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Your Personal Wealth
AUTUMN

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EARLY ACCESS TO YOUR SUPERANNUATION - *Many Australians seek a better understanding of their options*

As individuals get closer to retirement, many are seeking advice to help them better understand the circumstances required to allow them to access their superannuation benefits, often with the desire to access their super at an earlier age. Many consumers often don't understand the rules and conditions necessary to allow for the release of their super savings.

Consumers need to be aware that some promoters claim to offer early access to your super by transferring your super into a self-managed super fund. These schemes are illegal and heavy penalties apply if you participate.

There are however circumstances where access may be possible. For example, according to a recent AMP report "*many Australians don't realise they can access super early if they change jobs between the ages of 60 and 65, even if they continue working in a new job. Super benefits can be accessed as a tax-free lump sum during this period, or used to commence a retirement income stream, which receives both a tax exemption on earnings, and has no maximum pension restriction.*"

With respect to any desire to access super benefits early, there are very limited circumstances when you can access your superannuation early. These circumstances are mainly related to specific medical conditions or severe financial hardship.

Access due to severe financial hardship
You may be able to withdraw some of your super if you have received eligible government income support payments continuously for 26 weeks and are unable to meet reasonable and immediate family living expenses.

A super withdrawal due to severe financial hardship is paid and taxed as a super lump sum, and you can only make one withdrawal because of severe financial hardship in any 12-month period.

There are no cashing restrictions under severe financial hardship if you have reached your preservation age plus 39 weeks and you were not gainfully employed on a full-time or part-time basis at the time of application.

Access on compassionate grounds
You may be allowed to withdraw some of your super on compassionate grounds. Compassionate grounds include:

- paying for medical treatment for you or a dependant
- making a payment on a loan to prevent loss of your house
- modifying your home or vehicle for the special needs of you or a dependant because of severe disability
- paying for expenses associated with a death, funeral or burial of a dependant

Access due to terminal medical condition
You may also be able to access your super if you have a terminal medical condition. A terminal medical condition exists if:

- two registered medical practitioners have certified that you suffer from an illness, or have an injury, that is likely to result in death within a period (certification period) that ends no more than 24 months after the date of the certification
- At least one of the registered medical practitioners needs to be a specialist practising in an area related to your illness or injury
- the certification period for each of the certificates has not ended.

Your fund must pay your super as a lump sum. The payment is tax-free if you withdraw it within 24 months of certification.

Access due to temporary incapacity
You may be able to access your super if you are temporarily unable to work or need to work less hours because of a physical or mental medical condition. This condition of release is generally used to release insurance benefits from a super fund.

You will receive the super in regular payments (income stream) over the time you are unable to work. A super withdrawal due to temporary incapacity is taxed as a normal super income stream.

Access due to permanent incapacity
You may be able to access your super if you are permanently incapacitated. This type of super withdrawal is sometimes called a 'disability super benefit'.

Your fund must be satisfied that you have a permanent physical or mental medical condition that prevents you from ever working again in a job you were qualified to do.

Again, at least two medical practitioners must certify this for you to receive concessional tax treatment. You can receive the super as either a lump sum or as an income stream.

Superannuation Balances less than $200
You may be able to access your super if your employment is terminated and the balance of your super account is less than $200, or if you have formerly lost super held by a super fund or by the ATO that is less than $200.

Other questions often raised with advisers include:

- How much can be contributed to super through non-concessional contributions;
- How transition to retirement pensions work;
- What superannuation drawdown options are available and which is the most tax effective and which offers the best outcome given your personal circumstances;
- Understanding how the superannuation death benefit works; and
- Understanding how total and permanent disability insurance works within superannuation.

Consumers should seek out advice from their financial planner for further information.

Source: Investor Daily

THE GOVERNMENT STEPS BACK FROM REMOVING BROKER COMMISSIONS - a *win for consumers*

The Government has stepped back from its earlier position on the phasing out of trail commissions for mortgage brokers.

After testing the waters over the last month, the government has joined the federal opposition in backflipping on controversial mortgage broker reforms recommended by the banking royal commission.

This is a win for not only the industry but for all consumers seeking to ensure that they continue to have access to competitive mortgage products. The proposed changes had the potential to drive many brokers from the market and hand the control of mortgage finance across to the banks, reducing competition and effectively rewarding banks for their previous poor behaviour.

Competition for your mortgage business through the efforts of brokers who provide access to tier two lenders as well as the banks is an essential service to consumers, providing choice and additional options for clients prepared to shop around for the best possible outcome.

In a statement released this week, Federal Treasurer, Josh Frydenberg, has said that, following consultation with the mortgage broking industry and smaller lenders, the Coalition Government has decided to not prohibit trail commissions on new loans, but rather review their operation in three years' time."

This announcement differs from the Government's initial response to the Banking Royal Commission's recommendation 1.3, which called for lenders to be prohibited from paying trail commission to mortgage brokers in respect of new loans, to which the Government's original response was that from 1 July 2020, it would prohibit – for new loans – the payment of trail commissions from lenders to mortgage brokers and aggregators.

There are changes still afoot for this part of the financial services industry with the Treasurer stating that the government has already announced:

- New best interests duty requirements that will legally oblige mortgage brokers to act in the best interests of consumers.
- A new requirement that the value of upfront commissions be linked to the amount drawn-down by borrowers
- A ban on campaign and volume-based commissions
- A two-year limit on claw-back, starting from 1 July 2020.

He says these changes will address conflicts of interest in the industry by better aligning the interests of consumers and mortgage brokers. He added that he believes mortgage brokers are critically important for competition and delivering better consumer outcomes in the mortgage market, noting that almost 60 per cent of all residential mortgages are settled by mortgage brokers. Ultimately having access to more mortgage providers through these services will ensure that healthy competition for consumers' business remains a key feature of the mortgage industry.

Source: IFA

ASIC TAKES A CLOSER LOOK AT DIRECT INSURANCE - *poor outcomes for some*

A recent report undertaken by ASIC on direct life insurance made for some interesting reading.

Direct Insurance is traditionally understood to be cover purchased directly through the insurer where the consumer may have seen an ad on TV or gone online and contacted the insurer, or the insurer might have contacted them directly.

The review found that sales practices and products provided really were delivering poor outcomes for consumers, with one of the key reasons offered being that consumers were cancelling these policies in high numbers.

ASIC found that 1 in every 5 policies was being cancelled by consumers within the cooling-off period (when they can still get a refund for premiums), and they also found that about another 1 n 4 policies were being cancelled within 12 months.

It was ASIC's view that this indicates that the product is not meeting the needs of consumer, which is concerning.

ASIC listened to about 500 sales calls as part of this review, and what they found was that insurers weren't properly explaining the cost of the product or the cover that was being provided. They also found that 4 insurers were using pressure sales tactics, which is unacceptable.

A further concern for the regulator was that around half the insurers had incentive schemes that motivated the staff to close the sale rather than consider what was right for the consumer.

One example of a poor value product was accidental death cover, which was found to be particularly problematic. Here the product is often sold if someone's not eligible for full life cover. For instance, they might have a pre-existing medical condition. In these cases ASIC found that only 26% of claims for this cover are actually paid out.

ASIC are taking a hard line on this and are saying to insurers that unless they provide improvements in value for consumers, they should stop selling this product.

One of the hardest things for the average consumer to assess is the equality of the cover; what are you getting in return for your premium payments and is the cover of a suitable quality or is there a better policy available – it is at this point that consumers may wish to turn to a specialist financial planner to gain better insights.

Finally, you need to be thinking of not just today but into the future; these products are put in place for possible future events.

Consumers should take the time to assess their current and future needs and talk to a financial adviser where necessary to ensure that the right insurances are in place.

Source: Moneysmart

INVESTMENT MARKETS - *a rebound from the Christmas "Bloodbath"*

Global equity markets experienced a major sell-off in December of 2018 with US markets amongst the hardest hit, briefly entering bear market territory for a short period.

Many factors had been weighing on equities, all coming to a head late in 2018. Concerns about slowing global growth, particularly in China and Europe and the continuing concerns about unresolved UK Brexit negotiations and an anticipation of slower growth in the US economy, together with trade concerns have especially hit China and the Asian region. The biggest concern for markets was that the US Federal Reserve (Fed) was about to make a policy mistake by raising interest rates too much, precipitating a dramatic slowdown in the US and the global economy.

The US Fed did in fact raise the cash rate to a range of 2.25% to 2.50% in December. This was the 9th hike since the Fed started raising rates in December 2015. The Fed has since communicated a more dovish message by saying future rate rises are not locked in but depend on how the economy performs.

A friendlier US Fed has been a major factor in the rebound we have seen in global equity markets in the first two months of 2019. The other major positive factor has been an easing of US-China trade tensions. As of early March the Australian equity market is up around 10% so far in 2019.

Economy

The US economy expanded at an annualized rate of 2.6% in 4th quarter of 2018. For 2018 as a whole the economy grew 2.9%. This was the strongest performance since 2015; falling short of the Trump administration target of 3.0%. The partial government shutdown was estimated by the US Commerce Department to have subtracted 0.1% from 4th quarter GDP.

The RBA expects Australian Growth of under 3% this year and slightly less in 2020 due to slower growth in resources exports and a slowdown in the housing sector. Inflation (CPI) was 1.8% in 2018 remaining below the RBA's 2% target. The housing market remains weak and the demand for credit has slowed considerably. Off the back of this markets now believe there is a reasonable chance the next interest rate move may be down rather than up.

All recent data including retail sales, factory output, export and import figures point to slowing growth in China. The Manufacturing purchasing managers' index (PMI) in China came in at 49.2 in February; a level below 50 is generally regarded as indicating that an economy is contracting. Most factors point to a Chinese economy that is experiencing slowing growth.

Apart from China, the other region that has slowed recently is Europe. Italy is currently in recession while Germany narrowly missed a technical recession by having zero GDP growth last quarter. While we have highlighted some negatives, we should point out that the global economy is forecast to grow by 3.5% in 2019 remaining around the long-term average.

Markets and Outlook

December 2018 was the worst December for the S&P 500 and the Dow Jones Industrial Average since 1931. Most global equity markets have since staged a major rally from their pre-Christmas lows. In late 2018 there were just too many uncertainties for markets to cope with. This led to US stocks falling almost 20% in the last 60 days of 2018 briefly entering a bear market scenario.

Markets now believe the new 'patient' approach by the US Fed means that interest rate rises are unlikely to rise in 2019. This more dovish approach was stated to be in response to global risk factors rather than weakness in the US economy. In addition, it appears that the US Fed will stop shrinking its balance later this year and will keep it at around $3.6 trillion dollars. Essentially this will be an end to QT (quantitative tightening) thus retaining substantial liquidity in the economy, supporting lower bond yields in the US and globally. All this has given a major boost to equity markets and other growth assets.

After the December sell-off, equity market valuations were trading below historical averages in many markets. That is no longer the case for US equities, for example with US equities starting 2019 on a PE of 14.4x but are now on a forward PE of 16.4x, slightly above the 25 year average of 16.1x. Earnings expectations for 2019 have come back from 10% EPS growth in October 2018 to around 4% currently.

Given the very reasonable starting valuations we believe that 2019 should be a better year for growth assets than 2018. However, the concern is that we may have already seen the bulk of these gains. As we write this note, US, European and Australian equities are up over 10% in 2019, and domestic Chinese shares that have risen 20% so far this year in anticipation of a favourable resolution of the US-China trade issue.

We are still underweight in fixed interest. As an illustration, the Australian government 10-year bond yield at 2.15% is 0.58% lower than it was 12 months ago. We believe this to be an overreaction in the belief that the RBA is likely to cut the Cash rate from the current 1.5%. The Australian 10-year bond is yielding 0.6% less than the US 10-year bond putting downward pressure on the Australian dollar. This is one of the reasons we continue to overweight global equities relative to domestic.

Source: Lifespan

Investment Returns to 31 January 2019 (% p.a.)

Asset Class	1 mth	3 mths	1 Yr	3 Yrs	5 Yrs
Australian Shares	3.87	1.45	1.37	10.09	7.10
Global Shares	4.17	-1.08	2.75	10.50	10.62
Listed Property	6.17	7.49	12.97	8.95	13.57
Fixed Interest	0.64	2.40	5.49	3.50	4.58

Source: Mercer

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