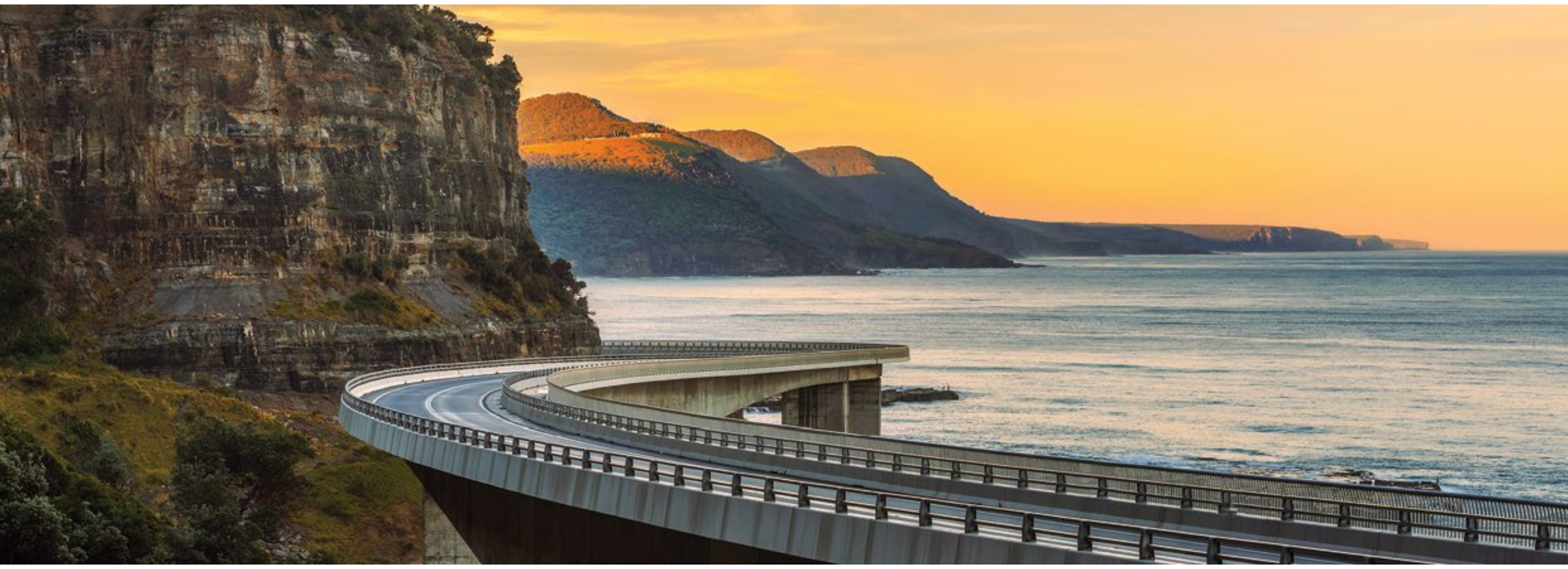

SEAFG Insights -October 2022

It's October and the footy finals are over & Treasurer Jim Chalmers is warming up for his first Budget on October 25 against a background of mounting economic pressures.

In September, persistently high inflation and aggressive rate hikes by the world's central banks put global share and bond markets under pressure. The US Federal Reserve has lifted rates seven times this year, but US inflation remains at 8.3%. There is now growing fear that central banks may push the world into recession. In a surprise twist, the Bank of England (which has also lifted rates seven times this year) was forced to switch back to Quantitative Easing, buying government bonds to support the British pound which crashed to a record low in response to a stimulatory mini-Budget released by the new Conservative Party leadership. This led to a late relief rally on global sharemarkets and a fall in the US dollar and global bond yields. Even so, major global sharemarkets finished the month down 6% or more.

In Australia, the picture is a little brighter. Economic growth was up 3.6% in the year to June. Company profits are also strong, up 28.5% in the year to June, and unemployment remains low, at 3.5% in August. While inflation eased from 7% in July to 6.8% in August, due to falling petrol prices, it is still well above the Reserve Bank's 2-3% target. Aussie consumers continue to spend at record levels, pushing up retail spending by 19.2% in the year to August, and petrol prices are set to increase by at least 22c a litre after the reinstatement of the fuel excise. Both will put upward pressure on inflation and interest rates.

The Aussie dollar fell more than 3c against the surging US dollar in September, to US65c.

SEA Financial Group
Suite 411, Level 4
2 Brookhollow Ave
Norwest, NSW, 2153
P.O Box 6800
Norwest, NSW, 2153
P (02) 9634 5337
E info@seafg.com.au
W https://seafg.com.au/

GUIDE TO concession cards for seniors

The excitement of heading towards retirement and a new stage of life can be tinged with concern over how to manage finances. For many people, seniors' concession cards are a good way to help make ends meet.

While discounts on goods and services are always welcome, they're even more valued right now as living costs continue to climb.

Concession cards for seniors provide significant discounts on medicines, public transport, rates and power bills. Many private businesses – from cinemas to hairdressers – also offer reduced prices to concession card holders.

There are different types of concession cards offered by federal, state and territory governments. While some are for those receiving government benefits, others are available to almost anyone aged over 60.

The cards are free and should not be confused with commercial discount cards that require an upfront fee or ongoing subscription.

Seniors Card

The Seniors Card is offered by all state and territory governments when you turn 60 (64 years in Western Australia) and are no longer working full time. This card is offered to everyone, regardless of your assets or income.

The Card will allow you to claim discounts on things like public transport fares, council rates and power bills. Thousands of businesses across Australia also offer reduced prices to Seniors Card holders. In some states, a separate card is offered to access discounts provided by private businesses and another card is provided for public transport.

There are a varied eligibility requirements and a range of different services offered based on your state or territory, so it's best check with your relevant government department.

Federal Government concession cards

If you're receiving a government pension or allowance, you're a self-funded retiree or you're a veteran, you may be eligible for one of several cards issued by the Federal Government.

The Pensioner Concession Card is automatically issued to people receiving pensions or certain allowances.

The card provides discounts on most medicines, out-of-hospital medical expenses, hearing assessments, hearing aids and batteries, and some Australia Post services.

In most states and territories, card holders receive at least one free rail journey within their state or territory each year.

Commonwealth Seniors Health Card

If you've reached the qualifying age for an Age Pension (currently 66 years and 6 months) but you're not eligible to receive a pension, you may be entitled to the Commonwealth Seniors Health Card.

You can receive the card if you:

- Are Age Pension age or older
- Can meet residence rules
- Are not receiving a government pension or allowance
- Can meet identity requirements
- Can meet the income test
- Provide a Tax File Number or are exempt

While there is an income test, no assets test applies. You will receive similar benefits to the Pensioner Concession Card.

Low Income Health Card

For those on a low income but not yet at Age Pension age, the Low Income Health Care Card can be a big help. If you meet the income test, you'll get cheaper health care and medicines and other discounts.

Your gross income, before tax, earned in the eight weeks before you submit your claim is assessed and must be below certain limits.

The types of income included in the test includes wages and any benefits you receive from an employer, self employment income, rental income, super contributions as well as pensions and government allowances.

Other types of income are also counted including:

- Deemed income from investments
- Income and deemed income from income stream products such as super pensions
- Foreign income
- Distributions from private trusts and companies
- Compensation payments
- Lump sums such as redundancy, leave or termination payments.

Veteran Card

The Department of Veterans' Affairs has a concession card for anyone who has served in the armed forces and their dependents. Like other government concession cards, the Veteran Card provides access to cheaper medicines and medical care as well as discounts from various businesses. The Veteran Card is a new offering, combining the former white, gold and orange cards. There is no change to entitlements or services with the new card.

As you can see, the potential savings from seniors concession cards can be significant so be sure to check your eligibility. If you would like help working out your income and other eligibility requirements, give us a call.

Should I put my money into **my mortgage** or **my super**?

With interest rates on the rise and investment returns increasingly volatile, Australians with cash to spare may be wondering how to make the most of it. If you have a mortgage, should you make extra repayments or would you be better off in the long run boosting your super?

The answer is, it depends. Your personal circumstances, interest rates, tax and the investment outlook all need to be taken into consideration.

What to consider

Some of the things you need to weigh up before committing your hard-earned cash include:

Your age and years to retirement

The closer you are to retirement and the smaller your mortgage, the more sense it makes to prioritise super. Younger people with a big mortgage, dependent children, and decades until they can access their super have more incentive to pay down housing debt, perhaps building up investments outside super they can access if necessary.

Your mortgage interest rate

This will depend on whether you have a fixed or variable rate, but both are on the rise. As a guide, the average variable mortgage interest rate is currently around 4.5 per cent so any money directed to your mortgage earns an effective return of 4.5 per cent.[i]

When interest rates were at historic lows, you could earn better returns from super and other investments; but with interest rates rising, the pendulum is swinging back towards repaying the mortgage. The earlier in the term of your loan you make extra repayments, the bigger the savings over the life of the loan.

The question then is the amount you can save on your mortgage compared to your potential earnings if you invest in super.

Super fund returns

In the 10 years to 30 June 2022, super funds returned 8.1 per cent a year on average but fell 3.3 per cent in the final 12 months.[ii] In the short-term, financial markets can be volatile but the longer your investment horizon, the more time there is to ride out market fluctuations. As your money is locked away until you retire, the combination of time, compound interest and concessional tax rates make super an attractive investment for retirement savings.

Tax

Super is a concessionally taxed retirement savings vehicle, with tax on investment earnings of 15 per cent compared with tax at your marginal rate on investments outside super.

Contributions are taxed at 15 per cent going in, but this is likely to be less than your marginal tax rate if you salary sacrifice into super from your pre-tax income. You may even be able to claim a tax deduction for personal contributions you make up to your annual cap. Once you turn 60 and retire, income from super is generally tax free. By comparison, mortgage interest payments are not tax-deductible.

Personal sense of security

For many people there is an enormous sense of relief and security that comes with having a home fully paid for and being debt-free heading into retirement. As mortgage interest payments are not tax deductible for the family home (as opposed to investment properties), younger borrowers are often encouraged to pay off their mortgage as quickly as possible. But for those close to retirement, it may make sense to put extra savings into super and use their super to repay any outstanding mortgage debt after they retire.

These days, more people are entering retirement with mortgage debt. So whatever your age, your decision will also depend on the size of your outstanding home loan and your super balance. If your mortgage is a major burden, or you have other outstanding debts, then debt repayment is likely a priority.

All things considered

As you can see, working out how to get the most out of your savings is rarely simple and the calculations will be different for everyone. The best course of action will ultimately depend on your personal and financial goals.

Buying a home and saving for retirement are both long-term financial commitments that require regular review. If you would like to discuss your overall investment strategy, give us a call.

i https://www.finder.com.au/the-average-home-loan-interest-rate

ii https://www.chantwest.com.au/resources/super-members-spared-the-worst-in-a-rough-year-for-markets/