which has bounced back from the (short-lived) recession quicker than anticipated, with the current rate of unemployment close to pre-pandemic levels.

After a slow start, the vaccine rollout is gaining momentum-with health authorities stressing the need to achieve high vaccination rates to better place Australia for the reopening of international borders.

The Treasurer delivered the 2021-22 Federal Budget on 11 May– with the aim of maintaining the momentum of Australia's economic recovery.

A Market Update as well as key announcements and the potential impact and opportunities of the Federal Budget follow.

Due to the ongoing Covid-19 situation we are again unable to conduct our Client Briefing and we hope to recommence this later in the year.

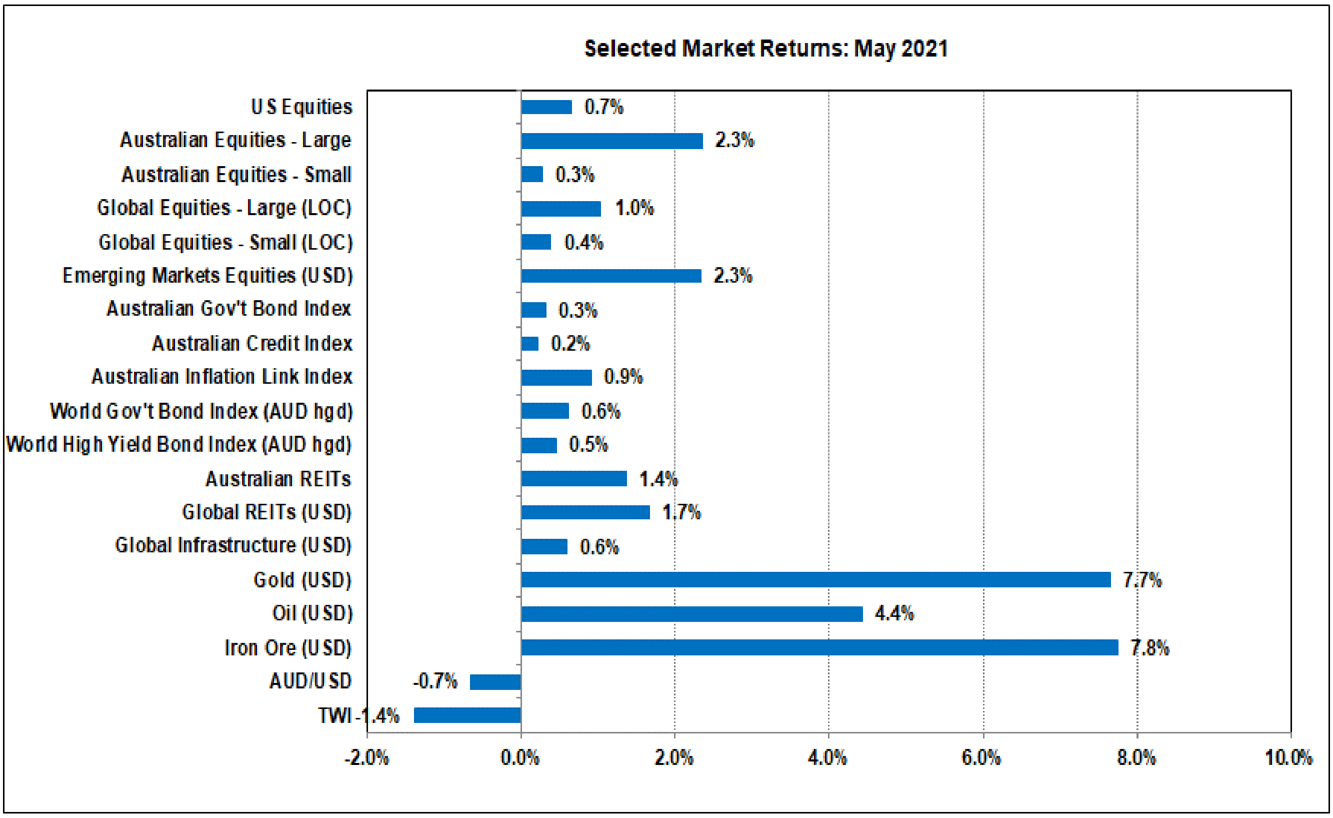
We hope this Newsletter will provide you with some useful information and we welcome any questions or feedback regarding content. If there is any particular area you would like to see covered in future newsletters , please contact us.

Market Update

In summary

May was something of a consolidation month for most asset classes. Global investors have been grappling with the trade-off between the benefits of stronger global growth for corporate profits and the potential cost to bonds from higher inflation that might flow from the stronger growth.

In May, the balance of sentiment appeared to shift from inflation to growth, leading bond markets to stabilise and equities to post modest gains despite a number of markets being at record highs



The latest inflation data from the US was somewhat higher than expected. Employment rose strongly with the current unemployment rate at 5.8%. Overall, while investors are highly tuned to the inflation narrative, they do not yet see enough in the data to warrant full-blown fears. Investors have also been reassured by the Federal Reserve's repeated message that any immediate signs of inflation are likely to be temporary and not derail the Fed's accommodative monetary stance.

As a result, US nominal 10 year bond yields finished May around the same level seen at the end of April, while 10 year inflation-adjusted yields fell slightly. The bond market's pricing of expected inflation had risen in the first half of the month, eased back again in the second half.

This allowed the US equity market, which lost ground in the first half of the month, to recover in the second half and finish a touch higher for the month as a whole. Non-US equity markets performed better than that, with European equities helped by prospects for improving growth and progress on managing Covid. Emerging market equities were boosted by a weaker US$.

In Australia, the March quarter inflation report came in lower than expected with both headline and core inflation coming in well below the Reserve Bank's 2% - 3% target range. The April labour market report was also slightly worse than expected with a loss of 31,000 jobs, but a small fall in the unemployment rate to 5.5%.

Wages growth remains muted with the wage price index rising only 1.5% in the year to the March quarter. However, on the brighter side of the ledger, measures of business confidence and conditions posted solid gains in April to record highs. Measures of employment within the NAB's business survey indicate further declines in the unemployment rate in coming months.

The Reserve Bank upgraded its economic outlook and the Federal Government delivered a pro-growth budget. These factors, plus further strength in commodity prices, helped the ASX200 post a respectable 2.3% gain for the month. Australian Property Trusts also had a good month, helped by the stabilisation of bond yields.

Residential housing prices continue to soar with many areas experiencing a 20%+ increase in house prices over the last 12 months.

Gold had its best month in a while. The gold price peaked just over US$2,000/oz in August last year and then declined, with some volatility, to just under US$1,700/oz in March this year. Since then the gold price has bounced back to around US$1,900/oz, most of which happened in May.

The main underlying driver of this rally has been the stabilisation of US bond yields as markets have moved past their initial fears of higher US inflation and tighter monetary policy. Associated with this, the US$ has slipped back as well. These conditions favour a higher gold price. However, some commentators have noted an apparent inverse relationship between the gold price and Bitcoin. The story goes that gold and Bitcoin are similar speculative assets in that they both have finite supply, but potentially infinite demand. Their prices could theoretically be anything, or nothing. Some also see them as alternative forms of money other than that issued by governments. However, gold and Bitcoin are seen as substitutable, not complementary, assets. That is, speculators sell one to buy the other, but do not buy or sell both at the same time. Under the influence of social media gossip, the price of Bitcoin fell 35% in May, apparently helping the gold price rise.

Finally, China has announced further easing of restrictions on the number of babies a couple may have. For many years ran the "one child" policy, but in 2015 lifted the cap to two children. Now, in the face of the slowest rate of population growth since census data began in 1953, the cap has been lifted to three children. The authorities have correctly identified that China's future growth and prosperity cannot be maintained with the aging population that inevitably follows from too low a birth rate.

Japan and parts of Europe face the same problem, but while immigration is a potential solution in Europe, it is not for Japan or China. There are doubts whether the three child policy is a feasible solution for China.

It is worth remembering that immigration has been a key driver of Australia's growth for decades and it is apparent how much Covid has adversely impacted this. However, unlike the deeper structural problems faced by these other countries, the slowing of Australia's population growth should be temporary.

The Federal Budget - 11 May 2021

Compared with last year's record budget deficit of $213.7 billion, the underlying cash deficit is projected to decrease to $161 billion as the economy continues on the path to recovery from Coronavirus.

Please keep in mind that the announcements made in the Budget remain proposals at this stage. All of the proposals mentioned must be passed by Parliament before they become law.

Some of the key Budget announcements that should be of particular interest include:

- The removal of the work test for non-concessional and salary sacrifice contributions for those aged 67 to 74.
- A reduction in the minimum age requirement for downsizer contributions – from the current age of 65 to age 60. The downsizer contribution rules allow people to make a one-off after-tax contribution to super of up to $300,000 from the proceeds of selling their home they have held for at least 10 years. Under the rules, both members of a couple can make downsizer contributions for the same home and the contributions do not count towards a member's non-concessional contribution cap.
- Removing the $450 per month minimum superannuation guarantee (SG) threshold. Expected to be 1 July 2022. Under the current rules, an employer is not required to pay superannuation guarantee contributions for an employee who earns less than $450 per month. This measure is proposed to have effect from the start of the first financial year after the enabling legislation receives Royal Assent.
- An increase in the amount of super savings available to first home buyers- from $30,000 to $50,000. The Government has announced it will increase the maximum releasable amount for the First Home Super Saver Scheme (FHSSS) from $30,000 to $50,000. Under the existing FHSSS rules, an eligible person can only apply to have up to $30,000 of their eligible (voluntary) contributions, plus a deemed earnings amount, released from super to purchase their first home. This measure is proposed to have effect from the start of the first financial year after the enabling legislation receives Royal Assent. The Government has stated that it expects this to occur prior to 1 July 2022.
- Additional investment into aged care following a Royal Commission into the quality and safety of the system.

Superannuation

Removing the work test for non-concessional contributions and salary sacrifice contributions for people aged 67 to 74. **Expected to be 1 July 2022.**

The Government has announced it will allow individuals aged 67 to 74 to make or receive non-concessional (including under the bring-forward rule) or salary sacrifice superannuation contributions without meeting the work test, subject to existing contribution caps.

However, individuals aged 67 to 74 years wanting to make personal deductible contributions will still have to meet the existing work test.

This measure is proposed to have effect from the start of the first financial year after the enabling legislation receives Royal Assent. The Government stated it expects this to occur prior to 1 July 2022.

Removing the work test for people aged 67-74 to make non-concessional contributions will provide more flexibility for retirees under 75 to top up their super without needing to work 40 hours within 30 consecutive days in a year prior to making a contribution. It will also allow implementation of strategies such as the re-contribution strategy that are not normally available to retired clients in this age group.

The removal of the work test to allow salary sacrifice contributions to be made on behalf of people in this age group also means funds will be able to automatically accept these contributions without needing to first confirm the member has satisfied the work test. It also means that members in this age group can have salary sacrifice contributions made on their behalf in the first week of a financial year.

Super Contributions caps to increase from 1 July 2021

The government has announced the annual Concessional Super Contributions (Employer contributions, salary sacrifice and personal lump sum contributions where a tax deduction is claimed) cap will increase from the current $25,000 to $27,500 from 1 July 2021.

Non-Concessional contributions (personal contributions where no tax deduction is claimed) will increase from the current $100,000pa to $110,000pa from 1 July 2021.

For those under age 65, the bring forward provision means up to 3 years non-concessional contribution can be made in a single contribution. For example a person age 60 can make a total of $330,000 after 1 July (but no more for the next three years)

The “Bring-forward” rule for those age 65-67 has as yet not been legislated, and with the extension of not having to meet the work test until age 75, there is also clarity required on whether those aged 67-74 can use the bring forward provisions.

Personal income tax cuts – retaining the low and middle income tax offset for the 2021-22 income year- Effective 1 July 2021

The Low and Middle Income Tax Offset (LMITO) was due to be removed at the end of the current financial year. However, the Government has announced it will retain LMITO for the 2021-22 income year.

The LMITO provides a reduction in tax of up to $1,080. The table below shows the amount of offset an individual client is entitled to depending on their taxable income:

2021-22 Taxable income	Low and Middle Income Tax Offset
$37,000 or less	$255
Between $37,001 and $48,000	$255 plus 7.5 cents for every dollar above $37,000, up to a maximum of $1,080
Between $48,001 and $90,000	$1,080
Between $90,001 and $126,000	$1,080 minus 3 cents for every dollar of the amount above $90,000

Complying pension and annuity conversions (Effective first financial year following Royal Assent)

The Government has announced people with certain complying income stream products will be given a two-year window to commute and transfer the capital supporting their income stream (including any reserves) back into a superannuation account in the accumulation phase. The member can then decide whether to commence a new account-based pension, take a lump sum benefit or retain the balance in the accumulation account.

The income streams affected by this measure include:

- market-linked income streams (otherwise known as Term Allocated Pensions),
- complying life expectancy income streams and
- complying lifetime income streams,

that were first commenced prior to 20 September 2007 from any provider, including self-managed superannuation funds (SMSFs).

Under the measure, any commuted reserves will not be counted towards an individual's concessional contributions cap but they will be taxed as an assessable contribution of the fund.

When commuted, any social security treatment the product carries such as 100% or 50% asset test exemption and/or grandfathering for income test purposes will cease.

Importantly, the Government has confirmed there will be <u>no re-assessment of the social security treatment</u> the product received prior to the commutation. Therefore, the member would not be required to pay back any overpaid entitlements.

<u>Income streams not included in this measure</u> include flexi-pensions offered by any provider and lifetime products offered by a large APRA-regulated defined benefit scheme (eg some older corporate funds) or public sector defined benefit scheme (eg CSS, PSS).

Social Security Increasing the flexibility of the Pension Loans Scheme Effective 1 July 2022

The Pension Loans Scheme (PLS), a voluntary, reverse mortgage type loan available through Services Australia, currently allows a fortnightly loan of up to 150% of the maximum rate of Age Pension. From 1 July 2022, the Government will implement two changes to the scheme- as follows:

<u>A No Negative Equity Guarantee and lump sum advances.</u>

A No Negative Equity Guarantee will be introduced so borrowers, or their estate, will not have to repay more than the market value of their property, in the rare circumstance where their accrued PLS debt exceeds their property value.

<u>Lump sum advances.</u>

Eligible people will be able to receive one or two lump sum advance payments totaling up to 50% of the maximum Age Pension each year. Based on current Age Pension rates, this is around $12,385 per year for singles and around $18,670 for couples combined. Note, the total amount eligible people are able to receive under the pension loans scheme, including any lump sum advance payments, has not changed. The total amount cannot exceed 150% of the maximum Age Pension which is around $37,155 per year for singles and around $56,011 per year for couples.

Employer Super Contributions– to increase to 10.0% from 1 July 2021

The legislated increases to the superannuation guarantee was not amended in the Budget. Therefore, rate of superannuation guarantee will increase from the current 9.50% to 10.00% from 1 July 2021, as previously legislated.

Account based Pension minimums

Whilst the Government did not announce an extension of the halving of the account-based pension minimums in the Federal Budget, they did announce on 29 May– a further extension to the discounting for 2021-22. The following table details the discounted age based minimum payments to be drawn from account-based pension investments:

Age of Beneficiary	Normal Minimum Percentage factor	2019-20, 2020-21 and 2021-2022
Under age 65	4%	2%
65 – 74	5.00%	2.50%
75 – 79	6.00%	3.00%
80 – 84	7.00%	3.50%
85 – 89	9.00%	4.50%
90 – 94	11%	5.50%
95 or more	14.00%	7%

Government Super co-contribution

The opportunity exists to receive the Government super co-contribution if you meet the following criteria (which the ATO will assess).

- have made one or more eligible personal super contributions to your super account during the financial year.
- pass the two income tests (income threshold- (** see below) , and 10% eligible employment income tests).
- be less than 71 years old at the end of the financial year.
- not hold a temporary visa at any time during the financial year (unless you are a New Zealand citizen or it was a prescribed visa)
- lodge your tax return for the relevant financial year.

** The maximum you can receive is a maximum $500- by adding $1,000 to your super account. This would be paid at the maximum amount if your income for the 2020-21 year is less than $39,564. The co-contribution shades out from there and no co-contribution is payable by the government when your income reaches $54,837.

Centrelink Assets Test Thresholds

The following table details the current Centrelink Assets Test thresholds and reflects the Indexation which occurred on 1 March 2021:

If you are	Assets Test Threshold for Full Pension	Assets Test Threshold for Part Pension
Single, homeowner	$268,000	$585,750
Single, non-homeowner	$482,500	$800,250
Couple, homeowner	$401,500	$880.500
Couple, non-homeowner	$616,000	$1,095,000
Payment Rates	**Fortnightly**	
Full Pension - Single	$952.70	
Full Pension - Member of couple	$718.10	
Rent Assistance - Single	$140.80	
Rent Assistance - Couple	$132.80	
Carer Allowance	$131.90	
DVA War Widows Pension	$968.90	
DVA Income Support Supplement (ceiling rate)	$286.80	

****Thresholds are higher for those who are separated by illness****

Entitlements are calculated using both the Income and Asset Tests - with the rate payable being the LOWER of the two.

Ways to reduce assessable assets to increase entitlements include:

- Valuing assessable assets such as your car/s, caravan, boat and home contents to their garage sale value rather than what you think they are worth (or the insured level of cover).
- Gifting up to $10,000 per annum (to a maximum of $30,000 over a five year period).
- Spending on home improvements (as the principal place of residence is not asset tested) - however take care not to over-capitalise.
- Invest in a lifetime annuity which provide Assets and Income Test discounting.
- Purchase of a Funeral Bond– current maximum allowable amount is $13,500 each.
- Travel!!

*****Care should be taken not simply to spend to gain a higher pension*****

*****Please discuss with your financial planner before making any moves*****

We trust that you have found our Newsletter informative.

We welcome any questions you may have regarding the content or if you would like see anything of financial interest covered in future editions, please call or email us.