



your **money** your **future**

December 2019

On behalf of all of us here at Goodwin Financial Services, we would like to wish you and your loved ones a safe, peaceful and happy festive season.

As previously advised our Office will be closed from 5pm on Friday the 20th of December and will re-open on Monday the 6th of January 2020.

We have included 3 articles of a non-technical nature and would encourage you to share this with family members and friends as you deem appropriate.

We look forward to being of continuing service to you and as always should you require any assistance please do not hesitate to contact us.

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3 factors affecting retirement income

High life expectancy and low interest rates may make it harder for some retirees to live long and prosper.

Here we look at three elements from an AMP Capital Investors reportⁱ that affect a post-work reasonable income – interest rates, inflation, and longevity.

1. Interest rates - high valuations, low returns

Historically low interest rates have driven valuations of defensive assets such as cash and fixed interest to unprecedented highs. Generally, a defensive asset is seen as a lower-risk, lower reward investment.

High valuations mean low yields (or percentage income returns in the form of dividends and interest) for defensive assets.

AMP Capital Investors reports record-low yields across many fixed income assets and some types of property. Term deposit rates are also at fresh lows, following the Reserve Bank of Australia's reduction in interest rates.

Low interest rates affect variables such as inflation and investment returns, which in turn affect how we save for retirement.

2. The inflation perspective

Inflation has a big impact on retirees who are less able to earn and save more after their working lives have finished. Falling returns mean providing for retirement is challenging, but although returns are low now compared to in the past, the impact is eased when you take inflation into account.

Inflation was running at around 15 per cent in the late 70s and 80s, which ate up much of the bond and term deposit returns.

Nevertheless, the combination of low interest rates and low inflation make it hard for retirees to find returns.

There are risks too, should the current global inflation rate of about three per cent shift higher than the defensive asset classes. As these assets are priced for the very low inflation of today, they would face major negative revisions.

3. The longevity conundrum

Australians are also living longer, increasing the risk that a retiree will outlive their savings. Back in 1980, a man starting a pension at age 65 had a life expectancy of 78 – 13 more years. Now, a male starting a pension at 65 has a life expectancy of 86 – an additional 21 years. While this is great news in many ways, financially it means

higher income needs and the need to grow the assets over time to make up for rising costs of living.

This is a concern in an environment which sees retirees drawing down on their pool of retirement assets because they can no longer generate sufficient income returns. This means retirement account balances are being depleted relatively quicker than in the past, especially if retirees lack exposure to growth assets to generate some capital growth over their longer lives.

Supporting an ageing population to achieve their retirement goals in a market of lower investment returns is a major challenge. A stable policy framework for superannuation and a long-term approach will be important in giving retirees the best chance of achieving a comfortable retirement.

Planning ahead

When investing with a goal – such as retirement – in mind, it pays to think long term.

Of course we are also here to help you work out what's right for you.

ⁱ Retirement today – the challenge of generating retirement returns. AMP Capital Investors, 19 August 2019.



Can refinancing my home loan save me money?

By replacing your home loan with a new one, you could take advantage of a better deal.

Even if you secured a competitive package when you first took out your home loan, it's worth reviewing each yearⁱ to make sure the interest rates, fees, features and terms & conditions continue to meet your needs.

And with interest rates at an all-time low in Australiaⁱⁱ, now may be a good time to refinance your home loan as you may be able to pay off your home loan sooner.

What is refinancing?

Refinancing is where you replace your existing home loan with a new one that's ideally more cost-effective and flexible.

Why should you refinance?

You want to pay less. If you can find a lower interest rate, you could save money and reduce your monthly repayments. Even a 0.5% reduction on your interest rate could save you tens of thousands of dollars over the life of your loan.

You want a shorter loan term. When interest rates are down, you may be able to reduce the term of your loan—from 30 to 25 years for instance—without too much change to your repayments, meaning you may be able to pay off your home loan sooner.

You want access to better features. You may be looking for further cost savings and greater flexibility with the help of added features, such as unlimited additional loan repayments, redraw facilities, an offset account or the ability to tap into your home equity.

You want a better deal, more flexibility or security. Converting to a fixed, variable or split-rate interest loan may provide you with these things.

You want access to your home equity. Equity can be used to secure finance for big ticket items such as an investment property, renovations or your children's education. This can be risky though because if you don't make the repayments, you could lose your home as a result.

You want to consolidate existing debts. If you have multiple debts, it could make sense to roll these into your home loan if you're diligent with your repayments. This is because interest rates associated with home loans are generally lower than other forms of borrowing.

What you need to think about when refinancing

Do you know what you want?

If you're looking to refinance, do you know what it is you're after—a lower interest rate, added features, greater flexibility, better customer service or all of the above?

Do the financial benefits outweigh the costs?

You might be able to save money over the long term by refinancing, but the upfront costs can still be expensive. For this reason, it's a good idea to investigate where costs may apply, or be negotiable—think discharge fees, registration of mortgage fees and break costs if you have a fixed-rate home loanⁱⁱⁱ.

Also think about application costs if you swap lenders—establishment or application fees, legal fees, valuation fees, stamp duty, and lender's mortgage insurance if you borrow more than 80% of the property's valueⁱⁱⁱ.

Have you spoken to your current lender?

Before you jump ship, it may be worth a chat with your current lender as they might be willing to renegotiate your package to retain you as a customer.

Has there been any change to your personal situation?

An application process if you want to refinance will apply. This means your lender will take into account things like your employment situation, additional debts you've taken on, or if you've got a growing family as all these things can affect your borrowing potential.

Like to know more?

It's important to evaluate the pros and cons if you are considering refinancing. These can be complex, so please give us a call if you have any questions.

ⁱ <https://www.finder.com.au/how-to-review-your-home-loan>

ⁱⁱ <http://www.rba.gov.au/statistics/cash-rate/>

ⁱⁱⁱ <https://www.finder.com.au/how-much-can-i-save-refinancing>

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Rebooting for retirement

As retirement comes into view, it's time to imagine a new you for the post-work age.

You remember your first day at school, your first job, your first home. And now your final pay check is in sight. That's quite an achievement.

As with other big life events, retirement triggers choices that shape your future. It's time to take stock and reboot your life. It makes sense to make sure you're ready when the time comes so you can minimise surprises and maximise your new free time.

For instance, if you're downsizing your house or vehicle, you might consider how shedding assets and acquiring new ones affect your tax position before you retire.

Having your finances in order is important, but there's more than money to enjoying the fruits of your new phase of life.

Here are five ways you can make sure retirement's a milestone not a millstone.

1. Think mind and body

Without a clear idea of how you'll spend your time, the initial euphoria of the untouched morning alarm can give way to anything from boredom to panic. Most of your 24 hours may be unstructured, so figure out how you'll spend it wisely.

You might try something new. Perhaps now is the time to keep bees, join a choir or learn archery. If you have a partner,

remember to involve them in the planning. Even if they don't fancy joining you on a skydive, they may see a chance to learn how to take better action pictures.

Travel is near the top of many wish lists in retirement. If you don't have the funds for a Caribbean cruise, there are a host of cheaper options around Australia and even beyond. And now you'll have more time to spend, without worrying about annual leave quotas, or who'll look after your business while you're away.

2. Have a purpose

A rest is as good as a change. Although it's great to have unstructured time to think and dream, boredom can be a damaging state of mind, particularly if it's prolonged.

If you're already physically active, this can be a great time to extend yourself, embrace something new like yoga, or aqua aerobics. If you're healthy but know you could improve, you might sign up for a sponsored cycle ride or walk to help a cause you care about.

3. Catch up on what you've missed

Many of us put off expanding our passions while we're working because we don't have time.

If you've always wanted to read the classics, now might be your chance to explore the jewels of world literature. Reading is brain expanding and inexpensive. Books older than 70 years

from the death of the author are out of copyright and therefore cheap in print or even free on your Kindle.

4. Follow your heart, not the herd

Many people downsize coming up to retirement. A smaller property usually means lower utility bills and maintenance.

But it's not for everyone. If your spare bedroom has the right natural light for your artist's studio or you just love your lemon trees, you might be better off staying where you are and saving yourself the real estate fees and hassles.

You're facing a change in life, but you don't have to change for change's sake. Put yourself and your loved ones first.

5. Listen to the voice of experience

As with so many things in life, you can learn from experts. Talk to people you know who have already retired, and see what worked for them, and what they wish they'd put in place before they took the plunge.

Consider what will make you happy in the years beyond work, so you can live the life you want.

Finally, if you haven't yet given these things serious thought yet, don't panic. You've dealt with other changes in your life, this is just another one.

Think of it as a new adventure. Let's face it, you've earned it.