Autumn Edition 2021

AUSTRALIAN BUSINESS AWARDS
2016 QLD FINALIST

# News from the Nest

FinNest Financial

## Welcome to our Autumn Edition of 'News from the Nest'

It certainly has been an interesting year in a multitude of ways.

But for us and the team at FinNest Financial, whilst there has been change and uncertainly for many of our clients, what has been unwavering is that whatever comes your way, we are always here to support you to make the best decisions and provide the best advice to help you **Plan**, **Grow** and **Protect** your wealth.

In this edition, lots of things to share as always. We walk you through what you should be thinking of when it comes to personal protection, a timely reminder about balancing risk and reward, and a fantastic article about 'Super Ageing'. Plus some changes coming up in superannuation in the new financial year that you may not have heard about, but could provide great opportunities for you.

Thank you for your continued support & best wishes,

**Brendan Stone**
Director – Financial Advice,
FinNest Financial Pty Ltd.

## NEW ADDITIONS TO THE FINNEST FINANCIAL TEAM

We're thrilled to announce we have added two new staff members to our team at FinNest Financial.

Firstly Amy Matenga, who is our new Client Service Manager. Amy is tasked to ensure that the support provided by our practice for you runs like a well-oiled machine! You will no doubt be hearing her friendly voice or seeing her friendly face next time you talk with us.

Amy comes to us with a wealth of experience in financial planning practice management over many years, and we are very happy to have Amy as a part of our team.

Next, we'd like to introduce Nina Bampton. Nina is our new Client Service Officer who also comes to us with extensive financial planning experience, and certainly will be a great support for our valued clients. Nina is an enthusiastic and diligent person, who is really looking forward to getting to know our clients, so feel free to say 'Hi' next time you're with us.

## NEW OPPORTUNITIES FOR SUPERANNUATION FROM 1ST JULY 2021

**Did you know that the amount you can contribute as a concessional contribution to superannuation increases from $25,000 to $27,500 per annum from 1st July 2021?**

And did you also know that the amount you can contribute as a non-concessional contribution to superannuation increases from $100,000 to $110,000 per annum from 1st July 2021? Plus if you are eligible to use the bring forward rule this allows you to increase these types of contribution from a maximum of $300,000 to $330,000 from In addition, did you know the pension balance transfer cap increases from $1,600,000 to $1,700,000 from 1st July 2021?

**Would you love to know how all of this could benefit you and your retirement aspirations?**

Then talk to us at FinNest Financial about how this can be another way for us to help you Plan, Grow and Protect your financial future.

## INVESTMENT SUCCESS AFTER THE PANDEMIC

The coronavirus pandemic shocked the world and sent portfolios into a sharp tailspin. A new survey reveals just what investors have learnt.

**Find out more on pages 3 & 4**

## LIFE INSURANCE:

# WHY EVERYONE NEEDS TO THINK ABOUT COVERAGE

You don't buy life insurance because you are going to die but because those that you love are going to live. Or so the proverb goes.

No matter what your age, life insurance can play a crucial role protecting you and your loved ones.

Life insurance provides a vital safety net, protecting your family if the worst were to happen.

But the life insurance landscape in Australia is changing. New regulations and the fallout from the COVID-19 pandemic has shaken up the industry.

The new year is the perfect time to review all aspects of your life insurance to ensure you have appropriate life insurance, the coverage matches your life stage, and it is delivered via the right structure.

### Younger people: don't neglect life insurance

The average life expectancy of Australians sits at 82.5 years in 2017. For people aged under 25, life insurance is often not something you consider. And why would you?

You likely have no dependants, are likely to be healthy and often take a dip in the fountain of youth. Yet until this year, many young Australians were paying life insurance premiums through their superannuation accounts. Sweeping regulatory changes from 1st April 2020 now require people aged under 25 to actively opt-in to default life insurance. This has removed cover from many younger fund members.

This doesn't mean life insurance isn't appropriate for younger people. Young people may have debts such as a car loan or credit card debt. In the case of death or a serious injury, without adequate insurance, their family may be left with the bill.

Premiums for young people are also usually far lower given the lower probability of a claim being filed. Investing in insurance early can give peace of mind for a low price and potentially improve credit scores, which is important when one is deciding to buy a house.

### Middle age: a prime time to be covered

Having adequate life insurance cover is essential when you settle down with a family and have significant debts such as a mortgage to pay off.

It is crucial to assess the options to ensure you are covered for all types of circumstances when you enter potentially life's peak period of debt. But navigating the seemingly endless pages of policy documentation is confusing at the best of times, let alone when grieving the loss of a loved one.

Seeing a good financial adviser can help ensure you get the right policy. An adviser can also help you if you need to make a claim, making the process smoother for your family.

A review by corporate regulator ASIC found term life, TPD, trauma, and income protection claims were declined least often when an adviser was involved (7% of claims), followed by group insurance (through super) (8%) and non-advised channels (such as online) (12%)[1].

An individual policy negotiated by your adviser also means you won't be lumped into a group of people who have vastly different circumstances, opening yourself up to the possibility of paying more than you need or not getting the best cover.

### Retirees: a time to re-consider life insurance

If the kids have left the nest and the house and car are paid off, then your life insurance needs may be lower.

However, in recent decades, this scenario has become increasingly unlikely. Australians are living longer than ever and a range of liabilities are often extending well past traditional retirement age.

A recent report found that older borrowers' average mortgage debt to income ratio tripled from 71% to 211% between 1987 and 2015, reflecting a severe increase in repayment risk[2].

The research found the real mortgage debt of older borrowers of that age group blew out by 600%, while real house price and income growth lagged, tripling and doubling respectively over the period.

The Australian Human Rights Commission also showed the percentage of Australians aged 65 and over in the labour force doubled between 2000 and 2015 – and 20% of people over 70 are still working.

So if you are in the ever-increasing position of many older Australians who carry the burden of debt or have dependents well into their twilight years, then you may want to maintain your life insurance coverage.

## 'Putting Members Interests First': A positive change for young people

Around five million people now have the chance to save an estimated $3 billion in life insurance premiums thanks to new legislation.

The Putting Members' Interests First (PMIF) scheme, which began 1st April 2020, requires people under the age of 25 or with a super balance below $6,000 to opt-in rather than opt-out of life insurance cover.

This is a positive change, as young people and low-income earners are often not even aware they have default life insurance in their super.

"On average, members aged under 30 appear to have received significantly lower value than older members over the six-year period," ASIC found in a recent survey of the default life insurance in MySuper products[2].

While contributing to super can help build a comfortable retirement nest egg over the long-term, default insurance premiums can also erode its value.

Around one-quarter of Australians with a super account hold multiple accounts, according to the ATO. The result is excessive fees, often including default life insurance.

1. 16-347MR ASIC issues industry review of life insurance claims | ASIC - Australian Securities and Investments Commission. (2020, December 17). Retrieved from https://asic.gov.au/about-asic/news-centre/find-a-media-release/2016-releases/16-347mr-asic-issues-industry-review-of-life-insurance-claims
2. REP 675 Default insurance in superannuation: Member value for money | ASIC - Australian Securities and Investments Commission. (2020, December 16). Retrieved from https://asic.gov.au/regulatory-resources/find-a-document/reports/rep-675-default-insurance-in-superannuation-member-value-for-money

## BALANCING ACT:

# WHY RISK AND RETURN ARE BOTH NEEDED FOR INVESTMENT SUCCESS

The coronavirus pandemic shocked the world and sent portfolios into a sharp tailspin
A new survey reveals just what investors have learnt.

### The last year has tested the resolve of even the most seasoned investors.

The economy fell off a cliff in March 2020 following the first wave of the pandemic, wiping off more than a third of its value.

Subsequent lockdowns, second waves, and the nation's first recession in 30 years sent portfolios reeling amid a rocky outcrop of volatility.

However, risk is a necessary part of generating long- term healthy returns. The market's strong rebound in the second half of 2020 underlined why it's rarely a good idea to sell in a downturn.

Investors are instead focusing on diversification, risk management and the sustainability of returns, according to the latest ASX Australian Investor Survey[1].

The January 2021 survey showed that 19% of investors said they would cut their losses and move to cash or more secure investments in response to a sudden 20%-plus fall in their investment balance. However, about 12% said they would invest more to take advantage of lower prices.

Yet when investors experienced a 20%-plus fall in asset prices during the first three months of 2020, only 3% decreased their allocation to Australian shares, while 17% invested all their spare cash in the market.

The results show a level of sophistication among Australian investors who were unwavering in their strategies and displayed resilience during a time of panic.

### Retirees manage the downturn

Retirees are more exposed to market downturns, yet they have managed the emotional impact of the March crash particularly well.

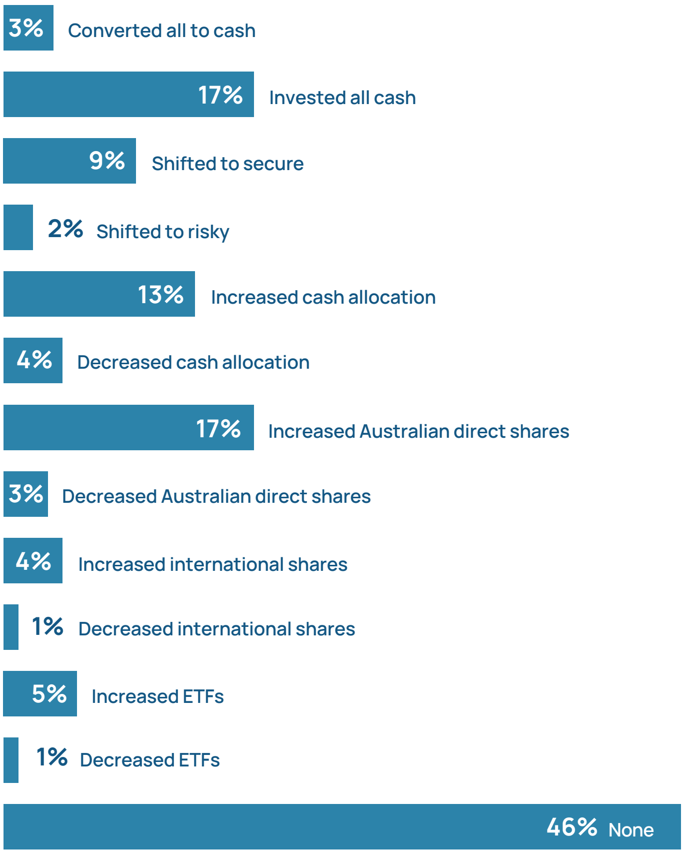
According to research firm Investment Trends (which conducted the ASX report), in the months between May and August, almost two-thirds (63%) of investors had not made any portfolio changes.

"Younger investors are most likely to have made significant shifts while older ones were more inclined to stick with their existing strategy," according to Investment Trends.

Older Australians that did make new investments also used most (if not all) of their cash to increase their exposure to the market, capitalising on falling prices.

Michael Blomfield, CEO of research firm Investment Trends (which conducted the ASX report), said in the months between May and August, almost two-thirds (63%) of investors had not made any portfolio changes.

"Overall, 17% of investors increased their allocation to Australian direct shares, with just 3% saying they had sold down their shareholdings," Blomfield said.




Source: Australian Investor Study https://www2.asx.com.au/blog/australian-investor-study

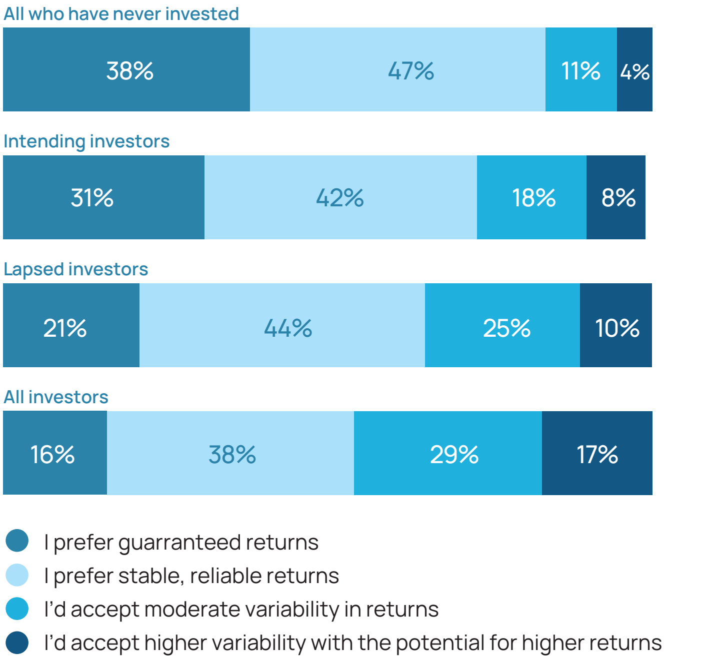
## A new perspective on risk

The pandemic has changed the attitudes of Australian investors towards risk management.

They're becoming more aware that higher potential returns come with a greater risk of volatility and capital losses.

Asked to name their top three considerations when making investment decisions, survey respondents were most likely to consider potential return (65%), followed by potential risk (48%) and their personal circumstances (40%).

The survey shows a greater appreciation about investing for the long-term. Australians are less likely to lock in losses when markets are down, preferring to ride out the storm until markets recover.




Some figures may not total 100% due to rounding or multiple responses being allowed
Source: How would you describe your attitude to financial and investment risk? (All respondents), ASX Australian Investor Study 2020

## Investors recognise financial advice is valuable

The last year has seen an increasingly complex investment environment.

Yet only 27% of Australian investors have used a financial adviser in the past 12 months, down from 39% in 2017.

However, they also understand the value of advice in the wake of the pandemic. Almost two-thirds (63%) of Australians say they are open to receiving financial help.

A total of 84% of investors say their adviser helped them during COVID-19, proving that when the going gets tough, savvy investors turn to the professionals.

**63% of Australians are open to receiving financial advice**

**27% of investors used an adviser, broker or wealth manager in the last 12 months**

**17% are more likely to seek advice after COVID-19**

**84% found the advice received from their adviser during COVID-19 was helpful**

## Diversification remains a sound strategy

The importance of diversification, where risk is managed by mixing a wide variety of investments within a portfolio, is perhaps not fully appreciated.

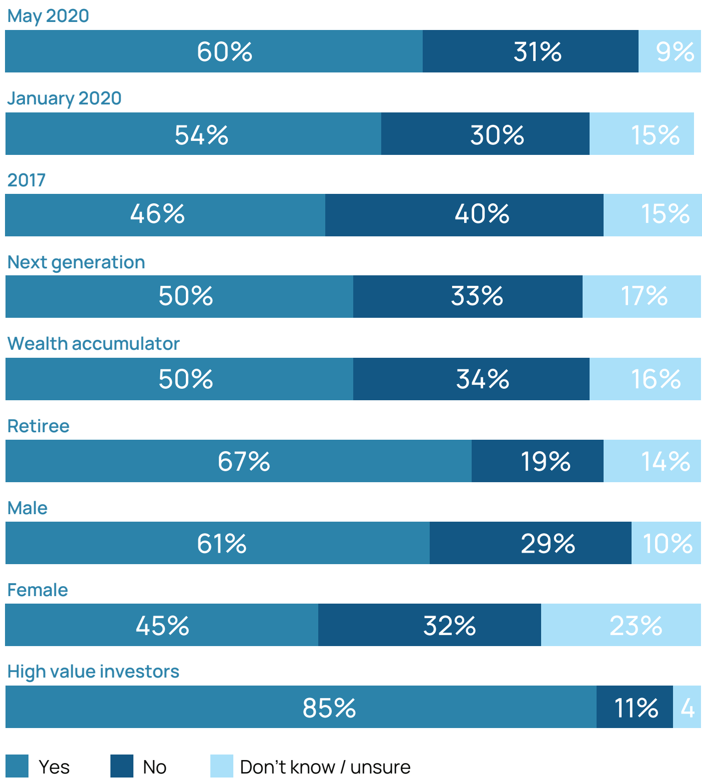
Only around three in ten say that diversification is a top consideration when investing.

Those who believe they are well diversified hold an average of 2.6 investment asset classes, compared with 1.6 among those who say they are not diversified.

The survey also found clear links between diversification, experience, and portfolio size, with older investors and those with larger portfolios most likely to rate their investments as diversified.

However, the Investment Trends Report suggested younger investors are particularly willing to learn from the crisis, with nearly two-thirds of investors under the age of 25 placing greater emphasis on the risk-reduction strategy after COVID-19.

### Diversification by investor type.
### Do you have a diversified investment portfolio? (investors)




Source: ASX Australian Investor Study 2020

One in three said hedging strategies [to protect against market falls] were now a higher priority than before. One in five were more focused on liquidity and defensive assets.

The study warned that while a number of investors may be achieving genuine diversification through a multi-asset-class managed fund, LIC or ETF, others are likely to be less diversified than they believe.

With COVID-19 not slowing down and interest rates hitting historic lows, it has become more important than ever to implement risk management strategies.

And with 81% of retirees planning to make changes to their portfolios in the next year, it may be prudent to talk to your adviser to ensure your strategy is positioned to achieve your goals.

1. Australian Investor Study. (2020, December 17)
Retrieved from https://www2.asx.com.au/blog/australian-investor-study

If you have any concerns about your portfolio's diversification or want to discuss risk management, FinNest Financial can help you.

# WHY 60-YEAR-OLD 'SUPER AGERS' CAN OUTPERFORM 20-YEAR-OLDS

New research suggests a healthier lifestyle may hold the key to better memory performance.

Growing older may bring wisdom and experience, but it's often accompanied by cognitive decline in our retirement years. However, a new study has found that isn't always the case – some people aged over 60 can consistently outperform 20-year-olds on memory recall tasks[1].

This inspiring bunch of lucky people who reliably perform better at cognitive tests than their decades-younger counterparts have been dubbed 'Super Agers' by researchers at the ARC Centre of Excellence in Population Ageing Research **(CEPAR)**.

The study busts some misconceptions about ageing and shows that people in the 70s, 80s and beyond can sustain memory functions as well as the young folks.

Lead author of the study Janet Maccora said the findings challenge the assumptions and negative stereotypes about ageing.

"The existence of Super Agers is important because it demonstrates not only the possibility of high functioning in later life, but also that it is not just young people who have excellent memory," she said when announcing the results earlier this year.

## Gender plays a role

Super Agers are becoming more prevalent in Australian society and there are a number of gender-related factors that determine the likelihood of becoming one.

Maccora and her colleagues applied gender-specific definitions of Super Agers to estimate how many there are in the population. They measured various demographic, physical, genetic, lifestyle, and psychosocial factors that were associated with being a Super Ager.

They found different gender factors were at play, with more women than men Super Agers.

"Education was the only factor associated with Super Ageing for both men and women, with more years of education increasing the odds of being a Super Ager," she said.

Men who showed depressive symptoms were less likely to be a Super Ager, but men who participated in social activities were more likely to score higher on memory tests.

A higher frequency of involvement in investigative activities, such as reading scientific books or magazines, solving maths or chess puzzles, or troubleshooting software packages on a computer, all increased the chances of being a female Super Ager.

The most surprising association – and perhaps the most welcome – was female Super Agers drank more standard drinks per week than their non-Super-Ageing counterparts.

However, the researchers warned that the association between alcohol consumption and later-life cognition should be interpreted cautiously.

"There are challenges in measuring the association between alcohol consumption and later-life cognition, such as the risk of bias inherent in self-reported measurements, the lack of information regarding alcohol type or the unmeasured influence of socioeconomic status.

The study also found many factors commonly associated with ageing and cognitive decline, such as diabetes, hypertension and smoking, were not linked with being a Super Ager.

## Don't neglect a safety net: preparing for cognitive decline

**While it's nice to think we might all become Super Agers, the reality is only a minority of us will achieve that level.**

The thought of experiencing the natural decline of our cognitive abilities that comes with ageing evokes fear and anxiety. Most people's financial literacy scores decline by about one percentage point each year after age 60, according to research.

Yet less than half of investors said they have a plan in place if their decision-making abilities decline, according to a State Street Global Advisors' survey, which can lead to financial mismanagement or fraud.

It's crucial to set up such a plan in advance to combat any cognitive decline and exert more control.

Consider appointing an independent power of attorney to manage financial decisions if you are unable to do so.

An independent trustee can also ensure your interests are placed first, and removes the burden of family and friends making tough decisions.

1. Factors associated with being a Super Ager differ for men and women | CEPAR. (2020, October 04).Retrieved from https://www.cepar.edu.au/news-events/ news/factors-associated-being-superager-differ-men-and-women



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