Spring Edition 2023

News from the Nest

FinNest Financial

Welcome to our Spring Edition of 'News from the Nest'

We are pleased to share with our valued clients, the latest in topical updates to help you Plan, Grow and Protect your wealth.

Amongst the divergent topics in this edition, we explore why people think the way they do when it comes to investing. Understanding and mastering this is a key part of guiding our clients toward the right financial outcomes. We also explore another hot topic when it comes to finance – financial scammers - and how to be vigilant when it comes to protecting your information and investments. **Plus,** the latest in superannuation changes and opportunities, and of course the most recent happenings here at FinNest Financial.

Please enjoy and we look forward to seeing you in the 'Nest' very soon.

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

MICHAEL MCGOWAN COMPLETES HIS GRADUATE DIPLOMA OF FINANCIAL PLANNING!

Here at FinNest Financial, we have a sharp focus on ensuring that our knowledge and education is contemporary and meaningful in order to support our valued clients. We're very proud to announce that Michael McGowan has notched up another important academic qualification – his Graduate Diploma of Financial Planning. Congratulations Michael!

But he's not stopping there. Without even taking a pause, he has launched himself straight into commencing his Masters of Financial Planning. Both very significant milestones in the pursuit of the best professional qualifications for his very important role in our practice.

HOW TO BOOST YOUR SUPER WITH A LUMP SUM

If you're lucky enough to have received a windfall, perhaps an inheritance or a retrenchment payout, your first decision will be what to do with it.

Assuming you have decided against a shopping splurge, finding the best place to invest a lump sum is all about the effect on your tax bill and how soon you will need access to the funds.

For those interested in investing their lump sum for a longer term, superannuation is one approach because of its tax benefits.

But be aware that, while super can be a tax-effective investment, there are limits on how much you can pay into your super without having to pay extra tax. These are known as contribution caps.

Different types of contributions

There are two types of super contributions you can make – concessional and non-concessional – and contribution caps apply to both.

Concessional contributions are paid into super with pre-tax money, such as the compulsory contributions made by your employer. They are taxed at a rate of 15 per cent.

Non-concessional or after-tax contributions are paid into super with income that has already been taxed. These contributions are not taxed.

So, the tax you pay depends on whether:

- the contribution was made before or after you paid tax on it
- you exceed the contribution caps
- you are a high income earner (If your income and concessional contributions total more than $250,000 in a financial year, you may have to pay an extra 15 per cent tax on some or all of your super contributions.)

Investing after-tax income

There are many different types of after-tax contributions that can be made to your super including contributions your spouse may make to your fund, contributions from your after-tax income, an inheritance, a redundancy payout or the proceeds of a property sale.

Based on current rules, the annual limit for non- concessional or after-tax contributions is $110,000. You can also bring-forward two financial years' worth of non-concessional contributions and contribute $330,000 at once but then you can't make any further non-concessional contributions for two financial years. Note that are certain limitation on these types of contributions.

It is also useful to note that, under certain conditions, there are some types of contributions that do not count towards your cap. These include: personal injury payments, downsizer contributions from the proceeds of selling your home and the re-contribution of COVID-19 early release super amounts.

The Downsizer scheme allows the contribution of up to $300,000 from the proceeds of the sale (or part sale) from your home. You will need to be above age 55 but there is no upper age limit, the home must be in Australia, have been owned by you or your spouse for at least 10 years, the disposal must be exempt or partially exempt from capital gains tax and you have not previously used a downsizer contribution.

Giving your super a boost

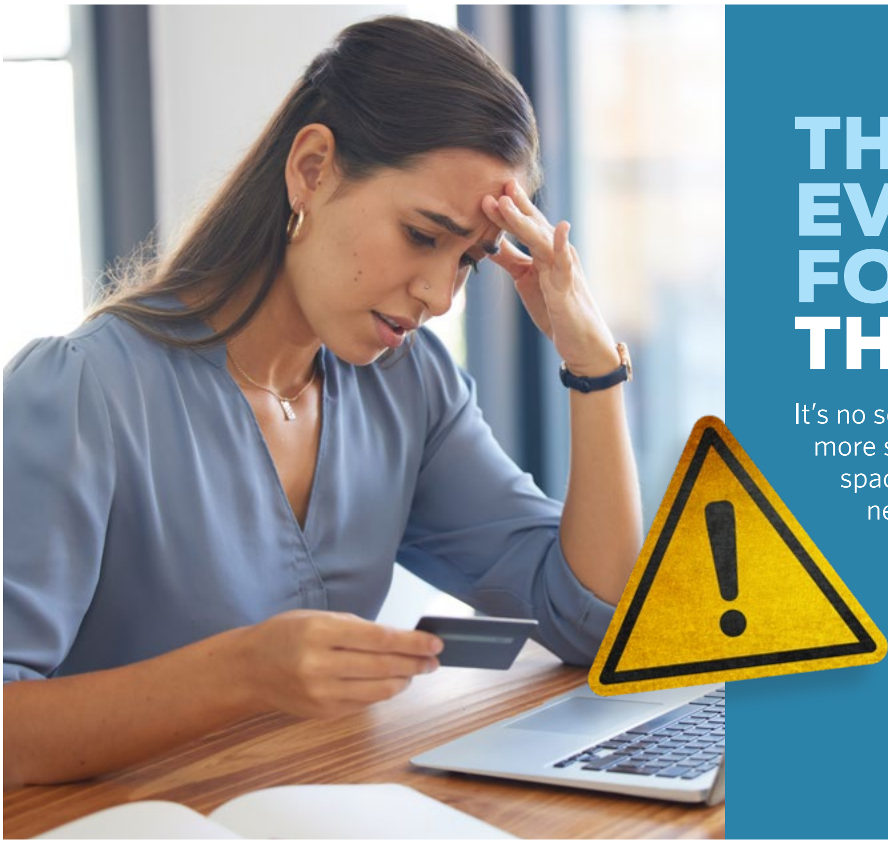
A review of your super balance and some quick calculations about your projected retirement income might inspire you to give your super a boost but not everyone has access to a lump sum to invest.

A strategy that uses smaller amounts could include any amount from your take-home pay. These contributions will count towards your non-concessional or after-tax cap.

Alternatively, you add to your super from your pre- tax income using, for example, salary sacrifice. These types of concessional or pre-tax contributions attract a different contribution cap: $27,500 per year, which includes all contributions made by your employer.

If your super fund balance is less than $500,000, your limit may be higher if you did not use the full amount of your cap in earlier years. You can check your cap at ATO online services in your myGov account.

> The rules for super contributions can be complex so give us a call to discuss how best to maximise your benefits while avoiding any mistakes.



THINK YOU'LL EVER FALL FOR A SCAM? THINK AGAIN!

It's no secret that scammers are getting more sophisticated. As this is an ever-evolving space, scammers are constantly developing new ways to part you with your hard earned cash – and they cast their net wide.

While it's easy to think "it will never happen to me", people who never expected to be victims of scams are actually among the most vulnerable to being taken advantage of. While the stereotype is that older people are the most likely to be scammed, Gen Xers, Millennials, and Gen Zs are actually more likely than seniors to report losing money to fraud.[i]

The reality is scammers don't discriminate and people of any age or demographic who believe they are too smart to be tricked may be less careful and more likely to suffer a loss.[ii] And the losses are considerable. Australians were expected to lose around $4 billion to scams in 2022.[iii]

Here are some scams to be aware of that are doing the rounds:

Texts or calls from a trusted brand

One of the most common scams at the moment is where a criminal pretends to be a trusted brand or government agency getting in touch to collect personal information or demand a payment. You may be contacted by email, social media, phone call, or text message and they will often direct you to an official looking website.

It's easy to be taken in via text message as it can appear to be from a legitimate sender as the scammer uses 'alpha tag' technology to register a mobile number with a word or acronym – the ATO (Australian Tax Office) for example.

Beware of clicking on links and if you get a text message or call that doesn't seem right, you can find the official contact details on the company's website and call them to verify the scam.

Buying and selling

Scammers prey on consumers and businesses that are buying or selling products and services.

As a buyer you may pay the money and never receive the goods you have paid for. To protect yourself be on the alert for scams – if the advertised price looks too good to be true, it probably is. For rental properties or holiday accommodation, only use reputable online booking agents.

As a seller, you may be tricked into believing the buyer has paid in full or even paid over your advertised amount, including sending falsified payment receipts to support their claim. The buyer may then request a refund for overpayment. To protect yourself, don't accept a mobile payment from someone you don't know and never accept or refund a deposit for more than the selling price.

False billing scams request you or your business to pay invoices for services or supplies you did not order so always double check and query demands for payment if in doubt.

Tugging on the heart strings

Dating and romance scammers often make their approaches on social media or dating sites and will go to great lengths to gain trust. Protect yourself by never giving money or goods of value to someone you have never met in real life.

Scammers also appeal to our emotions by impersonating genuine charities to ask for donations after natural disasters or major events. To avoid being scammed approach charity organisations directly and check an organisation's credentials on the Australian Charities and Not-for-Profits Commission (ACNC) website to see if they are a genuine charity.[iv]

Attempts to gain personal information

These include when a scammer gains access to your personal information by using technology.

Consider using multifactor authentication, a security measure that requires one or more proofs of identity to grant you access to any applications you use regularly and change passwords regularly, making sure to choose secure passwords.

Taking a little extra care to be aware and alert to the possibility of being scammed could save you a lot of heartache. Of course, we are here to help if you think something may be a little suspect.

i https://consumer.ftc.gov/consumer-alerts/2022/11/fraud-reports-and-losses-not-just-grandparents-story
ii https://www.finrafoundation.org/sites/ finrafoundation/files/exposed-to-scams-what-separates-victims-from-non-victims_0_0.pdf
iii https://www.news.com.au/finance/money/ costs/australia-to-cop-4-billion-scam-loss-in-2022-according-to-scamwatch/news-story/890 e469b4b05a6c950e3cb6b4f83f56c
iv https://www.acnc.gov.au/charity/charities

WILL THESE SUPER CHANGES AFFECT YOU?

As our superannuation balances grow larger, it makes more sense than ever to keep track of the many rules changes that have recently happened or are coming up soon.

So, check out these latest changes in case they affect you.

Super bonus for workers

For employees, the new financial year kicks off with an increase in the Superannuation Guarantee paid by employers. It is now 11 per cent of eligible wages.

This rate will increase by 0.5 per cent each year until it reaches 12 per cent in 2025.[i]

The Australian Tax Office will also be cracking down on employers who don't pay on time or at all.

Minimum pension drawdown increased

A COVID-19 measure to reduce the minimum drawdown required on super pensions ended on 1 July 2023.

Investors receiving super pensions and annuities must withdraw a minimum amount each year. The federal government reduced this amount by 50 per cent over the last four financial years to help those wanting to protect their capital as the markets recovered from the chaos of the pandemic.

You can find out more by visiting the ATO's minimum pension standards.

Transfer balance cap lifted

The maximum amount of capital that can be transferred to your super pension increased to $1.9 million from 1 July 2023.[ii]

The transfer balance cap limits the total amount of super that can be transferred into a tax-free pension account. This is a lifetime limit.

The cap is indexed and began at $1.6 million when it was introduced in 2017. Increases in the cap are tied to CPI movements, in $100,000 increments.

Proposed tax for large balances

Investors with super balances of $3 million or more will lose the benefit of super tax breaks on earnings under currently proposed legislation changes intended to be effective from 1 July 2025.

Under these proposed changes, taxes on future earnings will be increased to 30 per cent from the current rate of 15 per cent, although they will continue to benefit from more generous tax breaks on earnings from the funds below the $3 million threshold.

Other recent changes

A number of changes announced in both federal budgets last year have also been slowly introduced over the past 12 months.

In one major change, the minimum age was lowered for those able to invest some of the proceeds of the sale of their homes into super, known as a 'downsizer contribution'.

From 1 January 2023, if you are aged 55 or older, you can now contribute to your super up to $300,000 (or $600,000 for a couple) from the sale of their home.

The home must be in Australia and owned by you for at least 10 years.

Another significant reform for many has been the removal of the work test for those under 75, who can now make or receive personal super contributions and salary sacrificed contributions. (Although the ATO notes that you may still need to meet the work test to claim a personal super contribution deduction.)

Previously if you were under 75, you could only make or receive voluntary contributions to super if you worked at least 40 hours over a 30-day period.

While caps have been lifted and programs expanded, at least one scheme has not changed. The Low Income Super Tax Offset (LISTO) threshold remains at $37,000. LISTO is a government payment to super funds of up to $500 to help low-income earners save for retirement.

If you earn $37,000 or less a year you may be eligible a LISTO payment. You don't need to do anything other than to ensure your super fund has your tax file number.

Finally, a project that may pay off down the track, the Federal Budget included continued funding for a superannuation consumer advocate to help improve investors' outcomes.

i https://www.ato.gov.au/Business/Small-business-newsroom/Lodging-and-paying/The-super-guarantee-rate-is-increasing/
ii https://www.ato.gov.au/Individuals/Super/Withdrawing-and-using-your-super/Transfer-balance-cap/

Expert advice is important to help navigate these changes over the coming year. Call us for more information.

BEHAVIOURAL GUIDANCE DURING MARKET VOLATILITY

Much of this year has remained fraught with uncertainty and instability in the markets. This, of course, has caused many investors to become nervous and impulsive about their market decisions.

This article will help to ease some fears about market volatility and outline a behavioural approach to address emotional decision-making. Hopefully, this information will assuage fears that many investors have experienced over the past several months.

Definition of Behavioural Approach

Behavioural finance and guidance is the approach that closely analyses investor psychology. When dealing with money, particularly with high stakes and unstable markets, the brain becomes potentially vulnerable to fallacious reasoning and other faults within decision-making.

These sorts of faults inevitably produce more impulsive, emotion-driven investing decisions. Overall, this drops returns potentially lower than most other asset classes.

The behavioural approach goes beyond risk assessment and identifies fundamental behavioural triggers that lead to panicked or fear-driven decisions. Understanding how investors may react to volatility can help decrease emotion-driven decisions. In the long term, this likely yields better returns for investors.

Identifying Biased Thinking and Behaviour

Biases in an investor's approach and understanding frequently lead to misinformed decisions. These come in the form of cognitive and emotional biases. Eventually, they yield to potentially poor investment behaviour.

Examples of Cognitive Biases

- **Confirmation Bias:** "Confirming" what is already suspected or considered. This leads to 'cherry-picking' of information which affirms ideas without fully considering all factors.
- **Recency Bias:** Short-term thinking, which adds undue weight to more recent experiences. This is a short-term perspective that fails to understand investments concerning the long-term. It can lead to a spiralling of investment choices that may not align with investor risk tolerance.

Examples of Emotion Biases

- **Loss Aversion:** Experiencing more pain of loss than the happiness of gains. Investors may overreact to even milder losses, which may cause the hasty selling of investments or holding of prior 'winning' investments.
- **Familiarity Bias:** Many investors keep their perspectives only on what they know or understand. This could cause blind spots in portfolio diversification and gaps in return potential.

Remembering the Past and Highs and Lows

As the cognitive bias of recency suggests, short-term thinking can induce panic in investment thought and action. This, of course, produces less-than-desirable outcomes —particularly long-term.

Another method of addressing this issue is to consider short-term experiences within the context of past market performance. The market always ebbs and flows. Political and economic circumstances have always impacted it.

None of these is a new phenomenon within the market. Accordingly, demonstrating this truth of the market could help curb panic and anxiety-driven decisions.

Managing Behaviour May Lead to Better Outcomes

According to researcher Stephen Wendel, behavioural management starts with properly understanding and assessing what leads to panicked decision-making.

Typically, it follows a 5-stage process:

1. **Investment volatility:** specific investments could face volatility
2. **Information discovery:** investor learns of the volatility
3. **Emotion:** emotional responses are triggered by this information — usually fear or anxiety
4. **Decision:** a decision is made, fuelled by the negative emotional response
5. **Action:** investors act on the decision with negative consequences

Financial planners can help mitigate the adverse effects of this process by understanding how it progresses and identifying key methods to stopping it. Utilising behavioural techniques can prevent impulsive decision-making and yield better returns for investors.

Key Points to Consider

Finally, a few additional points to consider can improve outcomes even more.

1. Understand Risk Profile

Clearly defining a risk profile within an investment portfolio helps to weather the storm of market volatility. In addition, recognising the reality of risk and responding based on predefined tolerance helps to address emotion-driven decisions.

2. Asset Allocation in Light of Behavioural Approach

Asset allocation connects to an improved understanding of risk profile both for investors and financial planners. Behavioural tools combined with asset allocation can better highlight risk and prevent impulsive reactions to sudden spikes in market volatility.

3. Remember Goals, Objectives, and Duration

Similarly, reiterating long-term goals and duration over time can amplify a behavioural approach in preventing emotion-driven decisions.

The entire investment portfolio represents a plan with a certain degree of risk, all laid out over a duration. Despite short-term disruptions, remembering goals and duration can ground emotional responses.

Combining traditional strategies with the behavioural approach represents a significant step in financial planning and management. This can help investors understand their own wealth management more directly — and prevent potentially costly changes made from a state of panic or anxiety.

Sources

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Wells Fargo Investment Institute, "The perils of trying to time volatile markets," Sept. 28, 2021.

Stephen Wendel, "Using a Behavioral Approach to Mitigate Panic and Improve Investor Outcomes," Journal of Financial Planning, Feb. 2008

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