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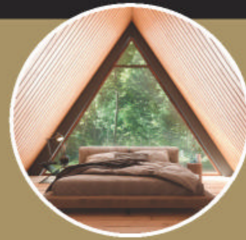

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GET THE PENSION + SUPER

PLUS
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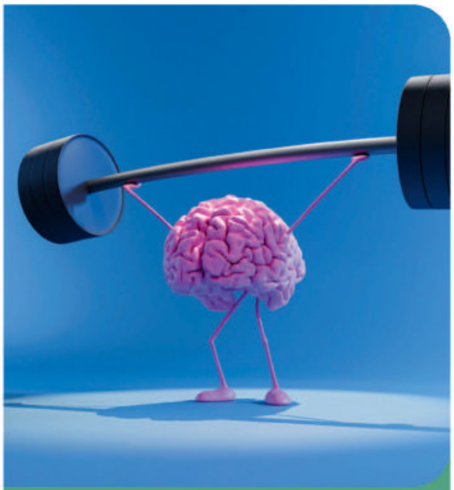

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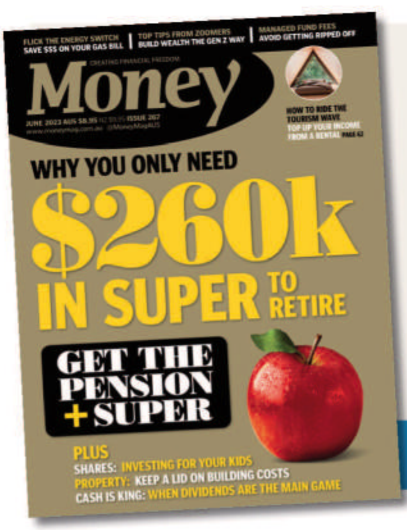

SAVINGS & GIVEAWAYS

SUBSCRIBE AND SAVE **35%** PAGE 2

NEXT ISSUE ON SALE **JULY 6**

EDITOR'S DESK

And the magic number is ...

One of our most downloaded podcast episodes on *Friends With Money* was the one about retirement titled "Can I retire now?"

In this episode we explored the age-old question of exactly how much money you need in retirement. Depending on the research you refer to, the answer could be anywhere between $300,000 and more than $1 million, the higher number causing most people quite a fright.

In this issue of *Money*, we reframe the debate by asking how much you should have in your super to still be eligible for the age pension. Last year, the magic number was $255,000; this year it's not too far off at $260,000.

We bring this number to the fore not because we think it's the right level of superannuation savings for everyone, but to highlight the choices available on the road to retirement. As Susan Hely writes in our cover story this month (page 36), a couple with assets of $419,000 in their super could end up with the same income in retirement as a couple with $1.25 million if the former is eligible for age pension and the latter is not.

It's a financial scenario you want to understand clearly before it's too late.

Elsewhere in this issue, we make a case for investing like a gen Z (page 48) and why dividends are king, through feast and famine (page 78).

We hope you enjoy reading this issue, and write to us if there are any saving, budgeting or investing topics you'd like us to cover in future issues.

Michelle

Michelle Baltazar,
Editor-in-chief

Feedback

Letter of the month

55-plus budget boost is hard to understand

I read *Money* regularly and one thing that stands out is how much advice older readers seek out, or the money concerns that they express. I figure this is just the core demographics in play. However, perhaps not so much anymore.

The federal budget has given "Newstart" recipients aged 55-plus a "modest boost" to their allowances, which would suggest the current government views these individuals as struggling more than, well, everybody else. Frankly, I see these individuals as people who literally have had a decades-long headstart on others to develop and secure their financial security/stability but simply have not (for whatever reason).

Perhaps it's a new way of thinking, but I'd reckon 30-odd years after high school you should have important things like personal finances sorted out. For example, my work life has "only" been 20 years and I have assets, savings and 20 years' worth of super. So, as the ad says, "compare the pair" and tell me where the wheels have fallen off?

Every aspect seems totally at odds with being lectured by these very same people on how to manage one's money, and that the answers to many modern economic issues could be resolved by using brains instead of heart.

Let them blow the kids' inheritance if they feel entitled to it, but any notion they deserve anything above that should be squashed immediately.

Thanks for letting me get that one off my chest.

Nitsua

How can you get the best returns on your savings?
Listen to the Friends With Money podcast #95
Your savings maximiser

Good luck with those banking sub-accounts

Phil Slade's suggestion to automate your savings into sub-accounts (Mind games, May) could have been mistaken for advice to the federal government on how to pay for proposed defence acquisitions.

Sub-accounts are an excellent financial tool. But good luck finding a bank that not only pays a half-decent rate of interest on savings but also caters for the creation of sub-accounts for expenses, savings and spending. You'll have more luck spotting a nuclear submarine at sea!

I recently tried setting up bank accounts for my children with three digital buckets – save, splurge and give – without having to open multiple accounts to achieve this goal. Forget it.

I cannot fathom that, in an era when AI and quantum computing are nascent, sub-accounts are not an industry standard. Banks do their customers a disservice by not offering them, particularly when saving and managing our money is so much more challenging.

When are the banks going to rise to the surface and reveal themselves to be on the side of customers?

Scott

Thanks for the 'hot' issue

Oh. My. Goodness. The April issue could not be put down! Each page turn brought new articles of absolute fire to the table. I started reading at 5pm on the couch and couldn't let it out of my hands until I finished it at 9pm. Lucky that grandma had my kids, otherwise we could have had a battle for dad's attention. Keep up the great work.

Chris

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Tell us what you like about *Money*, or let us know when we get it wrong. Share how the magazine has helped you, stories you'd like to see, and what you're facing in your own personal finance journey. If your letter is chosen as our Letter of the Month, you'll receive a 12-month subscription to *Money* magazine.

REG'S TOON

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What would you tell your younger self about money?

VITA PALESTRANT
Contributing writer
Whenever there was a significant task ahead my father would say "just do it little by little". His advice resonated later when I discovered drip feeding spare cash into wealth creation works wonders. I'm a great fan of super and its tax advantages and low costs. If you choose a good fund, contribute extra – no matter how little. You will never regret it.

CHRISTOPHER PAGE
Managing director
The simple lessons about money or investing are usually the best. The miracle of compound interest attributed to Albert Einstein is number one on the list. However, I like to credit Dr Don Stammer with expanding the lesson to compounding returns and the importance of reinvesting dividends. The younger you are the more powerful the impact because you need time on your side.

DAVID MATTHEWS
Senior designer
"Don't blow it all. If you're working, save some. Stash it in a growing pot. Kind of forget about it. Repeat. As soon as you get a real job, get a loan and buy some sort of real estate (this would have been killer back then). Keep saving. Find some other good growing pots to stash it. Get the seeds in early, young son!" I did something like this and am now in a reasonable position. Would've been better if I'd started earlier.

MICHAEL LYNCH
Multimedia producer
My advice would be fourfold – budget, invest, save, and grow your super. Learn everything you can about investing and start buying stocks in companies you know and love. Grow a portfolio over time and be analytical, not emotional in your investment decisions. Have at least three high-interest accounts: the rainy-day account, the investments account, and travel and purchases account. Top up your super through voluntary contributions.

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Encourage the kids to earn and learn

Helping, not spoiling, is the best way to raise good money managers

Raising children can be expensive. In 2018, the Australian Institute of Family Studies estimated it cost between $140 and $170 a week to raise a child – and it's probably more now due to increases in the cost of living.

Before you freak out and decide you can't afford children, know that many families excel at saving and investing. Also, having a family changes your perspective and priorities. I remember the money I wasted pre-kids on dining out, partying and travelling. While I have great memories, since having children, I've learnt to "adult" and be more frugal.

I love my children, I want to provide them with the best possible life and sometimes I want to treat them. I love seeing them smile. However, more isn't necessarily better and too much can lead to unhealthy co-dependent relationships (aka spoiling your kids).

As outlined in the book *The Millionaire Next Door*, "economic outpatient care" can create a false sense of security and prevent kids learning how to manage their own money. Simply put, if you provide too much your kids can become overly reliant on you.

But depriving children isn't the answer and can be abusive (Cinderella style). According to finance writer Noel Whittaker, parents should help their kids if they can – and if they're good kids. I agree. Rather than spoiling my kids with stuff, I like to focus on the more important things they need that will help them in the long run.

Find the right balance

So, how to balance providing for your kids to ensure they have the best possible start to life while still teaching them about how to prioritise needs over wants and save for their future?

When I was growing up, my mother, who came from a working-class family and made her own way in life, was big on ensuring we did not rely on handouts.

If we wanted money, we had to earn it. Likewise, I don't seek to buy my kids happiness, but I will provide for them and help them achieve their goals.

I want my kids to be good money managers, and that starts by talking about how we spend money and why. For example, when shopping, we discuss costs and weigh up wants versus needs. When they were little, I would get them to tell me what was a "want" or a "need" before putting items into the shopping trolley. Shopping with kids is always more expensive due to the "tax" of including wants that aren't on the shopping list, but knowing what are wants helps reduce impulsive spending. I'm the parent and I'm comfortable saying no where necessary.

Value versus brand name

My boys know how to compare the unit cost of items to help make choices and know that generic products can be just as good as big brand names. Understanding the value of the product versus the brand flows through to bigger purchases such as technology, where we look at specifications and reviews rather than brands or hype around a new release.

I let my kids manage how they spend and earn money. They get pocket money and earn extra dollars from recycling bottles and cans. I recently paid my youngest son to help me at a charity event (he did a great job).

If they have a big goal, we contribute half. My youngest son saved for a laptop and was so excited when it arrived. It meant more to him than if we just gave it to him. When our eldest hits Year 11 in three years, we will give him an allowance to buy his clothes and he can decide what's cool – or not.

Serina Bird is host of The Joyful Frugalista *podcast, and author of* The Joyful Frugalista *and* The Joyful Startup Guide.

NEWS & VIEWS

THE BUZZ

Dreams of ‘ideal’ retirement come up against reality

A new report by investment manager Vanguard, published in May, has found significant variance in what Australians believe is the ideal age to retire.

While the average ideal retirement age reported by respondents in the How Australia Retires survey was just over 61, it found workers aged between 18 and 34 hope to retire by 59.5, those aged 35 to 54 hope to retire by 61.5 and those aged between 55 and 75 or older want to bow out by 64.9.

Superannuation tends to be the basis upon which we choose when to – or can afford to – comfortably retire. With that in mind, it’s easy to forget that it was little less than a month ago that treasurer Jim Chalmers handed down the federal budget, which included some changes that will impact retirement.

Aside from the concessional tax rate applied to balances above $3 million doubling from 15% to 30% from July 2025, for those at the other end of the pay scale, the budget papers revealed the Australian Taxation Office (ATO) would get a $40 million boost to help workers – particularly young and low-income workers – reclaim underpaid or unpaid super.

The ATO estimates there was $3.4 billion of unpaid super in 2019-20 and the government says the initiative will improve the retirement outcome for around 8.9 million employees.

Then, of course, there was the announcement that employers will be required to pay their employees’ super guarantee entitlements at the same time as their salary and wages rather than on a quarterly basis, as they do currently. The aim is to make it easier for employees to track their payments and increase their overall retirement benefit. According to treasury, the switch would leave a 25-year-old median income earner about 1.5% – or $6000 – better off at retirement.

Which brings us back to age. According to the Vanguard survey, perceptions of the “ideal age” to retire did not vary significantly according to levels of affluence or gender.

One thing most working-age Australians have in common is that, when considering their circumstances, between 65 and 66 was seen as the realistic age at which to retire. One thing that clearly changes as we age is the shift from idealism to realism.

Hannah Tattersall

• **It isn’t what it used to be,** PAGE 42

ON MY MIND

What I learnt from Warren Buffett

The bucket list trip for any investor has to be the Berkshire Hathaway annual general meeting. I went five years ago, thinking it would be the last, but in May this year we had our latest instalment and the guys didn’t disappoint, even though Charlie Munger (vice-chairman of Berkshire Hathaway) is now 99!

Warren Buffett started by introducing Munger: “When I woke up this morning, I realised we had a competitive broadcast going out somewhere in the UK, and they were celebrating King Charles. We’ve got our own King Charles here today.”

The Q&A went for about six hours and the discussion covered topics around achieving success and building wealth. Here are three of my favourite Buffett quotes:

1. What gives you opportunities is other people doing dumb things. In the 58 years we’ve been running Berkshire, there’s been a great increase in the number of people doing dumb things.

2. If you’re paying 12% or 14% on a credit card, you’re saying, “I’m going to earn more than 14% on money.” If you can do that, come to Berkshire Hathaway.

3. You should write your obituary and try and figure out how to live up to it.

Andrew Mitchell, fund manager

CALENDAR OF EVENTS

Tuesday, June 6
Reserve Bank interest rate decision

Thursday, June 8
Balance of trade

Tuesday June 13
Westpac consumer confidence
NAB business confidence

Thursday, June 15
Employment rate

NEWS BITES

The Australian Financial Complaints Authority (AFCA) received more than 17,000 complaints because of the impact of the Covid-19 pandemic on their banking, insurance and other financial services, AFCA reported, with one in four complaints involving the way a firm responded to customers experiencing financial difficulties.

Research by the Economist Impact think tank shows productivity in Australia is set to grow by 9% by 2030, thanks to the "anywhere economy" (whereby electronic devices, the internet and digital platforms allow employees to work anywhere and at any time). The increase is likely to be the result of flexible working conditions, rising rural employment rates and tackling skills shortages by hiring from a wider pool of applicants.

An increasing number of products and services – handmade jewellery, electricity producers, medical equipment, pharmaceuticals, agricultural and construction goods – are sporting the Australian Made logo. "When you buy Australian Made, you have a direct economic impact on the livelihoods of hundreds of thousands of Australians throughout the supply chain," says Australian Made chief executive Ben Lazzaro.

Let's give our old-timers a fair go

It's fair dinkum time for employers to realise the true value of older workers in the workplace. The latest report by the Australian HR Institute and Australian Human Rights Commission proves that fewer employers set age limits on job candidates, and more recognise the advantages of hiring mature workers.

And let's not beat around the bush – older workers are usually better. They know how to get out of bed in the morning, turn up to an office and even turn up on time. They don't waste time on Instagram or doing silly TikTok dances.

They're also less likely to have all the anxiety crap that all Gen Z claim to have and just focus on getting the job done! They've got years of experience and they don't muck around. They're loyal and reliable, and can teach young whippersnappers a thing or two.

Sure, there might be some lingering ageist views that older workers are less tech savvy, but that's a load of bulldust. Many have adapted to new technologies faster than you can say "she'll be right".

Employers should be more open to hiring mature workers and recognise the benefits they bring to the table. They deserve a fair-go.

Matthew Svenson, sales executive

30%

of Australians claim that half their wardrobe is made up of pre-loved fashion and accessories, according to research commissioned by eBay Australia. Almost half (45%) say they have increased their purchases of pre-loved fashion in the past two years.

NEWS&VIEWS

BOOK OF THE MONTH

BLACK BELT: A MASTERCLASS FOR START-UPS AND ENTRE-PRENEURS
by Joseph Healy & David Hornery
Major Street, $32.99

This book tells the story of finance industry veterans Joseph and David who successfully disrupted the banking industry – in an environment dominated by the big four – by launching Judo Bank in 2016. It was Australia's first commercially listed bank in 40 years.

The name is a nod to the fact that in judo the smaller, weaker person can overpower a stronger opponent through the efficient use of energy.

The authors share key lessons – and the real-life challenges they faced – from the Judo journey and their decades in business before their start-up success against all odds.

Five readers can win a copy

In 25 words or less, tell us why you'd like to win this book. Enter online at moneymag.com.au/win or send entries to Money, Level 7, 55 Clarence Street, Sydney, NSW, 2000. Entries open May 29, 2023 and close July 5, 2023.

PODCAST OF THE MONTH

FRIENDS WITH MONEY #98: TAX TIME

Guest: Mark Chapman
Hosted by: Tom Watson

It's that time of year again, when you have to get together all your records and receipts. There's no doubt tax time can be stressful but the more organised you are the easier the process will be.

Thankfully, there are experts to lend a hand. H&R Block's Mark Chapman fills us in on all things tax in the lead-up to the end of the 2022-23 financial year and looks at what you can do now to get a head start.

He discusses new rules, who the ATO is likely to target, what working-from-home expenses are still claimable, and looks at the fine line between a personal and business expense.

SCAN THIS CODE TO ACCESS ALL OUR FRIENDS WITH MONEY PODCASTS

TAX TIP

Crackdown on rental property claims

If you own a rental property, you need to be particularly careful not to understate your income or overclaim your expenses when you complete your 2023 tax return.

The ATO is backing up its existing compliance focus on rental properties by entering into a "data-matching protocol" with mortgage lenders. It claims that as many as 90% of all rental claims are incorrect.

The data-matching program will collect:

- Client identification details (names, addresses, phone numbers, dates of birth);
- Loan details (account numbers, BSBs, balances, total interest charges, total repayments, commencement and end dates);
- Transaction details (dates, amounts, whether debit or credit);
- Property details (address of the loan asset).

Therefore, the ATO will have an independent, third-party verification of tax return information relating to:

- The existence of rental properties, which will help catch taxpayers who fail to declare that they own a rental property (and is useful for catching both non-reporting of rental income and capital gains);
- Loan interest claims, which are by far the biggest tax deduction claimed by rental property owners.

The tax office will collect information from 17 institutions, including the big four banks, Macquarie, Bendigo Bank, Ubank and RAMS. It will receive the information for all tax years from 2021-22 to 2025-26.

MARK CHAPMAN, DIRECTOR OF TAX COMMUNICATIONS AT H&R BLOCK. MCHAPMAN@HRBLOCK.COM.AU

SNAPSHOT Where rising costs are hitting hardest

MY MONEY

▶MORE MONEY STORIES ON P44-57

COST OF LIVING

Meats and treats are off the list

Shoppers are crossing meat off their lists more than any other item as they look to "trim the fat" from their grocery bills in the wake of rising living costs.

In a new survey conducted by comparison website Compare the Market, 62% of respondents revealed they had either reduced their spending on meat or given it up entirely over the past three months, with Tasmanians (82%) and those aged 58 and over (73%) found to be the groups cutting back the most.

"We know the cost of groceries, gas, and electricity are all on the rise. After 10 consecutive rate rises, mortgage repayments and rental payments have increased for many households," said Compare the Market's Phillip Portman.

It's not just meat that is considered to be unaffordable, either. "For many homes, the candle is being burned at both ends, which is why we can see many Aussies ditching meat and sweet treats to save money," said Portman.

Indeed, shoppers are cutting out chocolate, chips and other snack foods. Perhaps more concerningly, though, a significant number of people have been giving up fresh fruit and vegetables.

"Not all Australians are solely cutting back on the 'bad' food to pay the bills," said Portman. "A quarter are giving up or cutting back on vital nutrients like vegetables and fruit."

Items shoppers are cutting out

1. Meat: **62%**
2. Confectionery: **58%**
3. Savoury snacks: **44%**
4. Soft drinks: **43%**
5. Cleaning products: **31%**

Source: Compare the Market

Credit card betting ban to be extended

Australians who gamble online will no longer be able to fund their bets using a credit card under a newly proposed ban put forward by the federal government.

According to the government, Australians are estimated to lose around $25 billion to legal gambling each year, which is the highest loss per adult in the world.

"It's as simple as this: people should not be betting with money they do not have," said the federal minister for communications, Michelle Rowland.

The government says the ban, which it hopes will be legislated later this year, will be enforced using bank identification numbers (BINs) to block credit card payments – a practice that is already in place

in casinos and venues with poker machines to stop ATM withdrawals using credit cards.

Carol Bennett, the chief executive of advocacy group Alliance for Gambling Reform, has welcomed the proposed ban.

"This move is critical to protect people from falling into debt and we cannot leave it to industry to self-regulate when they are more interested in their profits than protecting people who are vulnerable to gambling harm," she said.

COMPILED BY TOM WATSON

DEPOSITS

Home buyer support extended

HOUSING SCHEME PLACES (2023-24)

- *Home Guarantee: 35,000*
- *Regional First Home Buyer Guarantee: 10,000*
- *Family Home Guarantee: 5000*

More budding home buyers will soon be able to tap into the Home Guarantee Scheme (HGS) after the federal government announced it would expand access to the initiative, which is designed for low-deposit borrowers.

Starting from July 1, siblings, family and friends will now be able to jointly apply for the first home guarantee and the Regional First Home Buyer Guarantee, which have previously only been available to couples.

Buyers who have purchased a home in the past, but haven't owned a property in at least 10 years, will also be able to access the two programs for the first time.

"We know friends and family members are already teaming up to secure their own place to call home," said federal minister for housing Julie Collins. "Our actions will allow them to access vital assistance, just as couples have been able to previously."

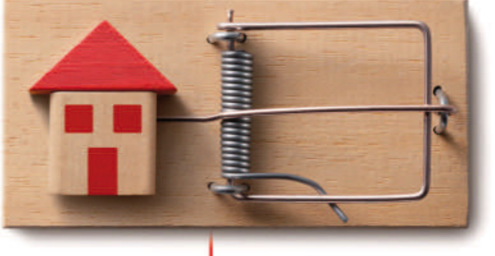
As well, eligibility criteria for the Family Home Guarantee will be expanded. Already available to single natural or adoptive parents, the initiative will also become accessible to single legal guardians of children (for example, aunts, uncles and grandparents) from July.

"Giving entry-level buyers more options to pool resources to get into their own homes as they contend with cost-of-living challenges has always made sense to REIA and has been a change to the HGS we've long advocated for," president of the Real Estate Institute of Australia, Hayden Groves, told *Money*.

For more see Banking PAGE 52

▶MORE PROPERTY STORIES ON P58-65

Dangers of using rental platforms



As if life wasn't tough enough for renters right now, according to the consumer group CHOICE more than two in five renters have been pressured to use so-called "rent tech" – third-party rental platforms – when they apply for a lease.

According to CHOICE, these platforms not only put tenants at risk of data breaches, they often leave them with additional fees, including forking out for the cost of their own background checks. In a worst-case scenario, rent tech can see renters excluded from housing.

"Automated decision-making systems are becoming an increasingly common part of rental application systems," says CHOICE consumer data advocate Kate Bower.

The Snug platform, for example, produces a "match score" for rental applicants, using the personal information submitted by a renter to indicate their suitability for particular properties.

"A sore lack of regulation in this market means these automated decision-making systems could increase barriers and discrimination for renters, potentially excluding some people from housing," says Bower.

CHOICE is calling for federal, state and territory governments to protect renters by updating residential tenancies laws. NICOLA FIELD

INVESTING

▶MORE INVESTING STORIES ON P66-77

RETURNS

Term deposits reel in the cautious savers

Australian investors are flocking to term deposits and away from equity funds.

Plan for Life data reveals that Australian equities funds saw their net funds inflows drop 16% to $10.5 billion in the year to September 2022 compared with the same period in 2021.

By contrast, APRA data shows a significant increase in term deposit holdings in banks between December 2021 and September 2022, with the amount rising by $170 billion, from $781 billion to $951 billion – a 22% increase.

Michael Miller, a financial adviser at Capital Advisory, says investors tend to put their money into equities when they perceive the market as safe, which is often influenced by a period of strong recent returns.

"Human nature is likely to favour that desire for safety, which leads to less flow into equities markets after periods of volatility."

As for the rise in net flows to term deposits, he says investors now feel they're getting some income return from them, even if these returns might not necessarily keep pace with inflation.

NAB executive Paul Riley says the rising cost of living has prompted customers to be more price savvy.

"Against uncertain global markets, we have seen customers embrace the secure and compelling returns offered by term deposits," he says. "This trend is particularly strong among older Australians who are four times more likely to keep their savings in term deposits than younger Australians aged 18-29."

ANDREW McKEAN

Freddie Mercury's crown up for grabs

It's been more than 30 years since Freddie Mercury passed away, but interest in the lead vocalist of British rock band Queen has never waned. Fans now have a chance to own some of Mercury's prized possessions, with auction house Sotheby's announcing a September sale of his collectibles.

The auction follows a series of free exhibitions in the US, Hong Kong and UK, which showcased the performer's costumes, handwritten lyrics and personal belongings, including curios and intricate fabrics picked up on his frequent trips to Japan.

As a guide to possible prices, the crown and robe worn by Mercury for the rendition of *God Save the Queen* during his final tour with Queen in 1986 is expected to fetch up to £80,000 ($151,000).

It's good news for collectors, of whom there are an estimated five million in Australia, according to eBay.

If you can't afford the rock star's former belongings, it could pay to raid the children's toy box: the most commonly collected items in Australia are coins and LEGO sets.

COMPILED BY NICOLA FIELD

SHARES

▶MORE SHARES STORIES ON P78-89

PERFORMANCE

Companies with negative cashflow raise concern

Research by Plato Investment Management found 28% of ASX-listed companies have negative cashflow – more than any nation in the MSCI World index.

Plato's head of long-short strategies, David Allen, warned of the prevalence of negative operating cashflow in ASX-listed companies, claiming "net income is so easy to manipulate" as companies have negative underlying earnings but still present a positive result.

"All the historical data suggests over the long term, companies with negative operating cashflow perform very poorly on average."

In the MSCI World index, which represents large and mid-cap equity performance across 23 developed countries, Australia has the highest proportion of companies with negative operating cashflow, followed by Belgium (26%), the US (26%), Netherlands (25%) and Hong Kong (24%).

Meanwhile, Singapore (6%), Portugal (8%), New Zealand (11%) and Italy (12%) have the lowest proportion of companies with negative operating cashflow.

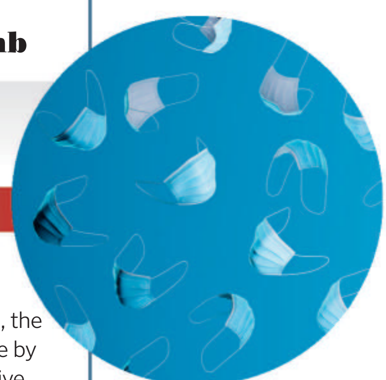
Despite Australia's high proportion of negative cashflow, Allen also contends that the domestic market isn't necessarily a bad place to invest, but "investors need to be discerning and those who can sidestep the landmines can be well placed".

He also says that negative operating cashflow is a powerful red flag, but it can present shorting opportunities for traders and investors. ANDREW McKEAN

HOLD ResMed (RMD)

The Intelligent Investor Graham Witcomb

Source: Intelligent Investor; price as at May 3, 2023, close of business



The champagne corks must have been popping at ResMed's head office in April when it reported currency-adjusted revenue up 31% to $US1.1 billion ($1.7 billion). Growth was spread across all major segments, including devices, masks and software.

Its core business of selling continuous positive airway pressure devices and masks had one of its best quarters yet: new device sales shot up 43% due to order backlogs being worked through, and the number of new patients served now exceeds pre-pandemic levels.

But we don't expect that to last. ResMed's stupendous growth has seen an exaggerated shift in market shares due to a recall by competitor Philips. That shift will eventually flow back the other way.

ResMed should hang onto some of the market share it has gained over the past few years and will benefit from Philips's reputational damage. But long-term growth will probably revert to the mid to high single digits, from a higher base of patient numbers.

ResMed trades on a price-earnings ratio of around 35 based on consensus estimates for 2023.

While that's a premium price, the company could grow revenue by 50% or more over the next five years due to this year's impressive device sales sowing the seeds for higher mask sales in future years.

With economies of scale, competitive advantages and good growth prospects, it's a HOLD.

GRAHAM WITCOMB IS A SENIOR ANALYST AT INTELLIGENT INVESTOR.

STORY ALAN DEANS

At home in a watery world

Fact file

Richard Fitzpatrick

Emmy Award winning cinematographer and marine biologist who specialises in sharks.

Age 52. Lives in Cairns. Married to Belinda.

Describes catching and tagging sharks as a job that now he can only really do himself. "We can't farm it out to any of our students because of OH&S issues. It's like the old Space Cowboys *movie where the old bastards are brought out of retirement." Gets fired up by the many environmental challenges he wants to tackle. The only thing that stops him is the weather.*

In 2015, Richard Fitzpatrick worked with natural historian David Attenborough. It was a career highlight. "It's amazing when you see your film for the first time, with his voice and an orchestra behind it," he says. Fitzpatrick is globally acclaimed for the Barrier Reef nature films he shot for the BBC, National Geographic, Discovery Channel and others. He worked just once on location with the globally renowned naturalist, shooting a series about the Great Barrier Reef.

"What normally happens is, you've got your natural history crew and spend a year or two doing all the work," he explains. "Then [Attenborough] comes in with a separate crew for a week or two, shoots all the links and he's gone. You don't get much contact time. But, during the writing [of the series], he was involved quite heavily. His correspondence went backwards and forwards about the sequences that needed to be shot, what stories needed to be told. That's always cool."

Fitzpatrick can boast plenty of highlights in his own right. He has won local and international cinematographic awards and penned a thrill-a-minute book, *Shark Tracker: Confessions of an Underwater Cameraman*, which recalls hair-raising tales such as catching sharks with his bare hands. He doesn't do much of that these days, although he was recently out on the southern part of the Great Barrier Reef where 38 sharks – tigers, bulls and hammerheads – were caught and tagged.

It's all part of saving the reef and its diverse sea life. His current project is to document the impact global warming is having along the reef's 2300km length. It's no secret that vast swathes of coral have been badly damaged by bleaching, which is caused

PHOTOGRAPHY CHRISTIAN MILLER

when algae are expelled as the water heats up. It turns the reef white. The algae can return, however, and the reef can recover its former glory. But not all the time.

Obsession with the sea

Fitzpatrick became consumed by diving as a seven-year-old in the sea off Rockhampton, Queensland. "I remember the first time sticking my head under the water, and I was hooked. That was where I wanted to spend my life. Growing up I had marine fish tanks, and a group of us would go out to the reef with our parents to snorkel, collect fish and bring them back for our aquariums," he says. "The rule was we had to learn their scientific names."

One of what he calls his "troubled trio" was Dhugal Lindsay, now a pre-eminent deep-sea biologist for the Japanese government. "He goes down in mini-subs and has discovered heaps of species." The other was IT entrepreneur Bevan Slattery, who founded companies including data centre provider NextDC.

Fitzpatrick stuck to his passion, the sea, filming not only in Australia but also in Africa, South America, North America and extensively in Asia.

These days, his production company Biopixel runs a biological filming studio closely linked to James Cook University in Cairns and Cairns Aquarium. Applying his early experience working at Sydney's Manly aquarium (now closed), Fitzpatrick also sets up macro behavioural sequences that match what occurs off the coast.

"There are some things we can shoot there that would be impossible in the wild. Climate change is making filming harder and harder," he says. "Weather patterns are more unpredictable.

Tipping point ... Fitzpatrick says it's amazing to see the reef recovering, but bleaching is becoming more frequent and more severe.

Some things we have shot in the past, we will never shoot again. It can be depressing when you think about that. But there are a lot of cool new initiatives with science and technology that we are engaged with – filming reef restoration gives a sense of hope."

Climate and conservation

Fitzpatrick's passion these days lies in conservation, particularly restoration of the Great Barrier Reef. "At the moment, the reef is better that it has been for a long time. It's a few years now since our double bleaching events. And we've had really mild summers.

"[But] they're now talking about the easing of La Niña, moving back to El Niño, which means the possibility of mass coral bleaching events is on the cards. It's amazing to see the reef recovering, but [bleaching events] are becoming more frequent, more and more severe. It becomes a tipping point, where the recovery is not fast enough."

Because the reef is so large, geomorphology dictates that some areas are affected far more than others. Fitzpatrick says, in the past, tourism never talked about bleaching because it didn't want to scare visitors away – but it's past that now. "Everyone's on board. Most tourist operations have selected their sites for the highest fish and coral diversity, which means they are often closest to big reef channels and the ocean, which are flushing. They are more resistant to climate change than some other larger, lagoon reef areas," he says.

Modelling shows that even if everyone became carbon neutral right now, we would still experience warming for another 150 years, says Fitzpatrick. "We need to be investing time, money and effort in triaging the reef and selecting the most resilient spots so it can recover."

Paradise in danger

One of the most important challenges for Fitzpatrick is the Raine Island recovery project, a vegetated coral cay located on the outer edges of the Great Barrier Reef, 620km north-west of Cairns. "It was kicked off because we discovered through filmmaking that baby green turtles weren't getting off the island. It was drowning," he says.

In collaboration with the Queensland and federal governments, a plan was developed to restore beaches so that the turtle nesting sites are preserved. Attenborough has described the island as a marine paradise that pays host to one of the most spectacular ocean migrations on the planet.

By confronting the reef's ills, and explaining how it is fighting back, it seems to be having an impact at a community level. Concerned that very little was known about the habitat, population and movement patterns of whale sharks and manta rays off the east coast of Cape York, Slattery provided the funding for an SBS documentary and is financially supporting a plan to film what is happening on the reef and how the climate processes work. The sequences, which would be regularly updated, would be supplied free for news channels.

"The communications tools are very important for getting our messages to the public and, to be honest, the politicians," says Fitzpatrick. "The movement patterns of these fish showed that upwellings of cooler water were occurring. We are using the animals to show us which parts of the reef do receive upwelling."

The good and the bad

Fitzpatrick no longer wants to make documentaries. "You spend all of your time trying to develop themes and concepts, and 99% get rejected," he explains. "You need to have editing teams. The new model, particularly with climate change, is to invest in stock vision in the same way as if we were being paid to do it. I know what the public wants. I know what broadcasters want. We can sell that."

He hopes that the films and footage he supplies show people the reality of what's happening. "The good thing is that, before the streamers began showing these documentaries, broadcasters were very hesitant to show reality. They kept saying, 'This is entertainment. Don't tell us the bad news.' Streamers broke the back of that. People are now seeing the good and the bad, which really changes filmmaking for the better, in my opinion."

Much of the technology development comes from Slattery's input into the business. "We are

talking about engineering, artificial intelligence and robotics," he says. New techniques are frequently trialled, such as developing a robot used for supermacro filming. Another challenge is managing the massive amount of data required for such detailed sequences.

Some procedures, however, have become faster. After filming on the reef during the day, the studio can work with clients overnight on the other side of the world to edit the material using live streaming. "Collaboration has never been better," he says.

Last year, Fitzpatrick got married for the first time. "Belinda is very much involved in the marine world as well," he says. "She works for an NGO that collects plastic waste off Cape York." As well as a desire to spend more time at home, he admits there's still so much to be done both in science and filmmaking. "Often, I'll work seven days a week," he says. "I won't achieve all that I want to in my life. I only got married last year. I've got to invest some time there."

"We need to be investing time, money and effort in triaging the reef and selecting the most resilient spots so it can recover"

At the cutting edge ... Fitzpatrick takes advantage of new technology, such as artificial intelligence and robotics, in his filming and editing .

Q&A

Tanya wants to stop work so she can enjoy her remaining years

I have stage four cancer – can I access my super?

Q I have just turned 58 and my husband is 59. We have two dependent sons and are both working, with $200,000 remaining on our mortgage. I work four days a week and, as I am the primary earner, we are not in a financial position for me to stop work so I can access my superannuation.

Three years ago, I was diagnosed with stage four breast cancer. I would now like to access my super to enjoy my remaining years without needing to work full-time. I don't have income insurance. It's my understanding that I'm unable to retire until age 67, or to transition to retirement until age 60. For the limited number of people in my position, it seems unfair that we are not able to access our super to enjoy our final years without needing to work. Do you have any advice to help me from a financial perspective?

Your question is not one that is easy to answer, Tanya. As we all know, and I have said more times than I can remember, money gives us choices, which is great, but our own health and the health of those we love is the primary issue. I have loved ones around me who have been diagnosed with breast cancer and it is unlikely that any of us would not know someone in this situation.

I really do appreciate that breast cancer, or any cancer for that matter, is a personal journey. Much is dependent on so many factors that come with a cancer diagnosis, but being diagnosed with stage four breast cancer three years ago is a serious issue. Thank you for asking me to comment from a financial perspective, which I do know a bit about.

Access to your super is not likely to be an issue for you. You should talk to your fund about your situation. As you have recently turned 58, I agree with you that your birth date would most likely mean your "preservation age" is 60. But with your cancer, this may be far too long a time to wait to access super. I am sure you will have looked at any sick leave available to you from your employer.

First, you can talk to your super fund about "compassionate grounds" to access your super. This can cover medical treatment, home loan repayments and unpaid expenses.

The next option is not easy to discuss. But if two doctors, one being a specialist, were to consider that your prognosis is likely death within two years, you can access your super tax free. If you have total and permanent disability (TPD) in your super fund, this may also release that payment.

From a financial perspective, these are likely to be your two best options to access super early. But with the huge strides being made with cancer treatments, my hope, of course, is that using compassionate grounds to access super may provide you with money to assist your current costs and then you can access super as you reach your preservation age and retirement.

NEED PAUL'S HELP?

Send your questions to: Ask Paul, Money magazine, Level 7, 55 Clarence Street, Sydney NSW 2000 or money@moneymag.com.au.

Sorry, but Paul can't personally answer your questions other than in the Q&A column. By submitting your question to Money, you consent to having your question and the response you receive from Paul published in the print and digital edition of Money.

After working in the family business, Sally has only $6000 in super

Start saving now so you can own a home before you retire

Q I'm a 35-year-old single woman with a $6000 super balance due to working for family for so many years. I am starting a public service job and hope to stay in the public service.

I have been advised that I can now join a public service super fund or remain in my current fund, AustralianSuper. Both accounts have pros and cons.

I come from a financially illiterate family and feel unsure of the best way forward for me.

I could also use some tips on salary sacrifice to both improve my woeful super balance and for the first home buyer scheme. A little advice would be priceless. Thank you.

Yours is a pretty common situation, Sally. Working, presumably, in a smaller, family-owned business is rarely good for your super.

The bigger issue here is that your new employer, the government, will pay into whatever super fund you choose. I am going to ask you to do a quick list of the pros and cons of the PSS fund you are being offered and AustralianSuper.

My guess is that AustralianSuper will offer you more investment options. This is important. You are investing with a term of around 30 years. The one thing that helps with risk in investment markets is time. So, in your shoes, I would be going for a high-risk option, investing mainly in growth assets – shares, property, infrastructure and private equity.

The first step is to compare the higher-risk options in your PSS fund and AustralianSuper and look at long-term returns.

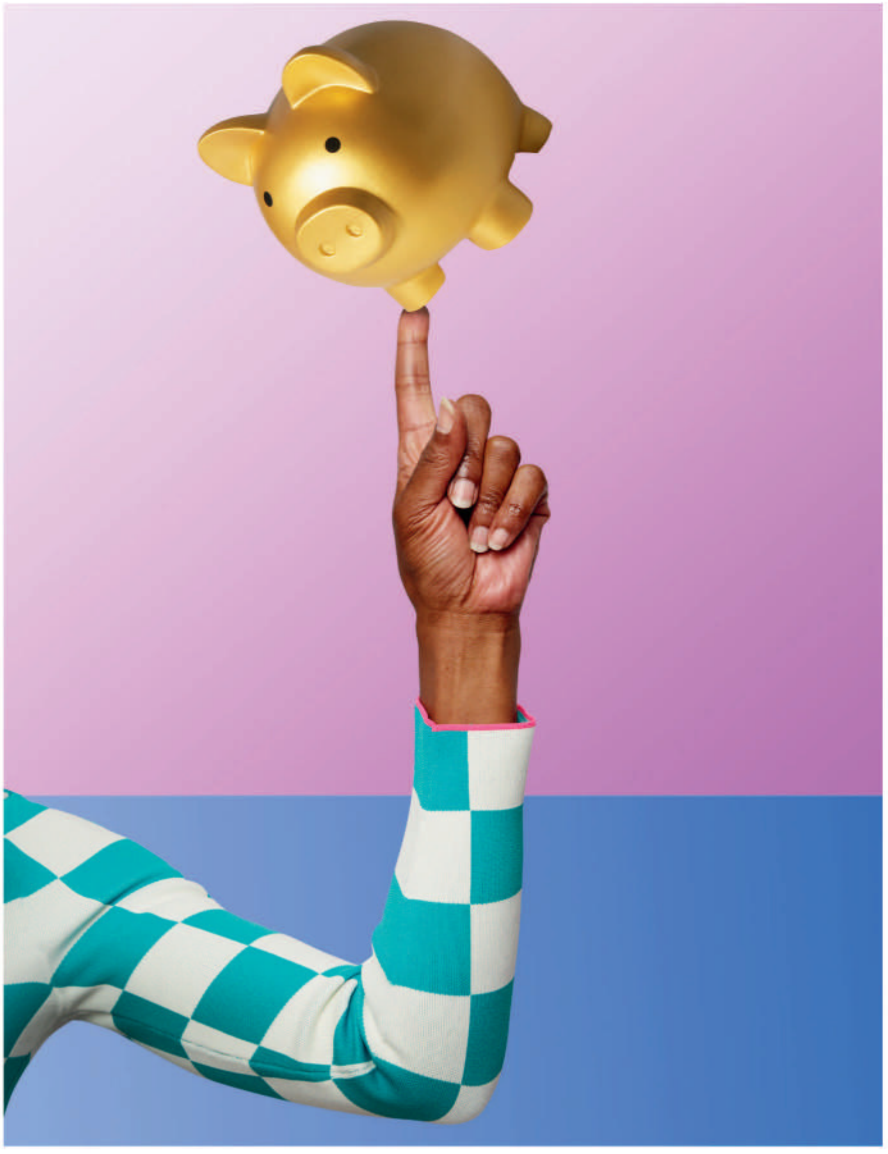
Next, of course, are fees. I suspect you will find these pretty similar. Then we move to an important area, insurance. Here I suspect a PSS fund may give you better cover, possibly at no cost to you.

Once you suss out these three key areas, I know you will quickly come to the right conclusion.

Next, home ownership. Salary sacrifice will certainly boost your super in a tax-effective way. But I reckon you want to own a home before you retire, so here I agree with you about the first home buyer scheme.

A state-based first home buyer scheme is definitely worth considering, as is the federal First Home Super Saver (FHSS) scheme, where you can make before-tax contributions to your super, up to $15,000 a year, and withdraw up to a total of $50,000 to buy a home.

But the key here is how much you can save. Retirement for you is many decades away. I would argue that your order of priority is to, first, determine your savings capacity; second, take a look at the FHSS scheme and also first home buyer initiatives in your state. Then start saving!



Q & A

Ann is under pressure to swap townhouses with her mum to "keep her happy in her old age"

Sorry, but this sounds like a transaction from fantasy land

Q My partner and I own a townhouse in the same complex as my mum. My mum prefers ours and wants to sell hers and buy ours for the same price. Ours is more valuable and desirable, to the tune of about $50,000.

Is there any way that we can let her live in ours and we rent hers out, without affecting her pension, and keep ownership of our place? Market rent would only just cover our loan, but we would like to keep our place if possible. If not, will we have to pay stamp duty to transfer the properties into each other's names? Or are we better off just selling ours to my mum to keep her happy in her old age?

Crikey, Ann, I am not overly keen on any of this. Your mum may well prefer your more valuable home, but is that the best reason to hand it over?

I can add a bit of logic here. If your mum lives in yours and rents hers out, the value of her old home will be included in the pension assets test and the rent in the income test. This may lead to a very poor outcome for her.

Then you could, of course, sell hers and then she could buy yours as her home for the amount she gets. This should not impact her pension, but I would strongly encourage you to get a solicitor to draw up a legal agreement between you to protect the $50,000 you are, in effect, giving her.

Equally, exactly where will you live? I know you will have the cash value of your place, less the $50,000 more it is worth. Presumably you would pay the selling costs on your property. You would also receive the proceeds of your mum's sale, less selling costs? Then what happens? You trot off with the money you have after costs and buy another place, paying stamp duty on the purchase?

Ann, you are a beautiful daughter who is clearly willing to sacrifice quite a bit to please your mum, and your partner is also being very considerate. Please forgive my bluntness, but this sounds like a tale from La La Land.

I can't imagine that vast a difference in the two townhouses. Can't you both just stay where you are? While it makes absolutely zero logical sense, if this is a critically important "mum relationship saver", I guess you let emotion override logic and go with it.

But do have a lawyer draw up an agreement to cover your costs and loss of value in the very strange transaction.

Again, please excuse my bluntness. You are proposing to be very kind to your mum, which is lovely. I do note your exasperation in your comment to "keep her happy in her old age". I'd be trying to communicate with your mum to get a better outcome.

Suzi's husband is keen to stop working and they are considering paying off the mortgage

Don't take the $300k out of your retirement savings

Q My husband is 68 and would like to retire soon. Should we pay off our mortgage (under $300,000) with his super? We have no other income streams, around $370,000 in super, around $25,000 in savings and no other assets. We would eventually sell and downsize. I'm still working part-time and earn around $350 a week, but I'm only 57, so I can't retire yet.

Interesting question, Suzi. I can only provide you with a broad look at the key factual issues around your decision. For expert, personal advice, I would want you to see a professional financial adviser. A chat to your super fund may help – it is likely to offer member advice or be able to refer you to a reputable adviser.

The facts here, though, are both simple and complex. The simple bits are that if you take $300,000 out of super to pay down your mortgage, you are depriving yourself of a tax-effective pool of money to fund your retirement once you downsize. You would also reduce your access to cash to the remaining $70,000 in super and $25,000 in savings.

This is the more complex bit. Will super earn more than the interest you pay on your mortgage? Over the decades, a good, low-cost, balanced-type super fund has been earning members, on average, more than 8% a year. Your mortgage is costing you, perhaps, around 6%?

To take all this information and make it personal to you, start with a chat to your super fund. But if I was in your shoes and planning to downsize, thereby getting rid of my mortgage, the last thing I would be touching, except for an annual income stream to live on, would be my super.

Penelope paid too much for her home – and she doesn't even like living in it

Just cut your losses and move on

Q In early 2021, my partner and I bought a home for $850,000, despite the valuation coming in at $790,000. We needed a place as soon as possible, as we had moved interstate and had a baby in tow.

Sleep-deprived and overwhelmed by all of the change in our lives, we put in an offer well over the asking price.

We have come to find the home doesn't suit us and is somewhat of a money pit, with major work required in the garden, on the house layout and fencing. It's money we simply don't have and, even if we did, it would just never add value.

So, my question is, how many years must we stay here before we can sell and buy something that suits us better and enable us to make our money back (stamp duty plus agent fees plus a bit of profit to help with the next purchase), or are we stuck here for life? Yikes!

Yikes indeed, Penelope! Getting a valuation below your purchase price is not terribly uncommon. Valuations done by a bank are, quite sensibly, very conservative. But I am quite concerned about your comments that fixing the fence, garden and house layout would not add value – these are usually pretty effective at increasing a home's value. But this is all very academic if these improvements would require money that you do not have.

Instead, let's look at our natural human instinct to "never sell at a loss". You think, in a haze due to sleep deprivation and an interstate move, you have overpaid a bought a house that does not suit you. Let's say that this is true. Your current home obviously needs work, but this work is unlikely to improve its value. Maybe it isn't in the best location, either.

Anyway, if we assume, realistically, that over time any reasonably located property will go up in value, by the time your current home does this, surely we have to assume other "better" properties will increase in value more rapidly than yours?

My point, Penelope, is that this may be one of those times in life when you take a deep sigh and sell at the price the market is willing to pay, cut your losses and move to a more suitable property. Painful, but we all make errors when it comes to money, homes and investment. It doesn't sound as if you are enjoying your current home, so maybe it is better to just move on.

SMART SPENDING

Destination Seville

On a grand scale ... clockwise, from above, Plaza de España; the tomb of Christopher Columbus; bull's tail stew; detail of the Royal Alcázar of Seville.

Four things to do

1. Plaza de España
I visited San Sebastian, Madrid, Barcelona, Toledo, Ronda, Guarda, Salamanca, Avila, Segovia, Pamplona and Zaragoza. Europe has its fair share of beautiful squares, but Seville's Plaza de España, with its large central fountain and surrounding canal complete with footbridges, is the prettiest of all. Each district of Spain is represented in alphabetical order on the walls.

2. Royal Alcázar of Seville
The Royal Palace of Seville is still an active palace (Alcázar translates to castle) and when the President of Spain, Pedro Sánchez, visits Seville, he stays here. I pre-purchased a guided tour with a local guide who was able to explain the history behind the palace including which parts were damaged during the Christian conquest of Seville in 1248. Some scenes from *Game of Thrones* were shot here, which is a plus for fans of the show.

3. Bull's tail stew at Bar Baratillo
Rabo de toro, or Bull's tail stew – a thick, rich dish made from slow-cooked bull's tail with red wine, stock and vegetables is a must-try when you're in Seville. The stew is cooked for hours leaving the meat so tender that it falls off the bone. For a great selection of tapas, wine and sangria, head to Bar Baratillo.

4. Seville Cathedral
The largest Gothic church in the world, Seville Cathedral, Santa Maria de la Sede, was designated a UNESCO World Heritage Site in 1987. It is the burial ground for many famous historical figures including Christopher Columbus and Ferdinand III of Castile. Although impressive on the outside, it's the majestic interior that takes your breath away. It's home to 80 chapels, including Capilla Real, or the Royal Chapel.

SHARREN ADIWONGSO

DRIVING PASSION

How to be more eco-friendly and cut costs

The kind of car you drive has a big impact on the environment. But while it can reduce your carbon footprint, not everyone can afford to switch to a hybrid or electric model.

Here are some simple ways to reduce your vehicle's impact on the environment while saving a few dollars on fuel.

Keep an eye on tyre pressure
Tyres that have the correct pressure tend to last longer and roll more efficiently (which avoids burning unnecessary fuel), so it's good to get into the habit of checking them at least once a month. Get comfortable with using the air compressor at your local petrol station (the gauge on the filler will tell you when to stop). If you're not sure of the ideal range for your tyres, check your owner's manual on the panel on the inside of your door jamb.

Avoid overfilling your tank
Topping up your tank is a delicate art – overfill it, and you could end up causing vapour emissions or an overspill of fuel. It's best to be conservative when topping up your petrol and make sure your fuel cap is screwed on securely before you drive away.

Don't carry extra weight
Confront your inner hoarder and travel light. Your wallet will thank you for it. The heavier the contents of your car, the more fuel you end up burning. While there are some handy essentials every car should keep stashed in the trunk – a first aid kit, jumper cables, a clean and empty petrol can for emergency fuel top-ups – take stock of any hefty items that might be better left at home.

Drive thoughtfully
The way you drive your car matters. To make sure you're not driving recklessly, plan the route you'll take. Go easy on the accelerator. Avoid the urge to idle your engine (it burns fuel) and stay steady with cruise control when you're driving on a clear path ahead.

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EXTRAVAGANCE

Soft touch

Luxurious merino wool and alpaca throws and blankets crafted in a historic weaving mill situated on the idyllic banks of Distillery Creek in Launceston, Tasmania. Bliss.

Alpaca Lustre throw and merino Geo blanket, both in forest.

Where from: Waverleymills.com

WINE SPOTLIGHT

2019 Xanadu 'Circa 77' Shiraz $22

Xanadu continues to impress, with Glenn Goodall leading the team of one of Margaret River's finest wineries. The shiraz has long played second fiddle to cabernet, but its quality has dramatically improved in recent years. This one has wonderful intensity, balanced by succulence, and pure ripe, red cherry fruit with a hint of blueberry.

SPLURGE

2022 Port Phillip 'Essay' Gamay $44

This wine was the last sourced from David and the late Wendy Lloyd's Eldridge Estate, which garnered an enviable reputation for its gamay. It fits admirably into the Port Phillip portfolio. While light to medium-bodied as you'd expect from the variety, this is intense and persistent, with dark cherry and cranberry, soft, fleshy texture, smooth and round. A classy, drink-now style.

PETER FORRESTAL

SMART SPENDING

SMART TECH

Get a taste of an artificial future

Advancements in artificial intelligence (AI) had been developing for years, but they were never really monumental, Earth-shattering leaps. Then 2022 came along, and it was hard to deny we were witnessing a watershed moment.

In the space of a few months, we were introduced to the eerily impressive images of AI art, conjured up by DALL-E, Midjourney and Stable Diffusion. Not long after, the research lab OpenAI, co-founded by Tesla's Elon Musk, unveiled an even bigger phenomenon: ChatGPT, the world's first truly powerful AI chatbot possessing a formidable conversational ability alongside a deep trove of knowledge scoured from the internet.

The capabilities were so impressive, it launched a new arms race in tech, with Microsoft investing billions in OpenAI's tech (which now features in Bing and Office), forcing Google to play catch-up with its own bot, Bard.

This new wave of AI tech will keep being developed, polished and refined, but make no mistake – you can already use it right now. There's no time like the present to experiment, get productive and learn the ropes of this radical software of tomorrow.

PETER DOCKRILL

"iPhone from the future", illustrated by Bing Image Creator

What is it? ChatGPT
How much? Free, premium GhatGPT Plus $US20 a month
Pros: ChatGPT – and its new GPT-4 engine – is the state of the art in AI chat. You can ask it just about anything: to tell you a joke, explain a tricky scientific concept or write you a poem. Taking it further, you can use ChatGPT for serious productivity tasks, writing reports, drafting emails or even devising computer coding.
Cons: It can't access real-time data on the internet and accuracy isn't always 100%.
chat.openai.com

What is it? Microsoft Copilot
How much? Not yet available
Pros: Microsoft has moved quickly, investing in OpenAI to bring ChatGPT's technology into its existing software portfolio. Copilot means you'll soon be able to chat and collaborate with the AI bot inside Microsoft apps like Word, Excel and Outlook (plus Bing). The tasks it can assist with promise to be genuinely useful and time-saving.
Cons: Remains to be seen, but Google Workspace is rolling out similar features.
microsoft.com

What is it? Craiyon
How much? Free, commercial subscriptions also available
Pros: There's a huge field of AI art generators now, but the most powerful (like Stable Diffusion 2, DALLE-2, and Midjourney) either cost money to use or take a bit of effort to get up and running. If you just want to run a few prompts for fun to see what the fuss is about, try Craiyon, which draws anything you ask it to do at no cost.
Cons: Slow on free version, with a one- or two-minute wait time.
www.craiyon.com

GIVE IT UP

Red Shield Appeal

What is it? The annual fundraising campaign is run by the Salvation Army to help people in severe financial crisis. Its long-established doorknock appeal took place on May 20 and 21 but donations can still be made online.

Where your money goes? Last year, the organisation provided more than 1.52 million meals to the homeless; supported more than 10,000 women and children who were victims of domestic violence; and gave more than $32 million to families in need of financial assistance. The campaign runs through April, May and June each year.

How to donate: Visit salvationarmy.org.au or become part of its digital doorknock appeal.

WEBFIND

ATO.GOV.AU

When was the last time you visited the tax office website? If it's been a while, you'll find some nifty information there that will help you maximise your tax deductions and stay abreast of new government rules that may add some extra dollars to the household wallet. The ATO has also joined the trend and runs a free, easy-to-use app and podcasts.

WHERE TO GO FOR MORE HELP

Useful numbers and websites

Australian Communications and Media Authority
1300 850 115
acma.gov.au

Australian Competition and Consumer Commission
1300 302 502
accc.gov.au

Australian Energy Regulator
aer.gov.au/consumers/making-a-complaint

Australian Financial Complaints Authority
1800 931 678
afca.org.au

Australian Securities and Investments Commission (ASIC)
1300 300 630
asic.gov.au

Australian Securities Exchange (ASX)
131 279
asx.com.au

Association of Superannuation Funds of Australia (ASFA)
1800 812 798 (outside Sydney)
9264 9300 (Sydney)
superannuation.asn.au

CPA Australia
1300 737 373 (within Australia)
+61 3 9606 9677 (outside Australia)
cpaaustralia.com.au

Do Not Call Register
To reduce telemarketing calls
1300 792 958
donotcall.gov.au/contact-us/contact-details

Fair trading/consumer affairs
ACT: 132 281
NSW: 133 220
NT: 1800 019 319
QLD: 137 468
SA: 131 882
TAS: 1300 654 499
VIC: 1300 558 181
WA: 1300 304 054

Financial Counselling Australia
National Debt Helpline:
1800 007 007
financialcounsellingaustralia.org.au/contact

Financial Planning Association
Listing of financial advisers
1300 337 301
fpa.com.au/about/contact-us

Human Services (formerly Centrelink)
Families: 136 150
Older Australians: 132 300
humanservices.gov.au

illion
For a copy of your credit report
132 333
illion.com.au

Legal Aid advice (free)
ACT: 1300 654 314
NT: 1800 019 343
NSW: 1300 888 529
QLD: 1300 651 188
SA: 1300 366 424
TAS: 1300 366 611
VIC: 1300 792 387
WA: 1300 650 579

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Track down lost super
1300 169 468
my.gov.au

Seniors Card
ACT: (02) 6282 3777
NT: 1800 441 489
NSW: 137 788
QLD: 137 468
SA: 1800 819 961
TAS: 1300 135 513
VIC: 1300 797 210
WA: 1800 671 233

Telecommunications Industry Ombudsman
1800 062 058
tio.com.au/complaints

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YOUR QUESTION

Help! This old house is draining the life out of me

We are in our early 50s, we have a mortgage of $450,000, and our house is in desperate need of repairs and renovations. We have a combined income of $160,000. Our repayments have just hit $3350 a month. The current cost of living is killing us, yet we will retire with well over $1 million. How can we fund a renovation now? It will sound ridiculous but this house, and the age it is, just drains the life out of me. Very interested to know your thoughts.

Rowina

CASE STUDY

Rowina and husband, Danny

Have a question?

If you have a question you'd like Paul to answer, email money@moneymag.com.au or write to Level 7, 55 Clarence Street, Sydney NSW 2000. Questions need to be 150 words or less and you must be willing to be photographed. Readers who appear on this page will receive a six-month subscription.

PAUL'S VERDICT

Take on some sensible, extra debt to pay for renovations

Do the sums: after the mortgage, what happens to the other $95k?

Well, Rowina, you are the second person who has dropped me an email this month about a house that needs much work. (See Ask Paul, page 27). I know I should not chuckle, but your comment that it "just drains the life out of me" will ring true for many homeowners. At times it certainly did for us.

I also feel your frustration as you look into the future and with super and other assets see you will have well over $1 million, but are living in a house today desperately in need of renovation.

Life is generally great fun, but never fair. I am an ageing dinosaur, so can look quite a long way back in life. At university I had all the time in the world, with some four months per year of holidays. But I had no money, so worked in my holidays to help fund my next uni year.

For a short while, when I got my first job, I actually had spare income – long working hours made that easy to save. Then marriage, a mortgage and three beautiful kids ... any surplus money went to all the obvious places and free time was zero.

Then, finally, clear air. Sadly, both Vicki's parents and my own have died, but the reality of this is we are not caring for ageing parents. Fortunately, the adult kids are all doing well and have so far produced three little grandkids. That is all great fun, but time is still hard to find as we are keen to help our adult kids with the grandkids. Also, Vicki gets deeply homesick, and misses the kids and grandkids if we go away for more than about three weeks.

As I have moved through my 67 years, it seems that there is always something draining the life out of me. I suspect that will always be the case.

Anyway, let's talk about you. You have answered a primary concern for me: your long-term future looks financially secure. That is great, believe me – the "long-term future" will happen to you sooner than you think.

I'm going to make a very rough assumption and say you earn roughly the same as each other. As we all pay 32.5% tax between $45,001 and $120,001, if I am a bit out here it should not really matter. I reckon you'll be paying around $25,000 in tax, so clearing about $135,000.

Spending is the key

Here I throw the ball to you. How much do you spend? I know you are up for $40,000 in mortgage repayments; the bit I am keen for you to understand is what happens to the balance of about $95,000?

Having had three kids, I truly understand that $95,000 can disappear in a haze of costs – food, electricity, health and so on. But your level of spending is the key here, as is the timeframe of your mortgage. Yep, I know the longer the repayment time on your mortgage, the more interest you pay in the long term. As you have told me, though, the long term is not an issue; today is. So, can you reduce repayments by extending the term of your loan?

What I am looking for is surplus income today. If your budget shows surplus income, and you can meet the additional repayments, I am not against you borrowing more against your home to get going on the renovations. Relatively low interest debt, repayable over decades, is not a big deal as far as I am concerned, provided it goes into productive assets. There is no doubt that your total wealth would remain unchanged or be improved if you put money into sensible renovations. You get a better life today while adding to your wealth at retirement, through a more valuable home.

Personally, I think that in your situation, this is potentially a sound strategy. The critical issue, though, is that you have surplus income today. Your mortgage would be higher and so would your monthly repayments. But if your budget says this is okay, despite paying more interest I think the trade-off in a much more livable home today is a good one.

Don't forget, inflation will be reflected in higher home prices in the long term. Also, inflation destroys the real value of your loan.

Unfortunately, if your budget shows no surplus income, I am afraid I can't see any other "today" solution apart from selling your home and buying another more suited to you, winning the lottery, or an inheritance or a gift from a family member. Selling does concern me – the costs to buy and sell are huge. If your current house is really driving you nuts, this is a genuine option, but do your numbers carefully.

Tomorrow – by which I mean long-term planning – there is always a solution. Your salaries will rise, jobs may change, your cost base may vary. All sorts of things happen as we go through life, many of them unexpected.

Clearly you are in a solid financial position. The trick to removing the "life-draining" aspect of your home is to see what you can do to use the solid position you are in now, and potentially leverage that position, for some affordable additional debt now to renovate your home.

THE SWEET SPOT

WHY YOU ONLY NEED $260k IN SUPER TO RETIRE

If you hit the right combination, where your nest egg combines with the full age pension, here's how you can fund a comfortable retirement

STORY SUSAN HELY

If you worry that your superannuation savings are inadequate, you're not alone. Around 65% of Australians retire with less than $250,000 in superannuation.

If you're one of them, however, you could be pleasantly surprised and find you are in a better position than you thought. You could even have a healthier retirement income than people who have a lot more super.

There are good reasons to feel more confident about your retirement because your modest savings could be close to what's called "the sweet spot."

This is where singles with $280,000 and couples with $419,000 in superannuation and other assets could be in better shape than people who have diligently saved hundreds of thousands of dollars more.

In fact, a home-owning single with $280,000 in super and other assets could have the same income as a single person with total assets of $830,000.

A couple with $419,000 in super could have around the same income in retirement as a couple with $1.25 million.

This means that for many people (often middle income earners), saving more in superannuation could leave them no better off. How could this be?

In 2017, the government sharpened the taper rate for the age pension. (The taper rate is a sliding scale that sits between entitlement for a full age pension, a part age pension and no pension at all).

Eligibility for a part age pension falls away sharply in what is known as the "taper trap". Your chances of getting any government assistance drop and you have to rely more heavily on your own savings.

With high levels of superannuation, people are in a no-man's land, as their partial age pension shrinks. The sting is that their super may not be high enough to compensate for missing out on the age pension.

The upshot is that people with lower balances qualify for the full age pension.

Guaranteed for life

You may not think that the age pension is particularly generous at $27,664 a year for a single person or $41,704 for a couple. The amount for a couple combined is benchmarked and is at least 42% of the total average weekly earnings for males. The single rate is 66% of the couple combined rate.

But the age pension has plenty of benefits attached to it, such as the concession card, which gives access to cheaper medicine and bulk-billed doctor visits.

It is one of the more generous pension systems in the world, according to Jeremy Duffield, former chair of Vanguard and founder and director of Retirement Essentials, a service that helps people apply for the age pension and the commonwealth seniors health card.

The age pension is a guaranteed income for the rest of your life, paid by the government, with a healthy indexation that is tied to pensioners' cost of living and wage increases twice a year.

It is the safety net for retired Australians and currently supports 2.6 million people. Of these, more than 600,000 don't own their own home.

If you miss out on the age pension, you need a big superannuation balance or may need to draw down higher amounts than the government-mandated minimum drawdown rate of 5% for 65- to 74-year-olds of an account-based pension.

Singles with a home and assets of $830,000 miss out on the age pension and must live off the income generated by their savings. Typically, they could have a similar retirement income as someone with $280,000 in superannuation and other assets because the retiree with the lower balance qualifies for a full age pension of $27,664.

Of course, people with bigger superannuation balances have more options because they have more money. They can withdraw their super when they need it and vary their income in retirement, while people with lower balances cannot. They also have more options if they ultimately need to enter residential aged care.

Impact of the taper rate

The harsh taper rate was part of the previous government's plan to motivate people to spend down their retirement savings, particularly the capital. Increasingly, it wanted retirees to use their home as a cashbox, rather than leaving an inheritance to their family, and promoted the government-run Home Equity Access Scheme, which allows people to use the equity in their home as security for a loan.

But in some cases the opposite has happened. The taper rate could be prompting people to run down their savings quickly – on travel, renovations, cars and caravans – so that they qualify for the full age pension. Instead of preserving their superannuation to supplement their income for their later years, they are relying on the age pension solely.

David Knox, senior partner and actuary at Mercer Australia, believes that many people underestimate how long they will live. "When people retire in their mid-60s, they tend to think for 10, maybe 15 years," he says. "They say, I'd be lucky to get into my 80s. But you might get into your 90s and even to 100."

If people spend their savings to help their adult kids enter the housing market or to go on luxury trips, they risk running out of money halfway through their retirement when they may need it to pay for medical expenses and aged care.

The mix of people on the full age pension and part age pension has changed over the years since the taper rate was introduced.

While the population is ageing and more people are on the age pension, the proportion of pensioners on the part pension has fallen from 38% in 2017 to 32% in March 2021. This suggests that people could be arranging their affairs to get the full pension.

COMPARE THE PAIR

SINGLE HOMEOWNER AT 66.5 YEARS			
Savings in an account-based pension*	Age pension	Income from account-based pension	Total
$260,000	$27,548	$13,000	$40,548
$500,000	$8944	$25,000	$33,944
$810,000	$0	$40,500	$40,500
HOME-OWNING COUPLE AT 66.5 YEARS			
$399,000	$41,704	$19,950	$61,654
$750,000	$14,326	$37,500	$51,826
$1,230,000	$0	$61,500	$61,500

* Age pension age rises to 67 from July 1, 2023

How the sweet spot works

A couple with superannuation savings and household assets of between $419,000 and $1.25 million will be worse off in terms of income than a couple with a total of $419,000 who qualify for the full age pension. This is because beyond that point they lose $3 a fortnight in the age pension for every $1000 above the threshold of $419,000. That is $78 per annum (26 x $3) or 7.8% of the incremental assets. In the current environment, their assets can't consistently earn enough to offset that penalty.

A single homeowner with a total of $280,000 in superannuation savings and other assets qualifies for the full age pension. But if a single person has saved $830,000 in superannuation and household assets, they miss out. The drawdown of their superannuation generates around the same income overall.

Take, for example, Jodie and Ross, a couple aged 66.5 (the current pension age) who own their home, have $399,000 in superannuation, and home contents and car valued at $20,000. They qualify for the full age pension. Their income from the age pension ($41,704pa) combines with their account-based pension drawdown of $19,950. This assumes they draw down their account-based pension at the rate of 5%, which is typical for retirees. Their total retirement income is $61,654 a year.

Investment returns over the medium term from a diversified superannuation portfolio, including shares and property, will hopefully exceed 5%pa. To the extent it does, their account-based pension drawdown could increase.

For example, if assets earned 7% and their drawdown was 5% of assets, the dollar income would increase by 2%pa, offsetting some of the current high inflation. If investment returns were weaker, that would flow through to a slight reduction in the account-based dollar income if they continued to draw down at 5%. (The drawdown rate has been halved for the 2022-23 financial year, but these calculations are based on the standard 5% for people aged 65 to 74.)

Jodie and Ross's combined retirement income compares with another couple, Emily and Ahn, who have superannuation of $1.23 million. They do not qualify for the age pension because their assets are too high. They will have a similar income of $61,500 based on a 5% drawdown of their account-based pension.

So, Jodie and Ross, with $399,000 in superannuation, will have the same income as Emily and Ahn, who have saved three times as much.

In the case of a single homeowner, Michele, the sweet spot is $280,000 including home contents and car. We'll assume her superannuation assets are $260,000.

With this level of savings, Michele qualifies for a single age pension of $27,548 and, with an account-based superannuation pension drawdown of $13,000, she will have an income of $40,548. Michele's age pension is marginally reduced by the income test.

A single person, Tony, who has saved $810,000 in superannuation, does not receive any age pension because of the assets test. Tony will earn a similar amount to Michele from his account-based drawdown of some $40,500 at 5% of his account balance.

Will my money last long enough?

The example of Jodie and Ross (page 36), who combine the age pension with their income from savings, falls $8037 short of the Association of Super Funds of Australia (ASFA) retirement standard for a comfortable life, which includes health insurance, streaming services and holidays.

Couples aged 65 to 85 need $69,691pa, according to ASFA. This is up from $64,771 a year ago because of sharp increases in most categories, particularly food, fuel, transport and travel caused by inflation. A single person needs $49,462 for a comfortable life.

Jodie and Ross are below the comfortable life standard by $309 a fortnight ($69,691 less $61,654). One way to reach the higher amount is to increase the drawdown from their account-based pension from 5% to 7%. If the investment environment is healthy, it might be possible to do this without running down the balance over time.

Another way is to take on some part-time work. Under the income test, single people can earn $190 a fortnight or $4940pa before losing entitlement to the full age pension.

Couples can earn $336 a fortnight or $8736pa and still receive the full age pension. There is a work bonus, allowing an additional $4000pa in income until December 31 without impacting a person's age pension. Under the work bonus rule, income from part-time work does not count towards the income test until it exceeds this limit.

Jodie and Ross could earn much more than the ASFA comfortable standard before affecting their pension. Taking into account the headroom from the deemed asset income of $45 a fortnight, Ross could earn $499 a fortnight and Jodie could earn $454 a fortnight – or $24,778pa in additional income.

Combined with their age pension and account-based pension, they would have an aggregate income of $86,432pa, well in excess of the ASFA comfortable retirement standard of $69,691.

Next year, to stay within the adjusted limits, they would work less, earning $345 and $300 a fortnight, making a combined income of $78,424, which is still comfortable.

In the case of a single homeowner, Michele (page 36), the deemed income from assets is $5172. She is short of the comfortable standard by $8914 ($49,462 less $40,548). She could bridge this shortfall by raising her drawdown from 5% to 8.4% each year, but she would run down her balance faster unless the returns are as high as the drawdown.

A combined approach may be to draw down her super at 6%, adding an additional $2600pa income, and take on part-time work, earning $6314pa. This is within the work bonus limit and so there would be no impact on the age pension.

Together with the additional drawdown of $2600, Michele could match the single person's comfortable retirement standard of $49,462.

Super balances to grow

One of the reasons so many retiring Australians have low balances is because compulsory superannuation only started in 1992. It was then at the low rate of 3% and has gradually climbed to 10.5%. It will be 11% from July 1 this year.

As balances increase, fewer people will rely on the age pension. Andrew Boal, partner of actuarial consulting at Deloitte, says in 10 years only 30% of retirees will have less than $250,000 in super when they retire and 50% will have more than $500,000.

Anxious about retiring

Pre-retirees find the prospect of retirement complex and stressful. "Our research with our pre-retirees shows that there's a huge degree of anxiety in those couple of years leading into retirement," says Deanne Stewart, chief executive of Aware Super.

"Retirement is often thought of as negative for pre-retirees, which really surprised me. It's seen as such a complex thing that is hard to navigate."

Aware's research shows it can help pre-retirees to consolidate their super funds and stop paying multiple fees. It motivates them to pump up their super with additional contributions because they understand the tax advantages.

When they are in retirement, people feel more comfortable drawing down more from their account-based pension than the government-mandated minimum.

Stewart says that as well as getting the finances right, pre-retirees are worried about their meaning in the world and their sense of purpose.

Fidelity's Richard Dinham, head of client solutions and retirement, found that one in three Australians is forced to retire at least four years earlier than they had planned. This might be for personal health issues, to care for someone with health issues or because they were made redundant unexpectedly.

Often people draw down their superannuation until they reach age pension age.

Mercer's David Knox says there should be more focus on retirement income and one way is for super funds to provide members with projections of their retirement income on their annual statement.

For those who read their annual statements – and, unfortunately, plenty of members don't – it would be educational and could help focus their attention on how much they will have in their retirement and, importantly, how long it will last.

Retirees have different circumstances, explains Knox. "They have different health concerns, some own their own home, some people are working in their 70s. When people approach retirement, there are a lot of factors to consider. And they need some assistance."

The top three questions from pre-retirees are:

- How much do I need for retirement?
- Am I on track?
- Should I be doing something different – and if I do, how long will my super last?

"These questions often seem simple but the answers are complex," says Peter Chun, chief executive of UniSuper.

Once in retirement, the anxiety falls away. The questions are different:

- How confident do I feel that my money will last?
- Am I drawing down the right amount and maximising it with the age pension?
- Am I doing the right thing?

Not making things easier is the fact that the number of financial advisers in Australia has been falling – from 26,500 in 2019 to 16,671 in 2022. Many people rely on low-cost advice from their super fund.

The super and financial services industries are waiting for financial services minister, Stephen Jones, to announce measures about making advice more affordable and accessible for everyone.

Funds expect a flood

Big industry funds are getting ready for a tsunami of retiring members.

Over the next 10 years, 3.6 million Australians will retire. The government's retirement income covenant, introduced in 2022, requires super funds to overhaul what they offer members in retirement and help them with drawing down their savings as income. This includes the age pension.

Super funds have, until now, concentrated on helping their members in the accumulation phase, building their retirement nest egg. The retirement years are all about living off it.

Funds are appointing retirement officers to their executive line-up to improve their services and products.

For many members, filling in the form to move from the accumulation phase to the fund's retirement product, an account-based pension, is a trigger point for thinking about how to make their money last. Funds want to retain these members and their savings. There is intense competitive pressure on fees and services as retirees hunt around for the fund that best suits them.

AustralianSuper, for example, expects to have 400,000 retirees in the next five years and 900,000 retirees in a decade. Aware Super has 100,000 retirees with assets of $40 billion and estimates it will have a further 100,000 in the next four years. Aware's members typically retire at 66 with an average of $300,000 in super.

UniSuper's 50,000 retirees will triple in the next seven years and Chun says the fund aims to be the Netflix of retirement. Just as the streaming platform gives viewers a personalised viewing experience, UniSuper aims to give its retirees a tailored service.

"To be successful in retirement, it's all about giving advice and help to our members," he says. "It's making them feel confident, through the right tools and information, as well as supporting them with our advice team.

"They don't come to us and ask, what products do I need? It is often, what will retirement look like for me? That's why we're very focused on giving people a highly personalised experience. No one's got the same sort of path, no one's got the same outcome."

Shawn Blackmore, AustralianSuper's chief officer, retirement, says overwhelmingly retirees and pre-retirees lack the confidence to move through the retirement experience. He says around 70% of the fund's retirees will be navigating their superannuation with the full or part age pension. Financial literacy is typically around a primary school or year seven level.

He says common questions are: How much do I receive? How do I apply? How does that work with the income received from you? What happens if things change in the future if I get an inheritance or downsize my house?

"These are big conversations and topics that a lot of people are having to take on their shoulders and sort out themselves," says Blackmore. "We give them a wealth of information."

He says it is a challenge but also an opportunity for the fund.

Aware Super's Stewart agrees and says retirees need more than good returns for their financial wellbeing.

"It also comes down to how confident they feel and their peace of mind," she says, adding that retirees want a financial solution that isn't complicated and is easy to manage.

More advice needed

As they move through retirement, retirees are also seeking advice about estate planning and inheritances. They want to know about aged care and whether they should help their adult children get into the property market.

Large superannuation funds have teams of financial advisers and also access to other experts for members' needs.

For example, UniSuper has 50 qualified financial planners who can give comprehensive advice. It has 34 walk-in advice centres for members on tertiary campuses and in capital cities.

Other funds, such as Equipsuper, have teamed with Retirement Essentials to help people apply for the age pension and obtain the seniors health card.

Technology can help

Retirees are increasingly using technology to research their lifestyle needs. Super funds are building educational support through their calculators, apps, podcasts, webinars and websites to help retirees navigate their way through the details.

Tech-savvy retirees are big fans of this digital information.

"Our older members are more digitally engaged than our younger members," says UniSuper's Chun. "People aged 75 access us and are more digitally aware than those under 45. Older members are our highest take-up of the mobile app. They don't need the password – it's all facial recognition – and they can get access to their account balance."

This helps spread support from funds' dedicated financial planners and other links with external financial planning groups.

Sam Higgie, Equipsuper's head of retirement, says the fund is about to launch a new website loaded with greater educational content and offering a better user experience with less jargon.

Aware Super launched its new website in May.

Deloitte's Andrew Boal says the next generation of retirement calculators will show people variations in how long their money is expected to last under poor, average or strong market conditions.

They will also allow members to compare what can be expected from a variety of investment portfolios, from conservative to high growth. They also have information about annuities (lifetime pensions).

What to consider when setting up an income

Account-based pensions

In most superannuation funds, retirees are offered an account-based pension with a smorgasbord of investment choices that are similar to the accumulation phase. On offer are diversified options: conservative, balanced, growth and high growth.

There is a mix of asset classes and direct shares and term deposits, so that retirees can design their own investment mix, like a self-managed superannuation fund.

Account-based pensions are popular for lots of good reasons, explains Mercer's David Knox. "They are like a reverse bank account. The investments generate investment earnings and retirees draw down on the regular income. They can take the capital out when they need it, too.

Account-based pensions are attractive because all investment earnings and income payments are tax-free if you're over 60.

People with good amounts of superannuation can often afford to draw down more than the minimum government requirement that tells them how much they can take out of their account-based pension, but research shows they tend to stick with the minimum, says Knox.

The minimum amount rises as people age.

"Many people adopt those minimum drawdown rules. The government says you've got to take at least 5%," says Knox.

"Our modelling suggests that, in fact, for many people, they can afford to take more, particularly those in the middle group of superannuation balances, because they will start to receive more age pension.

"The assets test will become less important as they run down their assets. We want people to have a dignified and enjoyable retirement and to spend their savings."

Aware Super's suite of retirement products, for example, offers an option to automatically increase exposure to defensive assets as retirees age to cushion the volatility of assets, such as the sharemarket and property.

The products for retirement are going to grow to include guaranteed longevity products, such as annuities.

AustralianSuper's Blackmore says there will be retirement products that interact with the age pension.

"We're going to have a really fantastic mix that is going to suit the needs of most Australians," he says.

Annuities and fixed-term pensions

Expect longevity products that provide a guaranteed income in old age to be rolled out by super funds in the coming years if they aren't already on the funds' retirement product menu.

Longevity risk is one of the major risks faced by retirees.

The fear of running out of money and the uncertainty about how long they will live cause many retirees to try to manage their own longevity risk by spending cautiously.

Deloitte's Boal says that in addition to its favourable treatment under the means tests, a deferred lifetime annuity can give retirees confidence about how much to spend in retirement. It provides a guaranteed income for life, no matter how long they live.

"This allows the retiree to more safely draw down the remainder of their savings up to that point, thereby enjoying a lifestyle that is better than would otherwise be the case during the early and more active years of retirement," says Boal.

Blackmore agrees. "We know a longevity product is going to really hit the sweet spot for a couple of different cohorts where they potentially can minimise their assets (through a tax exemption) and get greater access to different parts of the age pension," he says.

"But also, there's a group of [Australian-Super] members that just want the certainty of an income and the guarantee."

The fund expects to partner with an annuity provider as well as use some of its in-house investment expertise.

"I must say, in the last 12 months, there's been some really good innovation in this space, which hasn't occurred for probably the decade prior," says Blackmore.

Meanwhile, the investment manager Challenger has been offering annuities for years. It has been joined by Allianz, which recently launched AGILE. Then there is the Generation Life annuity and QSuper, which is offering a lifetime pension through Australian Retirement Trust. AMP has the MyNorth Lifetime product that offers a lifetime income.

Higher interest rates have boosted interest in annuities. They also offer a means test exemption that is attractive.

"For retirees who are or will become eligible for at least a part age pension, there is a 40% exemption from the means tests for certain longevity protection products that can provide an immediate increase in age pension payments," explains Boal.

Blackmore says the fees are looking better than they have in the past, noting that the insurance policy that covers the guarantee can be costly.

Newer annuities have an investment mix that can include more growth assets, relying less on cash and fixed interest.

Some superannuation funds, typically those with defined benefit members, have an in-house annuity.

UniSuper's guaranteed income product is currently paying out a generous 5.5% and it's indexed to inflation.

UniSuper's Chun says when interest rates were low, UniSuper retirees didn't show much interest in the guaranteed income product, but that is changing as rates rise. However, he believes people with low retirement savings are better off using their superannuation and the age pension.

People with high balances who aren't likely to run out of money don't really need to take out an annuity product, and are well served by an account-based pension.

But the middle group of Australians with a part-pension and some superannuation should consider if a guaranteed lifetime annuity or income stream meets their needs and risk appetite.

Chun says people don't usually take out a guaranteed income product when they first retire.

However, when members reach 75 and above and start to get into the more passive years of their life, they like the certainty of income and the fact it will last forever.

Mercer's David Knox says many retirees are reluctant about lifetime annuities because they worry about losing a chunk of the capital if they die early.

Applying for the pension can be complex and scary

Many Australians drag their heels when applying for the age pension, taking around a year on average, to get the paperwork in, explains Retirement Essentials' Jeremy Duffield.

Thirty percent of Australians take more than a year and 16% take more than three years.

In fact, you can apply for the age pension 13 weeks before you reach the eligibility age, which is currently 66.5 years, says Duffield.

People put off applying for the age pension for a host of reasons, such as not understanding they can apply even if their spouse is still working or they are working part-time. Both are allowed under the age pension, with limits.

Some people have complex feelings about being on the age pension.

"The age pension is money you're entitled to," says Duffield.

"One of the reasons we find people don't apply is because they feel guilty about it. But I don't think you should feel guilty. It's a basic entitlement. I have a relative who had been a social worker all her life and she felt guilty.

"She said, 'I never thought I'd be on the age pension'. I told her that there's nothing wrong with being on the pension – 80% of Australians will be on the age pension at some point."

The age pension, after all, is the first pillar of our retirement system.

While Australia's age pension is one of the most generous in the world, it's also complex, says Duffield.

Mixing super and age pension together isn't straightforward; it can be hard to understand and most retirees need some help to get it right.

There are plenty of rules – hurdles and exclusions – around the age pension, there are assets and income tests and different amounts for singles, couples, homeowners and non-homeowners.

The qualifying age has been rising.

From July 1 this year, it will rise to 67.

You should work out how many assets you have, including household contents, cars and other transport, such as caravans and boats.

There is a lid on what income you can earn to qualify.

Around one third of applications for the age pension are knocked back for a host of reasons. Those who do qualify for the age pension often haven't done the paperwork correctly – they may not have attached the right documents or forgotten to tick a box.

Duffield's company, Retirement Essentials, helps people apply for the age pension for a fee, starting at $296.

He set it up it when a colleague, Paul Rogan, noted that older people's biggest pain point was the age pension and the process of applying for it.

Over the past five years, Retirement Essentials has helped more than 160,000 people apply for the age pension.

Retirement isn't what it used to be

The definition of retirement is evolving. Work rules have been relaxed around the age pension and retirees can earn more and still qualify for the full or part age pension.

"We're seeing members work longer and more members return to the workforce," says Shawn Blackmore, from AustralianSuper.

"We see members who are eligible for retirement but staying in the workforce or staying in the accumulation account. And some members are returning to the workforce, not primarily for income, but to keep connected.

"I think this notion of retirement being set in stone when you hit a certain age is being turned on its head and continues to evolve as members' needs change."

A further 200,000 have used the website's age pension eligibility calculator at retirementessentials.com.au.

"They really didn't understand it and they found dealing with Centrelink very challenging. And the rules are extremely complex. People find that sort of frightening or just worrying," says Duffield.

If you delay applying for the age pension, you could be missing out on substantial sums. "The problem is that there's no back pay on the age pension. If you don't get your application in, you miss out," he says.

Equipsuper's Sam Higgie adds: "Whether it's an individual or a couple, they can be missing out on $40,000. That's the sort of money that, you know, a super fund could never get back for someone: $40,000 worth of income, it's just gone. This is something we think there needs to be a lot more education on."

Pension is here to stay

The age pension is around for the long haul, says Mercer's Knox. "It's linked to inflation and is guaranteed by the government. It's always going to be there."

The certainty of the age pension is attractive – it doesn't bear any market risk.

"Some people might say that the pension may not be there in 10 years' time and the government can't afford it. Absolutely rubbish. The pension will always be there," says Knox.

He says the cost of the pension internationally, compared with other OECD countries, for example, is exceptionally low – about 2.5% of GDP. "And in France, for example, where we've seen riots, it's costing the French government something like 12% to 14% of GDP. So, you can see why President Macron wants to cut back a bit."

He says the pension provides extra longevity protection for many Australians.

Seniors health card is a valuable consolation prize

If you don't qualify for the age pension, you may be able to receive the commonwealth seniors health card, potentially saving as much as $2000-$3000 a year. And that is a conservative estimate, says Retirement Essentials' Duffield.

In November 2022, the federal government significantly raised the income threshold for the health card so that more older Australians have access to relevant pharmaceutical and medical benefits discounts and other concessions.

Duffield says many more people are eligible for the card now that the government has raised the income limits.

The old income test limits of $57,761 a year for singles and $92,416 for couples have been boosted to $90,000 and $144,000 respectively. You need to be age pension age to qualify.

Retirement Essentials lists the top six benefits of the seniors health card as:

- Cheaper prescription medicine and other benefits under the Pharmaceutical Benefits Scheme.
- Bigger refunds on medical costs when you reach the Medicare safety net.
- Free or lower rates on other healthcare expenses. These can include ambulance, eye and hearing checks, and dental care.
- Discounts in some states on water and property rates. For example, in Western Australia, cardholders may be entitled to receive a rebate up to 50% on water service charges.
- Discounts on electricity and gas bills. Cardholders can often apply for energy rebates in different states to help cover electricity costs and gas costs. Check your state guides.
- Discounts on transport and recreational activities. Cardholders are often eligible to receive metropolitan and regional travel discounts. Recreational centres, parks and cinemas all over Australia offer discounts to cardholders.

Higher debt in retirement

Australians are retiring with more debt and increasingly with mortgages. Joshua Funder, Household Capital's chief executive officer, says more than 30% of retirees have a mortgage.

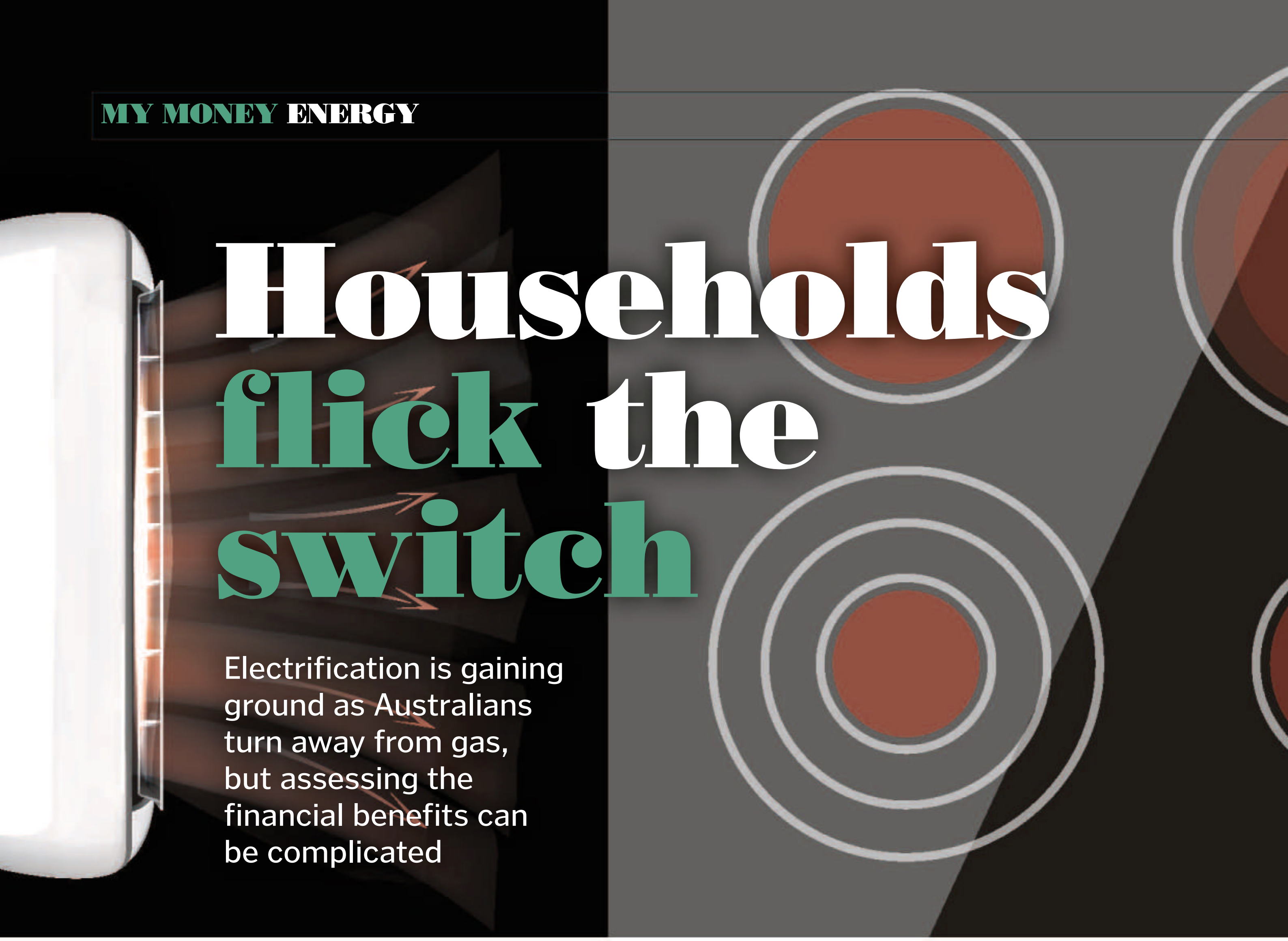
One strategy for them is to access the equity in their home to pay off their mortgage, preventing potential default and eviction as well as improving their retirement income.

AustralianSuper's Blackmore says the best support he can offer people who are beginning to think about their retirement is to have a strategy.

"More and more Australians will be taking some debt into retirement, and they need to have a plan for how they navigate that, whether or not that's accessing super to help pay that down," he says.

"It might be that your plan is to sell your home, if you own a home, and to pay off your debt. But being able to manage debt moving into retirement is something that's going to help people remove some stress in retirement.

"They won't have to think about having to potentially go back into the workforce if they're able to do that, or paying off debt on the age pension, which can become a long process."



Households flick the switch

Electrification is gaining ground as Australians turn away from gas, but assessing the financial benefits can be complicated

STORY
TOM WATSON

As Australia transitions towards renewable energy sources, there's also a transformation going on in kitchens, living rooms, bathrooms and bedrooms across the country: household electrification.

According to recent research by the Australia Institute, there is a strong appetite among homeowners to shift away from gas to electric appliances, with 55% of those surveyed feeling positive about the move towards electrification compared with 13% who felt negatively.

Dayne Thompson, chief executive of EnergyFit Homes, says he's come across more people interested in transforming their homes as the national conversation around electrification has grown. Most of them are motivated to move away from gas for two major reasons.

"I would say that the cost of energy bills and the environment are the two main drivers. Environment for the older generation because we actually have a lot of retirees who want to make sure that they're doing their part, and then cost for the younger generation. That's what we typically find."

But how much does electrifying a home cost – is it worth it from a savings perspective? And what else should households consider before getting started?

Benefits of electrification

Carl Tidemann, a senior researcher at the Climate Council and one of the authors of a 2022 report analysing the running costs of gas and electric appliances, says there are a number of ways homeowners may benefit from a move away from gas.

"There are some pretty major health benefits, particularly with cooking or if you've got gas heating that's unflued – although, thankfully, I think it's becoming less common – because burning anything in the home isn't great for indoor air pollution.

"And, of course, there's the climate benefit. Because we're in a renewable transition, it depends on the state you're in and the grid emissions intensity of your electricity, so the emissions savings can be questionable.

"But in our analysis, we looked at the emissions saved over 10 years assuming a rate of decarbonisation in the grid, so you're also saving emissions over time compared with gas."

Beyond the potential environmental and health benefits, Tidemann says modern electric appliances are just cheaper to run, although it does depend on location, climate and what the household is paying for electricity and gas.

For example, the Climate Council found that a household in Perth would save $514 each year on

its energy bills by switching from gas to low-priced electric appliances and by not having to pay gas supply charges. At the other end of the scale, a household in Hobart could potentially save $1594 each year.

"The conversion of electricity by heat pumps and induction is higher than the usage of electricity as compared to gas," says Tidemann.

"And even though gas is quite cheap, you're using so much more of it that transitioning those appliances across will save you potentially hundreds – or a bit over $1000 a year – depending on your home."

Electric heating and cooking

Heaters, hot water systems, stovetops and ovens tend to be the main appliances that households switch over from gas to electric, says Thompson. But depending on the appliance, it might not always be cost-effective to switch them immediately.

"By far and away the biggest use of gas in households is for heating homes, which is why reverse-cycle or heat pump air conditioners would typically be the first thing [to do]. Switching over to a reverse-cycle heater is really affordable, and they work well in cold climates now – which was always the concern years ago."

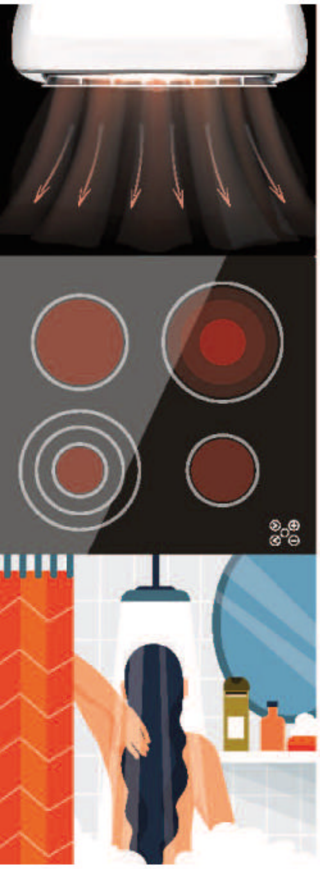
Hot water makes up the next biggest chunk of gas use in Australia. "If you've got a gas storage hot water system, it's probably worth looking at replacing that today, no matter how old it is, because the electric systems pay back much quicker," says Thompson.

"If you've got an instantaneous gas hot water system, though, it might not be affordable for you to switch that over to electric today because they are actually fairly energy efficient. So that's one where you might wait until it breaks down before replacing it."

Then there are stovetops and ovens. While the equation may be simple when it comes to switching heating and hot water systems from gas to electric, at least from a cost perspective, Thompson says it can be trickier with kitchen appliances.

"Is it affordable to convert gas cooking to electric? Quite often it is because if everything else is fully electric, then if you can convert your gas stovetop to an electric stovetop, then you can get rid of that annual fixed charge for staying connected to the gas network.

"The problem comes if your cooktop's built into your oven – it's an all-in-one – because replacing your whole oven and cooktop to get those savings isn't always affordable."



Given the potential energy bill savings up for grabs, not to mention the environmental and health benefits, moving from gas to electric appliances may sound like a tempting proposition. But electrification can come with a substantial upfront price tag.

Tidemann says there are plenty of factors that will determine the cost involved, including the type of appliances being replaced, the quality of the replacements and any electrical work that will need to be done to accommodate them.

"We calculated the heating and cooling load of average size homes in the capital cities – which was roughly 200 sq m – and then looked at appliance costs and also included potential electrical upgrades that can sometimes be needed," he says.

"Going from nothing to full electrification – so a split system in the lounge room and then two in bedrooms, or two in other areas of the home, an induction cooktop and a medium range heat pump hot water system – was over $7000 for the cheapest option."

The Climate Council also crunched the numbers on a second scenario with more expensive appliances, including three median-priced reverse-cycle air conditioners, a median-priced induction cooktop and a hot water system using solar with electric boost, which came in at $14,936.

Given the upfront costs on the one hand, and the potential energy bill savings on the other, how much time would it take for a suite of upgrades to pay for themselves?

For an upgrade using lower-cost appliances and an outlay of $7818, Climate Council researchers calculated the payback period ranges from as little as five years for a household in Hobart to 15 years for one in Perth.

For the $14,936 scenario using more expensive appliances, the payback timeframe ranged from eight years in Hobart to 19 years in Perth.

Solar and other considerations

Before starting the process, Thompson recommends that households get their electrical circuits checked by an electrician to get an accurate picture of the costs involved and to ensure that they can support new appliances.

"Australian households often have an electric oven and a gas cooktop, so the electrical circuit that goes to the kitchen is only capable of running the oven," he says. "Often, it's a 15amp fuse, but you might need a 30amp fuse. So that's just one extra cost to be aware of if you do upgrade your gas cooktop to induction."

Most importantly, though, Thompson says that households looking to electricity seriously need to think about installing a solar system if they haven't already. "I think electrifying is great and it's a great way to reduce your emissions, but if you're going to electrify, make sure you have solar or get solar. That's where you're getting the real value out of it.

"You're making sure that you can generate your own electricity which, with solar, is so cheap. And if all your appliances are electric, you get to use that energy. Instead of sending it back into the grid and getting a couple of cents for it, you actually get to use it." *M*

Low-cost electrical upgrade: cost, savings and payback

	Yearly bill savings	Payback period
Adelaide	$1051	7 years
Brisbane	$1135	7 years
Canberra	$1561	5 years
Hobart	$1594	5 years
Melbourne	$943	8 years
Perth	$514	15 years
Sydney	$608	13 years

Source: Climate Council. Upgrade includes a $7818 outlay on a less-efficient heat pump hot water system, three low-cost reverse cycle air conditioners and a cheaper induction stove, plus installation and electrical upgrade costs.

Low-cost electrical upgrade: cost, savings and payback

	Yearly bill savings	Payback period
Adelaide	$1457	10 years
Brisbane	$1424	10 years
Canberra	$1876	8 years
Hobart	$1899	8 years
Melbourne	$1207	12 years
Perth	$803	19 years
Sydney	$924	16 years

Source: Climate Council. Upgrade includes a $14,936 outlay on an efficient hot water system (solar hot water with electric boost), three median-priced reverse-cycle air conditioners and a median-priced induction cooktop, plus installation and electrical upgrade costs.

Zoom in on wealth creation

STORY NICOLA FIELD

The children of the internet age could teach the rest of us a thing or two about investing

They're tech savvy, eco-conscious and, according to the Australian Securities Exchange 2020 investor study, the fastest growing group of investors in the country. Meet the zoomers – members of generation Z, loosely defined as young adults under-25 or people born in the late 1990s and early 2000s. They're also the generation embracing financial independence and shaking up the world of investing.

Gen Z has the weight of numbers. According to the advisory firm McCrindle Research, the zoomers are the largest generation yet, accounting for one in five Australians and almost 30% of the world's population.

They're also on the cusp of the largest intergenerational wealth transfer in history. Research by Griffith University and McCrindle, cited in a 2021 Australian government paper, estimated that the baby boomers would transfer $3.5 trillion in accumulated wealth to their children and grandchildren.

Not that the zoomers are waiting for hand-me-down wealth.

More than half of gen Z (54%) already have up to $20,000 in savings or investments (excluding super) and one in four has up to $100,000 invested, according to the Responsible Investing Association Australasia (RIAA).

It's not a bad achievement when you haven't yet celebrated a 30th birthday. As we'll see, when it comes to investing, gen Z is definitely not gen zzzzzz.

On the flipside, the zoomers face tough challenges. High property prices make saving for a home a financial ultramarathon, the online world is rife with scams and misinformation and super-low interest rates are fast fading into the history books.

It puts the zoomers at the intersection of high tech and high stress. Here's how they're finding their financial feet.

THEY'RE SAVVY SAVERS

ZOOMER TIP: *Make your spare cash work harder*

A survey by the financial watchdog ASIC found that saving is overwhelmingly a top goal for young Australians – and the zoomers are nailing it.

NAB data from April 2023 shows nearly two-thirds of 18- to 29-year-olds have their savings in a high-interest account, compared with just half of Australians aged over 30.

"Gen Z want to secure their future, ensure their own financial wellbeing, and contend with rising living costs, and they're choosing to put their money into high interest savings accounts," says Kylie Young, NAB personal banking executive.

For example, at age 17, Nick Terrell is among the zoomer ranks of savvy savers. Despite being in his final year of high school, Terrell has built up a pool of savings by spending school holidays working with a team of tradies. Rather than let the money sit idle in his everyday account, he shopped around for a savings account paying a decent rate. And he has bigger plans for the future.

"I'd like to invest in shares when I turn 18," he says. "I'm thinking of going with a Vanguard Personal Investor account to get a good deal on brokerage."

How has he researched this? "YouTube videos". It's a common theme, and one we'll come back to.

NOT SUCH A 'GREAT' DREAM

ZOOMER TIP: *Be flexible, look for ways to get the most from your money*

High home prices leave many zoomers (along with the rest of us) feeling shut out of "the great Australian dream" and that's driving a re-think of goals.

Hal Felding, 25, has been investing in shares and exchange traded funds (ETFs) since age 16. Over the past 18 months he's pulled out all stops to save for a home. But it's a goal he's cooled on following 11 interest rate hikes.

"I worry that I will forever be on the hamster wheel trying to afford anywhere that is even remotely livable," he says.

"I also think the era of massive capital accumulation probably can't go on forever. Property values will probably see healthy gains in the coming years, though I'm not sure they will match the gains over the last 30 years."

So, Felding has pivoted away from saving for a home to paying off his university HECS-HELP debt. "The indexing rate is meant to be 7.1% this year. I figure any payment made before June 1 [when the debt is adjusted for inflation] gives me an instant return of 7.1%."

NEW KIDS ON THE ASX BLOCK

ZOOMER TIP: *ETFs make diversification easy*

Esther Althaus, a financial adviser with Perspective Financial Services, agrees that breaking into the property market is no mean feat for zoomers.

"If you're not invested in one market, get into another. Buy into something you understand and layer up your knowledge so you can diversify as you go," she advises.

That's exactly what gen Z is doing.

More than any other generation, zoomers are turning to the sharemarket, though not always as direct shareholders.

An ASX study found investors aged 18 to 24 are least likely to hold shares directly and most likely to invest in exchange traded funds (ETFs).

Althaus sees ETFs as having benefits for young investors. "An exchange traded fund provides

Plugging a gap ... Jessica Brady runs a financial literacy program pitched at younger people

plenty of diversification within its mandate," she says. "That's a plus for all investors, especially gen Z, as it means they don't have to be on top of a specific company, yet can still achieve diversification within that fund."

For Felding, ETFs make life easier. "I had some good success with individual stock trades in 2020, then the market turned with Covid. Now I put all my money into index funds. It's simpler and there's much less need for research."

A survey by Nasdaq, the US stock exchange, found gen Z are far more likely than older generations to gravitate to "themed" ETFs that focus on specific areas such as artificial intelligence (AI), digital currencies and even online gaming. In Australia, ETF providers such as Betashares have responded by launching a variety of themed ETFs.

Althaus believes ETFs with a certain focus can "empower young investors to invest in something they are interested in – be it technology, robotics or video gaming". However, she adds: "I'd like to see fund providers use this opportunity to educate young investors about the importance of diversification. If you're investing in a trend with, say, a themed ETF, it can have an element of risk simply because it is following a trend."

NO FEAR OF LOSING MONEY

ZOOMER TIP: *Investment mistakes provide a learning experience*

Gen Z aren't held back by fears of losing money. A Vanguard study found only 15% of zoomers worry about losing money on an investment compared with 41% of baby boomers.

"When young people invest, they can have a good experience," says Althaus. "This doesn't necessarily mean they make lots of money, but simply gaining experience gives people the impetus to make further and smarter decisions."

Scott Pantlin, a financial adviser with Gild Group, isn't so sure. "Gen Zs are buying and selling things quickly, and trying to make profits without taking into consideration the implications," he says.

Pantlin believes this stems from "the cryptocurrency generation that was seeing 10%, 20% or 30% increases overnight and then selling – the make-a-quick-buck mentality is here."

However, for some zoomers, early experiences of investing have provided valuable lessons.

Iyra Jufriyanto, 24, began investing several years ago in what she calls "fairly speculative short trades".

"I was really playing with money," she says. "I discussed the trades with friends – it was kind of a social thing; we had a group chat. If things went up we all celebrated, but if they went down, misery loves company. I never lost money, but it was stressful," admits Jufriyanto. "These days I've started doing more long-term investments."

INVESTING TO CHANGE THE WORLD

ZOOMER TIP: *Sustainable investments can be good for the planet and your portfolio*

Zoomers have been dubbed one of the most "woke" generations since the 1960s. That's not a bad thing as, according to a RIAA report, they are leading the charge for responsible investing.

An RIAA survey found more than eight out of 10 zoomers would invest more if they thought their money would make a difference in the world, compared to fewer than two in five boomers.

For Cait, 24, it makes sense to look for investments that tick the box for ESG (environmental, social and governance) issues. "I think my generation is going to be the one that looks our children in the eye and says, 'We tried our best at slowing down climate change', and investing is a part of that."

Cait doesn't see sustainability as an add-on but as "an essential to focus on". It's not just about protecting the planet. "I've read that coal, oil and other petrochemical industries may end up with stranded assets because of changes in policy that finally recognise the need to wind back our effect on the planet," she explains.

"Over the coming decades, a lot could change with government policy. So, I could end up earning a lot more in the future investing sustainably compared to supporting fossil fuels."

Cait holds a handful of direct shares but relies chiefly on index funds to achieve her ESG mandate. She currently holds units in Betashares Australian Sustainability Leaders ETF and Betashares Global Sustainability Leaders ETF.

A sustainable focus can pay off. The RIAA found that in 2021 (the latest available data) responsible investment multi-sector funds notched up 10-year returns averaging 10.9% annually, compared with 8.8% across traditional funds (see table, below).

Top 5 environmental and social themes for gen Z investors

1	Renewable energy and energy efficiency
2	Healthcare, public health and medical products
3	Zero waste and circular economy
4	Sustainable transport
5	Sustainable water management and use

Source: RIAA

THE WEAK SPOT: WHERE THE ZOOMERS GET ADVICE

ZOOMER TIP: *Options for high-quality advice are available*

Having grown up with social media, it's no surprise gen Z heads online for investing tips. Every zoomer Money spoke to sourced information from the likes of YouTube and TikTok.

This isn't a coincidence. According to the World Economic Forum, gen Z are almost five times more likely to get financial advice from social media than people aged 41 or over. This has fuelled the rise of the "finfluencer" – often unlicensed social media influencers who spruik financial advice in a global market worth billions.

This trend hasn't been lost on Australia's investment regulator ASIC. It found close to one in three people aged 18 to 21 follow at least one finfluencer on social media.

ASIC has called out finfluencers for dodgy conduct. The Federal Court recently banned Gold Coast social media finfluencer and self-titled "ASX Wolf" Tyson Scholz from charging his followers for advice. Scholz had been using Instagram to flog "market leading education learn to TRADE" courses, hitting up his followers for as much as $1500 annually for unlicensed share tips.

One reason younger investors are drawn to social media is the cost of traditional advice. Scott Pantlin acknowledges that face-to-face advice which fits Gild Group's zoomers' budgets is hard to come by. However, some advisers are filling the gap.

Jessica Brady is the founder of The Greenhouse, a financial literacy program pitched at younger people, the LGBTIQ+ community and those who can't afford bespoke advice.

Brady, who is a licensed adviser, says: "Whilst I'm a huge advocate for financial advice, we must acknowledge that it is unrealistic for many Australians to access. I still see people spruiking crypto or spreading misinformation about finances, which does worry me. Knowing who to trust in this space can be really complicated."

The Greenhouse program is hitting its mark. Priced at $1000, the course spans 10 weeks, covering various money topics via videos accompanied by worksheets, journals and tools. A weekly money "date night" lets participants discuss the topic of the week in detail.

RISE OF MICRO-INVESTING APPS

ZOOMER TIP: *You don't need pots of money to start investing*

If there's one area where the zoomers have an advantage over their older peers, it's the proliferation of micro-investing apps that have made investing accessible and affordable.

Raiz, Superhero, Sharesies, Commsec Pocket and Stake are among the platforms that have no or very low minimum investment levels. As little as $5 can get you into the market.

Chris P, 25, has been investing in the Raiz platform since 2017, adding a few dollars to his account each week. He was attracted to the platform because "I wanted to invest for a rainy day and earn a better return than a savings account without the hassle and hands-on of regularly trading shares," he says. Today, his account balance is almost $5000.

Micro-investing platforms not only make it easy to get into investing, they also make it fun. Raiz, which claims to have 294,000 active customers in Australia, has a loyalty program that sees partner brands such as Cotton On and The Iconic return a small sum back to a customer's investment account when they make a purchase.

Althaus sees real positives in these apps. "They create awareness and provide a platform to take the first step, and they're creating a buzz of conversation about investing between friends," she says. That said, Althaus notes it's worth reading the fine print. "Don't get in if you don't know what's involved or how to get out." *M*

What we can learn from zoomers

No generation has money matters honed to perfection. Superannuation tends to be a weak spot for gen Z, with low levels of engagement, though Scott Pantlin doesn't see a problem with this.

"In my opinion, super is not something they need to focus on right at this moment," the Gild Group's financial adviser says. "The big industry funds all provide good, comparable accounts with similar returns."

Where Pantlin believes older generations could learn from the zoomers is their willingness to be proactive and just get started with investing. "We see clients ranging from 24 to 75 years of age," he explains, "and I always hear those in their later years of life say, 'I wish I had done this years ago'."

Felding is confident this generation has the smarts to handle internet scams, the time to weather sharemarket volatility and the strength of numbers to make sustainability a widely accepted benchmark of a "good" investment. "What worries me," he says, "is the rise of generative AI. When a fake picture of the Pope wearing Balenciaga goes viral, it's a fair sign AI is going to test us all."

Home buyers get another chance

More banks are set to become participating lenders in the federal government's Home Guarantee Scheme from July 1

Aspiring first-time home buyers who are locked out of the property market will get a second shot at their dream, thanks to new laws coming into effect next month.

Starting on July 1, the eligibility criteria for the government's three-pronged Home Guarantee Scheme (HGS) – namely the First Home Guarantee (FHBG), the Regional First Home Buyer Guarantee (RFHG), and the Family Home Guarantee (FHG) – will be extended to include individuals who were previously excluded.

In a landmark move, the definition of a "couple" applying for the First Home Guarantee and the Regional First Home Guarantee will no longer be limited to those who are married or in a de facto relationship.

Instead, the government will allow joint applications from friends, siblings and other family members.

Similarly, the Family Home Guarantee will no longer be limited to single natural or adoptive parents with dependants. Aunts, uncles and grandparents who are single legal guardians of children can also apply.

David Thurmond, mortgage broker and principal of Mortgage Choice in the Melbourne suburb of Berwick, says these reforms will help more people get on the property ladder, particularly those who live in areas where housing affordability is at record lows.

Who's on the lender list

The Home Guarantee Scheme works by lowering the initial deposit required by the applicant to get a home loan. For example, borrowers eligible for the FHBG and RFHG only need to save a 5% deposit (subject to terms and conditions). The government guarantees the larger deposit amount, equivalent to 15% of the required 20% deposit.

As 20% of the home loan is covered by the borrower and the government, there is no need for lenders mortgage insurance, bringing more savings to the table.

"Not only that. Borrowers also pay a lower interest rate because they are getting a home loan on an 80% loan-to-value ratio compared to someone who is not eligible for the Home Guarantee Scheme and evaluated as a borrower on a 95% LVR," says Thurmond.

The guarantee, which is administered by the National Housing Finance and Investment Corporation (NHFIC) on behalf of the Australian government, updates the list of participating lenders on its website (www.nhfic.gov.au/participating-lenders).

At the time of writing, NHFIC lists 32 participating lenders, including two major banks, Commonwealth Bank and NAB. From July 1, Westpac will join the scheme.

Besides redefining the definition of a couple or a single parent, the government will also broaden the eligibility criteria to include non first home buyers who haven't owned a property in Australia in the past 10 years.

The government will also open up the guarantees to people with a permanent residency status. Currently, the guarantees are open to citizens only.

Banks to fill in more spots

One of the criticisms levelled at the government when the guarantee schemes were introduced in 2020 was that there were more applicants than there were places (effectively home loans). Four years ago, when FHBG was known as the First Home Loan Deposit Scheme (FHLDS), there were 10,000 places. Last year, this was increased to 35,000 places and will remain so this year.

Drummond says that in the past, when he was helping his clients secure a place, they would have either missed out or have had to wait months to get on the list. "I don't have that problem anymore after they've increased it to 35,000."

He stresses, however, that the usual home loan serviceability rules still apply. "Borrowers still have to show that their income can cover their mortgage repayments."

He adds that where possible, he wouldn't advise a prospective borrower to pair up with their sibling or parent due to potential complications in the future. Anyone who plans to take advantage of the new "couple" rules under the guarantee should have an exit plan in case financial circumstances change drastically.

Michelle Baltazar is editor-in-chief of Money. *She has worked on various finance titles including* BRW *(now closed) in Australia and* Shares *magazine in London.*

Happy family ... (from left to right) Owen, Indigo, Sean and Eric the spoodle.

Alternative paths to parenthood

Adoption and surrogacy are typically costly and time-consuming, but the results are worth the effort

When you want a baby badly but can't conceive, what are your choices? The options include adoption in Australia or from overseas, or finding someone to have your child through a surrogacy arrangement.

All these paths can be complex and an emotional roller-coaster. They can take several years from starting the application process to receiving a baby or child. Eligibility is stringent and there are complicated legal issues. Costs can vary widely, too.

Intended parents all have different experiences. For Owen Craven who, with his partner Sean Gallagher, successfully navigated all the hurdles and costs of surrogacy, having his wonderful daughter, Indigo, is definitely worth it.

Owen says it took three years of planning, saving and co-ordinating, from deciding to embark on the surrogacy to Indigo's birth. "And here we are almost a decade later at home with a burgeoning young lady."

Adoption within Australia is at a record low. As many as 10,000 babies a year were adopted out in the 1970s when unwed mothers were under pressure to give them up. This has declined and in the pandemic year of 2020-21 there were only 264 finalised adoptions, made up of 42 adoptions from overseas and 222 who were living permanently in Australia, according to the Australian Institute of Health and Welfare.

Intercountry adoption

Adopting a child from overseas can be a long, slow process with the median waiting time around three years and four months in 2020-21. Some countries are faster. Placements from South Korea took 24 months while for the Philippines it was about 66 months, according to the Institute of Health and Welfare.

Each country has different eligibility criteria, waiting times and fees.

Some countries only offer older children for adoption, not babies. Often these kids have been in orphanages for many years and have a history of abandonment, serious harm, abuse and neglect.

These factors, combined with prolonged institutionalisation, can result in emotional issues that can disrupt bonding with caregivers. Specialist therapeutic care may be required as ongoing support.

Children younger than eight years who need intercountry adoption typically have health difficulties or developmental delays or have one or two siblings,

PHOTOGRAPHY HAYDEN BROTCHIE

with the oldest usually aged eight years or more.

Australia has arrangements with 13 countries: Bulgaria, Chile, China, Colombia, Hong Kong, India, Latvia, Poland, South Africa, South Korea, Sri Lanka, Taiwan and Thailand.

Often countries offer adoption of children with special needs as well as children without. Not all countries allow adoption by same-sex couples. For example, Bulgaria does but Chile does not.

Overseas surrogacy

In Australia, the surrogates who offer to have a baby for people must, by law, do it for altruistic – not commercial – reasons. The intended parents pay their medical and legal bills but no additional money.

The medical bills for some fertility treatments for the surrogate depend on how long it takes for them to fall pregnant and how many IVF treatments are needed.

Because there aren't enough surrogates in Australia, intended parents turn to surrogates overseas, who will accept a fee in addition to their medical and legal costs.

There were gut-wrenching images at the start of the Russia-Ukraine war of pregnant surrogates, about to give birth, with bombs falling around them and Australian parents unable to attend the birth.

When you search online for surrogacy, there are plenty of services that pop up. It can be confusing and overwhelming for people who are weighing up overseas surrogacy.

Websites for the Department of Home Affairs and organisations such as Surrogacy Australia are a good place to start, particularly for the legal requirements.

Owen and Sean carried out extensive due diligence and some of the best advice came from word of mouth and recommendations from friends of friends.

They wanted to understand all the aspects of the process and make sure they felt comfortable with the ethics of the clinic and the industry regulations in India. When they chose the clinic, they travelled to India to meet the doctors and other practitioners before signing up.

"As well as understanding the process the clinic used for recruiting egg donors and surrogates, we wanted it to be run ethically – looking after the surrogate throughout the time of the pregnancy, paying them appropriately and in a transparent manner," says Owen.

In India, the egg donor and surrogate must be different women.

"We selected our egg donor from a portfolio of profiles. We relied on the clinic to determine our surrogate based on their professional opinion as to their ability to carry a child successfully.

"Indigo's surrogate had three children of her own already. Her motivation for the surrogacy was to help her children go to school."

High costs and legal issues

Owen and Sean's surrogacy took place 10 years ago and the overseas surrogacy options were quite different to what is available now.

India, Thailand, Cambodia and Nepal, for example, were popular then but no longer engage in overseas surrogacy.

"When we were going through the process, it was the difference between $150,000 in America and around $80,000 in India," says Owen.

"We went to India because it was somewhat cheaper than other jurisdictions that allowed it. America was the other common place that people went at the time. It's got a good legal framework as well as India but it's very expensive. And the health system over in the US is very different and expensive.

"When I quote $80,000, that's roughly everything, from flights and accommodation to legal fees, medical fees and surrogacy. So, it's not a cheap journey to go on, but certainly one that's very much worth it."

The smartraveller.gov.au website explains how at least one of the biological parents must be an Australian citizen and additional DNA testing is needed from doctors to demonstrate the parent-child relationship before Australian citizenship by descent is issued – this is necessary for an Australian passport. "There's no way of denying a child who has DNA testing," says Owen.

However, Australian citizenship does not equate to parentage. Under Australian federal law, the woman who gave birth to a child born via surrogacy is deemed the parent, along with her husband, even though there is no genetic link.

To apply for a parentage order is complex, says Owen, as this is administered by state courts, but there is no consistency between state and federal jurisdictions.

How the politics make it harder

Owen Craven says one of the reasons he talks proudly about his family's positive surrogacy experience is to inspire and educate others, as well as to highlight some aspects of the flawed legal framework that surrounds surrogacy.

"While under Australian and state laws there may be questions about who are the child's parents, in our daughter Indigo's eyes, there is no doubt we are her dads. But what we need to do is change the policies around Australia so there is alignment between the state and federal governments to provide this service safely and in a fair and regulated manner."

But they don't see the laws changing any time soon.

"We're the lucky ones where surrogacy worked, but it's an important topic, because families are created in very many ways. And there are a lot of people that want to have a child and grow a family. Having children is good for our country, socially and economically.

"We want people to be able to have families, but the laws choose to limit people who biologically can't create families. And to criminalise that process, I think, is flawed and potentially dangerous."

Susan Hely has been a senior investment writer at The Sydney Morning Herald. *She wrote the best-selling* Women & Money.

Harness the power of good habits

Whether it's going for an early morning jog or saving money for a rainy day, it pays to make it part of your routine

The alarm goes off. 5am. It's cold and I can hear it raining outside. My shoes are laid out, I know where my running gear is, but a decision still needs to be made. To get up, or not to get up, that is the question.

If I hadn't made a morning habit, I'd probably ignore the call of the road. But I have, so without thinking much I hop up and start to put on my gear.

This is the power of habitual behaviours. They hack our brain and help us prioritise one behaviour over another. If I am in the habit of ignoring my alarm, then I will. If I am in the habit of getting up, then I will.

Habits are hard to break and even harder to form – that is what makes them so special. All our rational mind can do is create narratives justifying the behaviours that our habits dictate.

In many respects, the living of a good life can be linked to the ability to form new good habits and break old bad ones. It is this instinctive knowledge that has led to the popular myth that it only takes 21 days to form a habit. This is simply not true. It has taken me months of regular practice to get into the habit of morning exercise, and it seems that my experience is pretty normal.

The idea that it takes around 21 days to form a habit is not based on any science. The genesis of the myth is often attributed to a book published in 1960 by plastic surgeon Maxwell Maltz, who noticed that his patients took about 21 days to adapt to their new body after reconstructive surgery. The 21-day theory is actually about adapting to change forced upon you, rather than creating new habits that are voluntary.

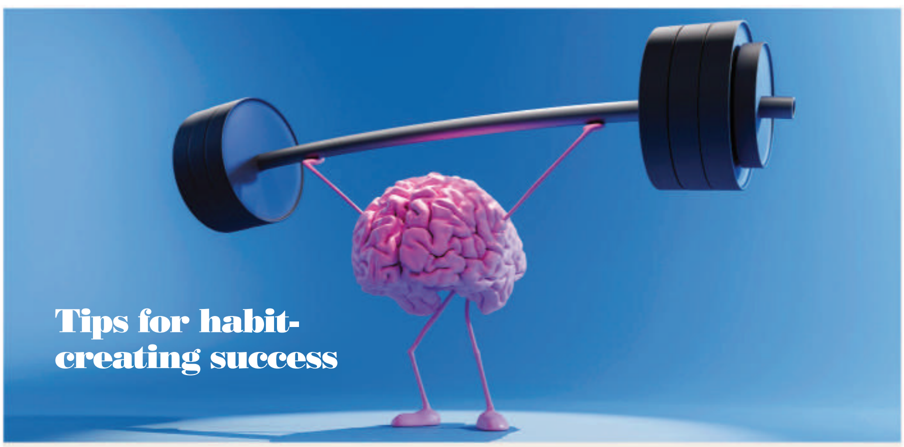
Many recent studies show that the speed of habit formation changes according to how hard the activity is, whether there is social pressure to conform, and whether there is any pleasure found in alternative behaviours that would undermine the desired habit.

In a 2009 study by Lally et al, published in the *European Journal of Social Psychology*, researchers showed it took about 66 days for behaviours, such as a daily 15-minute run, to become a habit.

Another study conducted by psychologists at the California Institute of Technology analysed the habits of gym-goers and healthcare workers. They found that the timeline for developing a habit varies widely depending on the person and the task, and there is no set timeline for forming a habit. However, they did discover that it takes an average of about six months to form a gym habit, while it only takes a few weeks for healthcare workers to develop the habit of frequent hand washing.

Turns out that a new year's fitness resolution is going to be a mental battle for most, come July when the cold, dark, wet winter's day screams at us to hit the snooze button and remain in the warm bed. So don't beat yourself up if, after a few months, you're still struggling to form a good habit. It takes time, but it will happen. If you stay the course, you will find good habits are one of life's true joys and a doorway to success.

Phil Slade is a behavioural economist, psychologist, and co-founder of decision architecture firm Decida.



Tips for habit-creating success

- Start slow and ease in. If you want to run, start by walking and slowly build up to a run. If you want to quit junk food, gradually cut out fast food for a few days at a time instead of cutting it out all at once. Feel successful in the small steps and you'll be more likely to reach the big ones.
- Keep the end game in mind. It could be a fitness, financial or relationship goal. Knowing what we want to achieve is a good motivator when things get tough.
- Don't beat yourself up. Breaking the plan for a day doesn't break the habit forming. Don't throw it all away simply because you missed a day.
- Find a friend. We are herd animals. Sharing the experience creates shared accountability and a sense of belonging that is linked to the behaviour.
- Design your environment for success. If you want to lose weight, it's probably best not to have treats in the fridge.

10 ways to cut your tax bill

From writing off bad debts to boosting your tech, it's not too late to maximise your savings

With the end of the financial year fast approaching, small businesses can take steps to save on tax. Here are some last-minute tips to trim your 2022-23 bill.

1 Review all your expenses

The starting point for ensuring you're reducing the tax liability for your small business is to review expenses and ensure you have all the paperwork to claim relevant deductions. This can include everything from office supplies and travel expenses to advertising and professional fees.

2 Take a closer look at inventory

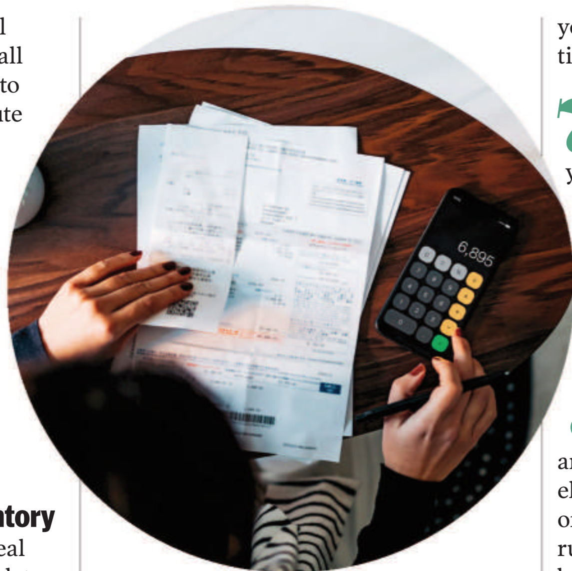
The lead-up to June 30 is the ideal time to review trading stock for obsolete lines that simply aren't selling. Consider if stock that's gathering dust should be written down or written off completely. As a business owner, you're normally entitled to a tax break for obsolete inventory, as the closing value of stock on hand forms part of the venture's assessable income.

3 Write off bad debts

This may hurt a bit, but if your business uses an accruals-based accounting system, you may be able to claim a deduction for any bad debts the business has incurred. You can only claim a bad debt deduction for amounts that have been included in the assessable income of the business, either in this year's tax return or in an earlier year's return.

4 Take advantage of temporary full expensing

This allows businesses an instant write-off (deduction) for the cost of an eligible asset rather than having to depreciate the item over its useful life. As temporary full expensing is scheduled to end on June 30 this year, it's worth making use of this tax saving while it lasts. The catch is that the asset, such as plant and equipment or a new fleet car, must be in place and ready to use by June 30, 2023 to qualify for an instant write-off.



5 Consider prepaying expenses

Small businesses can prepay certain expenses before June 30 to claim them as a deduction in the current financial year. This can include paying expenses in advance, such as rent, insurance premiums, professional memberships and subscriptions. Check the rules around prepayments to be sure you meet tax office guidelines. Your accountant can help here.

6 Make super contributions

Small business owners often make super contributions for their staff but neglect their own retirement savings. A 2018 study by the Association of Superannuation Funds of Australia found one in five self-employed people have no super at all. That makes it worth making a contribution to your fund. For 2022-23, the before-tax contribution cap is $27,500, but you may be able to claim unused contributions extending back to 2018-19.

7 Defer income if possible

If the current financial year has seen your business earn higher than normal revenue, it may be worth trying to defer part of your takings until next financial year by holding off invoicing customers until after July 1, 2023. This can be a useful strategy if you anticipate a quieter 12 months ahead.

8 Invest in staff training

Small businesses with aggregated annual turnover below $50 million may be eligible to claim an extra 20% for the cost of staff training. The training needs to be run by an external registered provider to be eligible for the additional claim.

9 Boost your tech capabilities

There may still be time to take advantage of the Small Business Technology Investment Boost. Introduced in the 2022-23 federal budget, it allows small businesses to claim 120% of the cost of digitising operations. This includes spending on portable payment devices, improving your cyber security systems or subscriptions to cloud-based services. Any tech hardware you buy to take advantage of the upscaled deduction must be in place by June 30, 2023.

10 Check with your tax adviser

Tax law is complex and stiff penalties can apply for getting it wrong. A quick check with your tax accountant before June 30 can alert you to pitfalls to avoid as well as potential deductions you haven't considered to help take the sting out of this year's tax bill.

Anthony O'Brien is a small business and personal finance writer with 20-plus years' experience in the communication industry.

STORY TRACIE ELLIS

Nail down all the details

If you're building a new home, it will save time, money and stress if you have checked all the paperwork first

Setting off on the journey of building a new home is one of the most exciting and rewarding things you will ever tackle. It also comes with a hefty financial commitment and is, more often than not, gruelling and emotionally draining.

If you are up to the challenge, it is important to remember that if it's worth doing, it's worth doing well. Arming yourself with as much knowledge as possible is key to a successful build.

Before you jump too quickly into signing up with your builder, understanding the process, your contract and scope of works will ensure you achieve the best outcome for a smooth and stress-free (as much as possible) build.

Regardless of whether you are a novice or a seasoned expert, there are certainly proactive steps you can take to ensure your build is a breeze and silly, costly mistakes are avoided.

The current uncertainty in the construction industry makes it more important than ever to be well prepared.

Prepare the budget

A good budget takes into consideration all elements of the build, ensuring you have reserved funds, as you can be sure you will incur variations during your build. It is of utmost importance to set a maximum budget for your project.

There are many items that will not be included in your contract, for example:

- Architectural fees
- Approval fees
- Planning fees
- Electrical and gas meters
- NBN connection
- Window coverings
- Outdoor concreting
- Landscaping
- Fencing and gates
- Driveways
- Decking
- Letterbox
- Pool and furniture.

Some of these items are commonly referred to as

finishing costs and can incur an additional 15%-25% of your budget. In addition to the above, you may incur extra costs that are associated with preparing your site for construction.

Landscaping, fencing and blinds alone can see you incur an additional $20,000 to $50,000 (and more), depending on your home and your unique requirements.

What are variations?

These are changes or alterations made during your build, which are outside what is specified in the scope of works of your contract. These include changes to the:

- Design
- Materials
- Product
- Quantities
- Quality
- Sequence of work
- Scope of work

Both the homeowner and/or the builder may request a variation.

It is important to understand that a building contract is a legally binding document. The best way to avoid expensive variations is to take time to prepare for your build well. Do not rush because you are eager to get moving. Be very thorough, careful and involved when it comes to planning – and never sign a contract until you are certain that it details everything you require.

This means making sure your contract includes things like:

- Specific detail on make and model for selections such as benchtops, joinery, tapware, lighting, etc
- Timber floors should be specified to the exact product and finish, not simply defined as "timber floors"
- Specific detail on paint selection, along with the number of coats.

Engaging a construction lawyer to look over your contract before signing on the dotted line is always money well spent.

It is important to remember that even the best plans don't always fall into place. Sometimes builders need to request variations as the original plans simply are not the most practical or sensible option.

TIP

Make sure there's a clear paper trail when it comes to anything to do with all contracted work, variations and payments.

What can happen

Despite the time that is put into your build and contract preparation, there will always be product selection that you want to defer, until you are at that stage of the build. Let's take bathroom, ensuite and laundry tiles, for example.

Say you agreed with your builder to settle for a "PC" (prime cost) of $35 per sq m and decide to make your selection once you are closer to that component of the build. The time then arrives for decisions; however, the allowed sum of $35 per sq m will only permit you to select the most basic of tiles. You have fallen in love with tiles that you simply "must have" at $89 per sq m for the bathroom, $139 per sq m for your ensuite and $72 per sq m for the laundry. The table below shows the cost you would incur for the variations in this scenario.

Cost of variations

AREA	PRIME COST	VARIATION	DIFFERENTIAL
Bathroom @ 14 sq m	$35 ($490)	$89 ($1246)	$756
Ensuite @ 16 sq m	$35 ($560)	$139 ($2224)	$1664
Laundry @ 12 sq m	$35 ($420)	$72 ($864)	$444
Total differential: $2864.00 plus builder's margin 20% + GST = $3780.48			

Take the extra time upfront to go through your plans over and over again

You can see that not taking the time at pre-construction phase to select the product has incurred a variation. You could also incur a variation on extra labour.

The builder is well within their rights to charge you a variation for these selections. It may even be more, if you had already selected the basic tile at the outset (as the builder may have purchased these), resulting in you paying for the original tile, in addition to your new selections.

Managing any changes

It is important to manage variations well, as many variation bills result in litigation between the parties, something that you certainly don't need – and it's another additional expense! So, if a variation is on the horizon, it is important to:

- Agree to the changes and costs in writing;
- Consider a different solution; or
- Continue with the original plans.

It is important that all details of each variation (including price differential) are put in writing and signed off by both parties before any work is completed.

One thing is for certain: any bitter litigation at the end of a build more than likely started with a breach of professional boundaries at some point during the process. Assuming that all parties are "friends" allows important paperwork to slip through the cracks. Documented acceptance of variations is essential throughout the build process.

Another important consideration is the flow-on effect that variations have on deadlines and your completion date.

As your build progresses, it is not uncommon for your ideas to change. A home can look very different to what you envisaged from the plans. Making changes like moving windows or walls or modifying door sizes are also considered variations, as would be an additional feature wall or path. All result in a growing list of variations.

Be absolutely clear

Always remember that if there is something you don't understand in your plans or your contract, you should ask. Ask for clarity on everything, as that will ensure your budget stays where it should be – on track.

It is much easier to make changes in the pre-construction phase than it is to make variations once your home is under construction. Most of your materials are pre-ordered, and changing or moving items can not only be expensive, but may delay your build by weeks or sometimes months.

Carefully read through the contract with your builder to make sure you understand its contents. Make sure you are not taken by surprise by what the construction costs cover and what they don't cover.

Your contract should include a cooling-off period, with a timeframe for construction that suits your needs. Check to see that it includes detailed plans, warranty and insurance information. Also pay close attention to the payment schedule.

Building a home is one of the most exciting investments you will ever make, so you can't be blamed for rushing and not looking into the finer details of your plan and contract. But the owner is responsible for anything that has been signed off, so it is essential to know what is and what is not included.

Take the extra time upfront to go through your plans over and over again with a fine-tooth comb. What might seem monotonous now may avoid disappointment down the track. ***M***

Tracie Ellis is the CEO of Renovators Directory, the platform that brings together business owners in the renovation sector and consumers requiring their services. There are more than 100,000 businesses listed on the site, which has amassed more than 12 million views since its launch in 2020. See renovatorsdirectory.com.au

TIP

Do more work ahead of signing the contract (not during the build) and ensure your contract specifies brands, models, colours, power points, door handles, lightbulbs, taps and even coats of paint. Be clear on how and when you will be charged for variations.

How to ride the tourism revival

With visitor numbers back up after the pandemic slump, there are opportunities for investors

The tourism industry was hit hard by Covid-19 lockdowns but is now recovering strongly. In particular, spending on domestic tourism is above pre-pandemic levels. And international tourism is also starting to bounce back.

This is good news for investors in the tourism accommodation sector.

In the three months to December 2022, spending by domestic overnight tourists increased by 34%, to $27.5 billion, compared with the same period in 2019, according to Tourism Research Australia. Of this, $7.7 billion was spent on accommodation, up 49% from the 2019 December quarter.

International tourism is taking longer to recover, with total spending in the December 2022 quarter of $12.7 billion, 41% of the amount spent in the December 2019 quarter. But it's now gathering pace and Tourism Research Australia predicts spending by international visitors will pass pre-pandemic levels in 2024.

Investors wanting to benefit from tourism recovery could consider the holiday property sector. There are several ways – some requiring only a small outlay – for retail investors to access this sector.

Provide short-stay accommodation in your own home

This is not an option for everyone – even if you have the space. But if you are up for it and have suitable spare space, this can be a lucrative way to increase your income, usually with minimum outlay.

Before you go ahead, make sure you understand any rules that apply in your area as well as insurance and capital gains tax (CGT) implications. Most people list on a short-stay platform such as Airbnb. To do this, you'll need to provide proof of identity and banking information.

You'll also have to write a listing describing the space and its amenities. Sprucing up your space, including decluttering and a thorough clean, usually pays off, as does providing basic amenities and maybe even a luxury or two.

Be sure you set clear expectations by honestly and accurately describing your accommodation's features – including any downsides – and uploading relevant pictures. This way you'll avoid negative reviews from your guests. Listing on Airbnb is free, but you will be charged a service fee – around 3%, according to Airbnb – when a reservation is accepted.

What you charge is up to you, but when setting your pricing strategy consider what others in your area charge, the amenities you offer and the time of year.

The income earned by hosts depends on a range of factors, such as location, demand, property type, seasonality, amenities, occupancy rate, guest booking experience and service fees. In the 12 months ending October 2022, short-term rentals in Australia averaged a daily rate of $244 and a RevPAR (revenue per available room) of $170 a night (this is calculated by multiplying the average daily rate by occupancy rate), according to MadeComfy, a property management company specialising in short-term rentals. To get an idea of how much you could make, check out the Airbnb property investment calculator on the MadeComfy website (madecomfy.com.au), but keep in mind this does not yet cover all areas.

You'll need to include rental income earned in your taxable income, but you will be able to reduce this by claiming expenses associated with letting. When you sell your property, you may be liable for some CGT relating to the part of your home used to produce income.

Invest with as little as $500

Two Australian Real Estate Investment Trusts (A-REITs) – Ingenia Communities (ASX: INA) and the smaller Aspen Group (APZ) – are involved in providing holiday accommodation, for which demand is growing. Both also offer lifestyle communities for over-50s.

Ingenia's holiday division offers a variety of caravan, camping and cabin accommodation in waterfront locations and on major transit routes throughout coastal and inland NSW, Victoria and Queensland.

Ingenia's share price has ranged from $3.35 to $4.96 over the past 12 months. It hit a low in March, a month after releasing its first-half 2023 results, when it downgraded its earnings growth guidance for the full 2023 year from 30% to between 0% and 10%.

The company said at the time it had "growth levers in place" but production and settlement delays would impact its full-year result. It did report a 24% increase in earnings for the first half of 2023. The current dividend yield is 2.8% and at the time of writing it is trading below its Morningstar fair value estimate of $5.18.

Aspen, which offers affordable accommodation in nine holiday parks around Australia, has traded between $1.45 and $1.98 over the past 12 months. Morningstar's fair value estimate is $1.98.

Aspen pays a dividend yield of 3.6%. In February, it upgraded its earnings guidance by 17% for 2022-23, which represents a rise of 33.39% on the previous 12 months.

Buy a short-stay apartment

On the surface, a serviced apartment sounds great: a long lease with rental return of 6%-plus and annual rent increases.

But if you're considering investing in one, you should be aware it's not always as good as it sounds. For example, during the pandemic many Quest franchisees stopped paying rental income to apartment owners when occupancy rates plummeted. Quest is Australia's largest serviced apartment owner, so this sparked a backlash from apartment owners, many of whom were retirees.

This doesn't mean you shouldn't consider investing in a serviced apartment, but you need to know exactly what you are buying and understand potential pitfalls.

The main factor determining whether an apartment is classed as a "serviced apartment" is local council zoning.

Serviced apartments are normal self-contained apartments that are available for short-term stays or leases of up to three months.

On the plus side, a well-managed serviced apartment can be one of the best ways of investing in property for beginners, says Tyron Hyde, director of quantity surveyor Washington Brown. He says the advantages are strong rental returns (which are sometimes double those of residential investments), a guaranteed rental return regardless of vacancies and no maintenance and repairs.

On the downside, it's not as easy to borrow for a serviced apartment as it is for a house – especially if it's very small – and often you will require a bigger deposit. Resale can also be tricky, as serviced apartments only appeal to a small segment of the investor market, potentially limiting capital growth. And there are potential problems with operators.

"Your operator's financial stability is an issue," says Hyde. "Having a fixed income means little if the operator can't pay what they agreed. Research every operator you consider to see if you can trace any issues.

"Poor management makes the property less attractive to tenants. If demand dries up, your operator may experience cashflow issues. This could lead to missed payments."

There is no doubt that an increase in business travel is benefiting serviced apartments. Quest, for example, has bounced back, opening new properties on the back of occupancy rates above 80% and an average room rate of $207, compared with $180-$185 pre-pandemic.

Finding an apartment to buy is not as simple as it used to be pre-pandemic because Quest has decided to no longer sell individual apartments direct to retail investors.

If you search real estate and agent websites, you will find serviced apartments for sale. Prices vary enormously, mainly depending on location, size and lease security.

In Sydney, Metro Realty (metrorealty.com.au) has several serviced apartments for sale, some without a management agreement in place. It also offers a management service.

In Melbourne, Kingsford Property (kingsfordproperty.com.au) specialises in selling serviced apartments. Among its current listings is a one-bedroom Quest apartment at the top end of the Melbourne CBD for $222,000. It's leased to Comfort Hotels until October 2027 with two further 10-year options. Net return is 6.5% a year with annual rental increases from the third year of each term. As a bonus, the owner can stay in the apartment for up to 30 days a year.

Pam Walkley, founding editor of Money and former property editor with The Australian Financial Review, has hands-on experience of buying, building, renovating, subdividing and selling property. She invests in some of the companies mentioned in this article.

On a space mission

Potential upsizers need to consider the cost and logistics – and even whether an extension would be a better alternative STORY TOM WATSON

Much has been made of the trend of downsizing in recent years, but plenty of Australians are moving in the other direction: upsizing. In a recent survey conducted by mortgage broker Resolve Finance, 12% of homeowners reported they were planning to move into a larger home in the next year, compared with 7% who planned to downsize. The largest cohort of upsizers, the survey found, were aged 35 and under.

It's something that Sanjeev Kumar, the director of LJ Hooker Schofields in Riverstone, Sydney, sees firsthand every week. In fact, about 40% of his clients are upsizing.

"A lot of our upsizers are going from units and townhouses in somewhere like Riverstone and moving to a bigger house," says Kumar.

"Sometimes it's a growing family, changing areas for school catchments, or people who want a house with a bit more land and, for example, a pool. But generally it's just people needing a bit more space – that's why they make the transition."

Upsizing is not necessarily a simple move, though, and nor is it cheap. That's why for a smooth transition prospective upsizers may want to consider the logistics and funding involved with moving well ahead of time. Not to mention weigh up whether it's worth the expense at all.

As with any property purchase, there is normally a considerable price tag attached to upsizing. Of course, the major one will likely be the money borrowed to fund it and the repayments required to service that loan.

Aside from the standard mortgages targeted at homebuyers, there are niche products for upsizers. For example, to help bridge the finance gap if you're wanting to buy a new home before selling your existing property, homebuyers can apply for what are called home-to-home or bridging loans.

"Home-to-home loans give you the opportunity to be able to purchase a new home while you're still living in your existing home," says Don Crellin, managing director of Resolve Finance.

"Obviously these come with additional interest costs as you move through the process, because you're carrying a much larger debt until you sell your existing home. But, equally, you're trading off some of the other costs of moving into a rental home and a double move."

Beyond the mortgage repayments and the cost of renting a home during the transition, there are a number of other potential expenses along the way.

"The key costs associated are probably stamp duty, agency fees and lawyer fees and then the cost of packing things up and removalists in making that change," says Kumar.

Stamp duty alone can be sizeable. For example, upsizing to a home valued at $1 million would incur stamp duty and transfer fees of $34,484 in Queensland, $58,011 in South Australia and $57,566 in Victoria.

Timing can be a challenge

Working out how to fund the move to a larger home is no mean feat, but in Crellin's view, deciding whether to buy or sell first can be even more challenging.

"The more conservative approach is to sell the existing home first and try and time the purchase of the new home so that the settlements coincide," he says. "Then there's selling and then taking a little bit of time out

of the market and renting until you find the property that suits you."

Both options have been made more difficult recently by tight conditions in the property and rental markets.

"Obviously with less properties on the market you'll generally find that the time they're on the market is much shorter, so that makes it challenging [for buying a new home]," says Crellin.

"Equally as challenging is not having the same supply of rental stock, which makes it harder to sell and then jump into a rental while you look to find another home."

There are, however, a few options available to upsizers looking to sell their existing home before buying a new one.

"We often get the conveyancer to add a rent-back clause or an extended settlement clause into the contract," says Kumar. "It just helps customers do the sale first so they know exactly what their home's worth, and then not have to move twice.

"An owner paying rent on their own home may sound funny, but they've been paid out in full from the purchaser, so this just allows them to stay in their home for a bit longer until they find the right property."

The exact details and timeframe of any extended settlement or rent-back clause will come down to negotiation, but Kumar says he's come across recent examples where six- and even 12-month rent-back clauses have been included.

Relocate or renovate?

As an alternative to upsizing for more space, some homeowners may consider renovating. While this can be expensive, once you've added up the costs of stamp duty, moving expenses and servicing the mortgage on a larger home, sometimes it makes more financial sense.

Online trade marketplace Hipages puts the cost of an average ground floor extension within the range of $2000 to $4000 per sq m, meaning that an 80 sq m renovation would typically cost somewhere in the vicinity of $160,000 and $320,000. A second-storey extension can be much dearer – up to 50% more than a ground floor.

Of course, there are downsides to renovating. It can take considerable time and effort to plan, living in a building site is not ideal (you may even have to move out and rent), and securing tradespeople and materials, which are hard to come by right now, can be stressful.

Crunch the numbers

Kumar recommends homeowners navigate the options with the help of an expert. "Owners should have a conservative idea of what their home could sell for and how much they can afford when it comes to buying and changing to that next property, by speaking to their preferred bank or broker," he says.

"It's important to have an idea of the costs involved in the changeover, but also if they can actually make the change financially, before they start the process."

Crellin agrees, noting that whether it's moving to a larger home or renovating an existing property, the size of either undertaking can make advice from an expert worthwhile.

"I think it's really important to understand the costs of whichever strategy you might employ," he says. "It's really important that you've got an expert – like a mortgage professional – in your corner, to guide you through the process and each of the costs, because there are trade-offs depending on which way you choose to finance." ***M***

Which comes first?

The question of whether to buy before you sell your home, or vice versa, doesn't come with a simple answer. It could depend on the prevailing market conditions: common wisdom is to sell first in a buyer's market and buy first in a seller's market. Beyond that, here are some of the benefits to each:

BENEFITS OF BUYING FIRST

- You can avoid the cost and inconvenience of a double move and renting.
- You'll have time to find the home you want without the pressure to sell.
- You could use the equity in your current home to help you buy.

BENEFITS OF SELLING FIRST

- You'll know exactly how much money you'll have to spend on the new home.
- You won't need to take out a bridging loan.
- Some vendors prefer cash offers (offers made without a subject to finance condition).

2023 proves a bumper year for mergers and takeovers

BIG DEALS ON THE CARDS

Takeover activity has been running apace. Last year there were 41 transactions valued at more than $50 million, with total transactions worth more than $45 billion, according to law firm Gilbert and Tobin. That was only a third of the unprecedented $130.6 billion of deals announced in 2021, but similar to pre-pandemic levels.

Despite some predictions that the rising cost of debt would put a dampener on takeover activity, 2023 is also shaping up to be another strong year. The mega deals proposed include Brookfield's $18.7 billion acquisition of Origin Energy and the revised $19.5 billion bid for Newcrest Gold by Newmont, which received Newcrest board backing in early May.

IMPLICATIONS FOR INVESTORS

It's no secret that takeovers can boost returns for share investors. To back a bid, a board needs to be convinced that selling the company is a good deal for its investors, so bids will usually be pitched at a premium to the prevailing share price. The theory is that selling the company will generate better returns than continuing the status quo.

However, not all bids are successful. In some cases, bids require regulatory approval. For example, at the time of writing the Australian Competition and Consumer Commission was still unconvinced that ANZ's bid for Suncorp Bank would be better for competition in the banking industry than a merger with another second-tier bank.

For long-term investors, takeovers can also pose tax issues by realising capital gains at a time that doesn't suit you. And you then have to decide where to invest the proceeds. When mergers are running hot in a particular sector, such as we have seen recently in resources, this may not be a simple matter of being able to replace, say, one quality gold stock with another.

TYPES OF OFFERS

The appeal of a takeover may also depend on what form the offer takes.

All-cash: This is probably the simplest to evaluate, as you are being offered a firm dollar figure for your shares.

But in a recent analysis, the research company Morningstar said it is important to look at the long-term prospects and value of a company, rather than just its recent share price. For example, it looked at the $12.65 a share offer for InvoCare launched by TPG Global and believed it undervalued the target company. This was despite being pitched at a 41% premium to the market value of InvoCare shares before the offer was made. That offer has now been withdrawn, prompting InvoCare shares to fall again.

Scrip: The company offers shareholders its own shares as payment for the shares they hold in the target company. That's trickier to evaluate. Not only do you have to decide whether you want to invest in the bidding company, but the value of the offer fluctuates as the share price of the bidding company moves up and down.

One recent example cited in the Morningstar analysis was the bid for medical services company Healius by its smaller rival, Australian Clinical Labs (ACL). ACL offered 0.74 of its own shares for every Healius share owned. Major shareholders have said the offer undervalues the company.

The Newmont bid for Newcrest is also a scrip offer, though an added complication is that Newmont's shares are currently listed in the US, which means the deal's value is also affected by the exchange rate. Under its revised offer, Newmont will also allow Newcrest to pay its shareholders a fully franked special dividend of up to $US1.10 to sweeten the deal.

Mix of cash and scrip: Companies can also offer a mix when making a takeover bid.

For investors, tax is also a consideration. Generally, a cash bid will trigger a capital gain, while with scrip bids you may be entitled to a scrip-for-scrip rollover. This means the cost base of your original shares is carried over to the new shares, so you don't pay capital gains tax until you dispose of the new shares.

Sweeteners such as special dividends may also reduce your tax liability so

DID YOU KNOW?

Investors are barred from holding more than 20% of a listed company without making a takeover bid. That prevents takeovers by stealth but it also means that if a bid is unsuccessful, the bidder may want to dispose of a large swag of shares, potentially putting a lid on the share price.

BEST-CASE SCENARIO

Investing in potential takeover targets is a proven way of adding value to share portfolios by taking advantage of the premium paid by bidders. But as we've seen, not all takeover bids are good value and not all are successful.

WORST-CASE SCENARIO

For investors, there's not a lot of downside in takeovers as bidders generally drive up the share price. However, a takeover bid may disrupt your longer-term investment and tax planning.

THE WILD CARD

Many people thought rising interest rates would make it harder for companies to mount takeover bids, though so far this has not happened.

ILLUSTRATION JOHN TIEDEMANN

it's important to get advice on the tax implications of any takeovers that affect your portfolio.

IDENTIFYING TARGETS

In its 2023 mergers and acquisitions preview, the law firm Herbert Smith Freehills picked infrastructure, technology, and energy and resources as the sectors to watch.

According to the investment firm Wilson Advisory, takeovers often have a strategic element. It identified four main themes driving activity in 2022:

- Asset-backed steady earnings, or companies that make attractive targets because they have stable cash flows, relatively low debt and solid market positions.
- Companies that have been de-rated or fallen from favour. Wilson says growth stocks have fallen out of favour as bond yields have risen, but this has created opportunities for bidders to buy companies at a reasonable price. Software companies are one sector where takeover activity has been triggered.
- The resources boom. After a bumper 2022, Wilson says players will be looking for more growth and consolidation, which will include takeovers. It says gold miners have seen a five-year trend of deal-making, largely driven by an arms race between the two biggest miners, Newmont and Barrick Gold.
- Fund managers seeking more funds under management, as seen in the Perpetual takeover of Pendal and ANZ's bid for Suncorp.

Annette Sampson has written extensively on personal finance. She was personal finance editor with The Sydney Morning Herald, *a former editor of the Herald's Money section and a columnist for* The Age. *She has written several books.*

Know your fees to avoid a rip-off

The costs can mount up over the years, so make sure you're getting a decent investment return

Managed funds can be a great way to invest, especially if you're after a "set and forget" investing tool. The key to getting the most out of your managed fund is to find one that will make you as wealthy as possible by the time you withdraw your money, without exposing you to too much unnecessary investment risk along the way. To achieve this, your fund must earn consistently strong rates of investment returns – year in, year out.

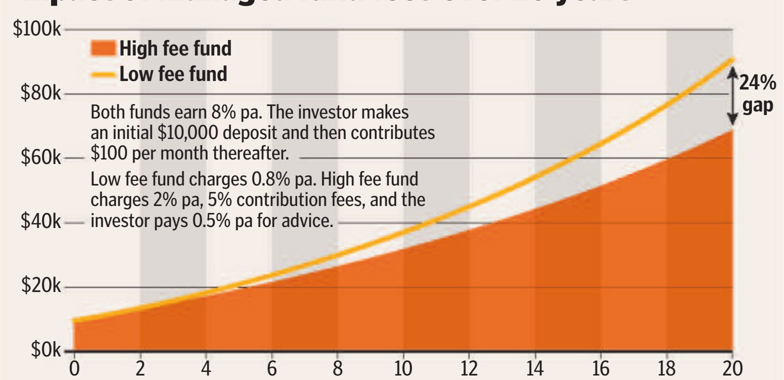
To give you a better chance of building your retirement savings, it helps if your managed fund charges reasonable fees. That's because what you get in your pocket is what's left from the investment returns after all the fees are taken out; it is no more complicated than that.

So, the higher the fees, the higher the returns have to be to leave you with more money in your pocket.

An example will highlight why this is so important. If two investors achieve identical investment returns but one pays only 1% in fees each year while the other pays 2%, then the member in the fund with the higher fee will have 10% less in their account after 10 years and 19% less after 20 years.

So, paying higher fees can cost you big money. And this means if you are paying higher fees, you should make sure you use the managed fund shrewdly, so that you more than make up the fees through better investment mixes that lead to higher returns.

Impact of managed fund fees over 20 years



Source: Rainmaker Information

What to look for

There are six main types of managed fund fees you should know about:

1 Establishment fees, also known as entry or upfront fees, may be paid when you set up your managed fund account.

2 Contribution fees may be paid each time you make a deposit.

3 Management fees are paid to your fund's responsible entity to manage the fund. This fee usually includes the fees paid to the investment managers. This fee is sometimes called the indirect cost ratio (ICR).

4 Performance fees are bonus payments made if the fund's investment performance is very high (for example, it exceeds its benchmark by, say, 5%).

5 Adviser service fees may be paid to your financial adviser or broker each year for the advice and support they provide.

6 Buy/sell spreads are transaction fees the investment manager may charge when you buy more units in the managed fund or redeem units.

These fee types mean the various people involved with your managed fund are getting a different share of your fees. For example, in many managed funds, the investment managers may only be receiving a third of the total fees you are paying, which means there is no point blaming them for your high fees because they are rarely the cause of the problem.

A fee people love to hate is the contribution fee. This usually goes to your financial adviser or broker to cover the cost of talking to you and providing basic financial advice. You can often get a discount on this fee if you ask for it or if you are contributing a large amount of money into your fund.

When a managed fund or a financial adviser or broker is willing to discount fees for you, this is sometimes called dialling down your fees. But if the fees dial down so much that the fund, adviser or broker doesn't believe they are being properly paid, then don't expect too much service from them. It's one of those balancing acts you have to navigate when choosing a managed fund.

There are some tricks of the trade you should watch out for when it comes to fees and charges. For example, beware of managed funds that try to confuse you by talking about fees charged to the fund and how they are different from fees charged directly to you.

Anything that comes off the top of your investment return before you receive it is a fee to you – no ifs, no buts. Funds that do this aren't being dishonest, but they aren't being as transparent as they should be either.

What to expect from your fund

Your fund must describe the fees it charges in the product disclosure statement (PDS) in an easy-to-read table in the key features statement. This can usually be found towards the front of your investor booklet. Look for the section on fees and charges. If you don't have this booklet, check out your fund's website or call and ask for a copy to be sent to you.

If your managed fund doesn't have a section in its PDS or website that describes all the fees, this is a red flag suggesting you should use another fund. The Commonwealth Treasury and ASIC have devised a template for funds to follow. It is compulsory for managed funds to use this template when describing their fees, so if a fund you are thinking about using isn't following these fee disclosure guidelines, then do not join. Poor fee disclosure is a bad sign in a managed fund.

Also remember that your fund's rate of return described in your member statement is the figure left after all the fees are taken out (or it should be). If your rate of return is low, it may be that you are paying too much in fees. Conversely, just because fees are high doesn't necessarily mean your rate of investment return after fees is low either. ***M***

THIS IS AN EDITED EXTRACT FROM *THE GOOD INVESTMENT GUIDE: MANAGED FUNDS* BY ALEX DUNNIN AND JOHN DYALL (*MONEY* MAGAZINE, 2022).

Warning

Do not chase high returns by paying high fees because there is no evidence that paying higher fees buys better investment returns. In fact, research shows that paying higher fees usually only gets you more investment choices.

Indirect cost ratio

Some managed funds no longer declare investment fees and instead refer to indirect cost ratios (ICR). They use this term because these charges may not be paid directly by you to the managed fund, but indirectly because the investment manager's fee is deducted from the investment return before the unit price is calculated.

For example, the investment manager may achieve a 10% investment return for the managed fund but its fee is 1%, so the net return applied to the managed fund is 9%.

When you see an ICR, just think of it as another way to describe the embedded management fee.

Get set for the golden years

STORY
VITA PALESTRANT

The earlier you start planning your retirement, the more enjoyable it is likely to be

What does it take to set yourself up for a comfortable retirement? Experts recommend you start planning at least 10 years out. That's when most people are at the peak of their career, earning good money with the cashflow to boost their super.

People often leave it to the last minute and regret it later. But life expectancy numbers suggest you should take it seriously. Today's 65-year-olds will live, on average, another 20 to 25 years, with those in good health living into their 90s.

Financial adviser Marisa Broome, the principal of Wealthadvice, says paying attention to super early can give you a head start.

"The minute you start with a super fund, make sure you're in the right fund and the right investment option. If you get that right in your 20s, that's going to stand you in good stead through the rest of your working life," she says.

"If you put extra money into your super, the power of compounding – interest earning interest on interest – is powerful. In the same way, if you are paying down the mortgage more quickly, it's compounding in reverse.

"The two biggest factors in retirement are owning your home and having as much as you can in super.

"When people are in their mid to late 50s, lots of things are happening. The kids have probably finished school, and they might even be thinking about moving out of home. Cashflow starts to become a little easier so you can make some decisions."

10 YEARS OUT

Do simple things like paying down your non-deductible debt as quickly as possible, says Broome. "If you still have a mortgage, there are easy ways of doing that. If you start making repayments weekly instead of monthly, it will reduce your principal more quickly and reduce your interest bill.

"Check whether you can pay extra into super through salary sacrifice. If you're fortunate enough to inherit money, do you pay down debt or add that to your super?"

Under the bring-forward rule, you may be able to contribute three years' worth of the annual $110,000 non-concessional amount or make a downsizer contribution of up to $300,000 ($600,000 for a couple).

Super can be complex, so always double-check what caps and rules apply to contributions.

Colin Lewis, head of strategic advice at Fitzpatricks Private Wealth, says you should still be quite aggressively invested because you're going to be living through a number of investment cycles. "Growth assets will set you up better than more conservative types of investments for the long term. The balanced option is a good place to be. The only one more aggressive – if you've got the appetite for it – is the growth option. But at least be in a balanced option; don't be in anything less than that."

Time to recover from losses

Don't be put off by market downturns, says Lewis. "If you're 10 years out from retirement, there's plenty of time for the markets to recover. There's nothing worse, if you're in a balanced or growth option, than jumping into the conservative option if there's a downturn. You will lock in those losses, from which you'll never recover."

Michael Rice, a leading actuary, recommends you do some projections to figure out whether you are eligible for the full or part age pension or are going to be self-funded. "Your strategy might vary depending on which category you're in."

He recommends you pay off your mortgage as soon as possible. "It's harder now in cities like Sydney with high mortgages to do so, but if you retire with a mortgage some of your pension income – earnings and capital – is going to be diverted there.

"If you still have money left over after clearing your debt, put as much as you can into super because you can get it tax free from 65, or from 60 if you're not working. Putting more in from your late 50s is not a big sacrifice because it's not that long until you can get hold of it.

"Start working out what you're going to do in retirement and where you're going to live. If you decide you're going to go up to Byron Bay because you think it's fantastic, and sell up in Sydney, you'll never be able to buy back in. If you're going to move out of the city, make sure you're making the right decision."

5 YEARS OUT

Review your death benefits. "Make sure your insurance is adequate and at the right level, that you haven't got too much or too little," says Lewis. "As you age, premiums increase, but the likelihood of drawing on it also increases.

"You should have an enduring power of attorney. What happens if you lose capacity? People think death benefit nominations and a POA are only needed later in life. But anything could happen to you at any point in time."

Broome says many couples have binding nominations that revert to their spouse as a reversionary pension. "It's only when only one partner's left that it becomes more difficult." If you leave your super to non-dependants (adult children), the benefit is taxed at 17%."

If there's not much left, or the spouse is terminally ill, one solution is to withdraw the money so it's tax free. "While there are the two of them and they are going to inherit each other's super, it's a great, tax-effective way of leaving money in a protected environment."

The closer you get to retirement, the more serious you need to get, says Lewis. "It's a matter of defining your goals and doing what you can to boost your super and have enough behind you for a comfortable retirement."

Beware complex products

Super funds are increasingly offering longevity or annuity style income products. Rice says they are complex and, depending on your situation, may not represent good value.

"I think doing the simple things you understand makes a lot more sense. If you're going to buy something complex, you're going to need advice and that's going to cost you money."

The cost of comprehensive advice is a consumer barrier as the industry increasingly services wealthy clients. Your super fund may be a valuable source of information through webinars and events.

Keep a "bucket" for a market crisis

Drawing pension payments from your balanced or growth fund during a market correction means you will be locking in asset losses. You can avoid this by having a bucket strategy.

"If you had started your retirement income stream the day before the GFC hit and then had to draw out pension money, and didn't have cash there, you would be selling in a low market to pay your income, and you'd be in a difficult position," says Wealthadvice's Marisa Broome.

You can set it up a few years before you retire by asking your fund to divert all your contributions into the bucket so it's available and ready when you switch to pension mode.

You still pay one set of fees, says actuary Michael Rice. "You just need to tell your super fund which units to sell to pay your monthly pension from, if there's a shock in the financial markets. You can then keep drawing your pension without having to worry too much."

Once it's established, you can top it up from the growth side of your portfolio when it is performing well. Some funds will rebalance your units for you.

1 YEAR OUT

Consider whether you are going to stop working altogether or scale back the number of days. People not only underestimate how much income they will need in retirement, they also underestimate how much mental stimulation and satisfaction they get from work.

"The longer you postpone retirement, the more time your super has to grow," says Rice. "You'll be financially much more secure because you're deferring drawing down a lot of super. If you're going to live for another 20 to 25 years, then you want your money to keep growing in real terms."

Do a budget and be realistic about it, advises Lewis. People often struggle to work out how much income they can expect from their super balance in retirement.

The Association of Super Funds of Australia's index currently shows a couple aged 65 need an income of $69,691 a year for a comfortable retirement, and a lump sum of almost $700,000. Its calculator can indicate how you are tracking. The index is updated quarterly.

Don't be too conservative

With one year to go, you may want to review your investment options. "Even if you're in your mid to late 60s and want your money to last, you can still afford to be aggressive and still be in a balanced fund. You don't have to go into cash or conservative fixed interest just because you're retiring," says Lewis.

"One of the strategies to deal with a downturn is to lock away two to three years' worth of drawdown in a conservative portion of your portfolio to meet your pension payments without you having to sell down growth assets if there's a downturn (see breakout).

"If it doesn't work out, you've always got the age pension as a safety net."

You need to be 66 and 6 months – rising to 67 on July 1 – to qualify for the age pension and pass a means test based on your assets and income. You may qualify for some pension even if you are mostly self-funded.

Don't underestimate the need to stay fit and healthy and have regular health checks, says Ian Henschke, chief advocate at National Seniors Australia. "The real issue is, how do you actually make your life worthwhile?"

"So much of it is built around work. If you're going to retire, maybe you should be thinking about working three days a week in your 60s and a couple of days a week in your 70s. We know from all the studies that have been done that social connectivity and community is the biggest thing that will give you longevity. Ask yourself, do I really need to retire and stop entirely?"

He says it's more common in countries like Switzerland to ease down rather than stop abruptly. "They can gradually build a balance between work life and retirement so the transition happens over time rather than abruptly."

See ASFA's index and calculator at www.superguru.com.au/calculators and the National Seniors Money Hub website nationalseniors.com.au/services/money-hub.

CASE STUDY

Wealth and health: preparation is the key

John Maroney's labradoodles are restless. The puppies are agitating to get outside and wreak havoc on the lawn again. He apologises in advance in case our interview is interrupted. "They give us a good run for our money," he says affectionately.

Maroney who lives in Adelaide has just finished working full-time after a distinguished, long career as an actuary in the financial services, superannuation and insurance industry. He's relaxed and keen to talk about the importance of planning ahead when it comes to retirement.

"There's the financial aspects of getting prepared and the non-financial aspects," he says. As far as he is concerned, both deserve equal attention. "My wife and I made two investments last year – one is a caravan and the other is the two dogs."

The demanding pups will see to it that the couple exercise daily.

"There are things I'd like to do more of. My in-laws are getting to a later stage of life, so it would be nice to visit them more often, and I have a son who moved to London recently and a daughter in Sydney. It's nice to have the flexibility to catch up with them from time to time."

Sense of purpose

Maroney is passionate about the work he does and wants to continue, but not at the same pace as before. He had an eight-month handover period before leaving work, making the transition easier. "Not going from 100% to nothing – that staging down – also helped," he says.

Maroney is on the board of the Actuaries Institute, plus one other board, and looking for a few more positions. "Some of those will be unpaid, volunteer roles, but if the opportunity comes up for paid board work or other projects, I would consider those options.

"I find that gives me a greater sense of purpose. I've always enjoyed the social aspects of working and interacting with people. Socially, and from a point of view of keeping my mind active, the ability to give something back to the industry is important. It gives me the opportunity to get involved in mentoring up-and-coming professionals."

But he also wants to put more time and effort into getting fitter after having had a sedentary job for most of his high-pressured career. He bought a bike while working from home during Covid and strongly believes exercise is very important, especially for retirees.

"There's no doubt there's a correlation between a healthy, enjoyable life and living your full potential life expectancy. We live near the coast in Adelaide, so cycling up and down along the coast is one of my favourite pastimes. I intend to keep it up as well as other exercise."

He makes sure he gets a full health check every year or two. "An important part of planning is looking after your health. There are lots of health issues that can be dealt with through lifestyle changes.

"When we bought the house, we deliberately bought a place that was on one level, with no stairs. It should suit us long term if we have any mobility or access issues."

He's applied the same meticulous approach to building his super, making the most of its tax benefits. His savings are in a large super fund and a self-managed fund.


Exercising body and mind ... keeping fit is a priority for John Maroney.

Asked if he feels well prepared, he laughs: "I should be! I've thought about it quite a lot in terms of encouraging other people to prepare.

"We own a home, I've got investments outside of super but most of my investments would be inside super. That's been a deliberate strategy, so when I got to this stage I'd have choices.

"Our plan is to keep living at a similar standard of living that we had [while working] and I'll keep reviewing that over time in terms of making sure that's sustainable long term."

He uses a financial adviser, accountant and lawyer from time to time. "When it comes down to specific decision making on things like estate planning, on the selection of investments, on strategies and on some of the accounting issues of an SMSF, I do rely on professionals quite heavily.

"I know enough to know the things I don't know. Even though there's the expense of using professionals, the risks of not doing so, if something goes wrong, usually costs a lot more, whether it's on investments or tax issues."

High cost of advice

Maroney thinks the super system could be more helpful. "Our system has yet to evolve in a way that makes it easy for people to understand what their options and choices are." Another problem, he says, is the high cost of comprehensive financial advice. "On the financial side, a lot of people don't really think about how they're going to finance their retirement until they get into their 40s and 50s.

"That doesn't leave a lot of time to put extra money aside and be able to benefit from the magic of compound interest. Whatever you put aside when you're in your 20s gives you a lot more benefit, long-term growth in assets, than if you put it away when you're in your 50s.

"People also don't have much idea what amount they'll need in retirement because all the focus is on how much they have sitting in their account balance. Most people can't translate that to what sort of income they'll be able to rely on to finance their spending."

He says many retirees still have their accounts in accumulation mode paying 15% tax on investment earnings even after 65, when they could shift to a tax-free option. "That's an example where you'd expect people to understand the system well enough that they could be in pension mode and keep their money in a zero-tax environment."

Maroney urges people to get as much information from their super fund as they can. "What a lot of people need is education about how the system works. A lot of funds put on webinars and retirement planning seminars. It helps people understand how the system works and what their options are.

"People who do this and plan ahead will have much more flexibility and many more choices when it comes to their standard of living." *M*

Home in on a rewarding top-up

The downsizer contribution can boost your retirement savings, but there are traps to avoid

The family home has long been regarded as the cornerstone of wealth creation in Australia. Not only does home ownership give you permanent shelter, it also gives you a valuable asset that will appreciate over time and the ability to live comfortably later in life.

That's why financial planners waste no time in urging clients to own their own home and ensure that it's paid off before retirement. Favourable government treatment of the home provides retirees with financial benefits that are not available to renters.

"Retirees who own their own home outright have the biggest advantage because they've got permanent housing, and the equity in their home can provide an additional source of retirement income," says Ian Henschke, chief advocate for National Seniors Australia.

One way to give your super one last big hit is the downsizer contribution. But, as always, there are many rules to navigate and the consequences of getting it wrong can be costly. You might want to consider seeking financial advice beforehand.

The downsizer contribution was introduced a few years ago to help those who hadn't been in the super system long enough to benefit from it. The federal government hoped it would also encourage retirees to downsize from homes that no longer met their needs and free them up for younger families with children.

The downsizer rule allows people over 55 to contribute up to $300,000 per person, or $600,000 per couple, from the proceeds of selling their home. The home must have been owned for more than 10 years and it doesn't have to be in both partners' names.

There is no upper age limit – once you turn 75 you can't make voluntary contributions – and you can make the downsizer contribution in addition to the other contributions. You can only ever make one downsizer contribution.

It must be made within 90 days of settlement and you are required to fill in a tax office form and submit it to your super fund with, or before, the contribution.

There's no obligation to buy a less expensive home. You may have sold an investment property or inherited money and can use the cash, plus what's left over from the downsizer contribution, to trade up to a more expensive home.

There are transaction costs involved – agent's fees, conveyancing costs, stamp duty and relocation expenses – so you need to do the maths to see if your plan stacks up.

Avoid this "nightmare"

Certified financial planner Marisa Broome, principal of Wealthadvice, says not all super funds are good at handling the downsizer contribution.

She recently helped elderly clients who had already gone through their super, didn't have a super account and wanted to make the downsizer contribution.

"Trying to find a super fund somewhere, to put the money into super, was a nightmare because they were over 75. They were legally allowed to do so under the downsizer legislation. We were eventually able do it manually, but we couldn't do it online."

Broome says super funds need to build the downsizer contribution into their online system and make it easier for people to navigate and upload the necessary documentation, such as the contract of sale and the ATO form, and then open an account.

"The funds are focused on accumulation for young people and not thinking through this other very powerful segment of the market, which is the downsizer contribution segment."

In the light of this saga, you may wish to speak to your super fund well in advance of any plans to make a downsizer contribution and establish whether it is able to handle the transaction properly.

For those who own a home but don't have much in the way of super or other assets and are struggling to live on the pension alone, the government's Home Equity Access Scheme may be worth considering, says Henschke.

Once you reach pension age, homeowners, including self-funded retirees, can use the equity in their home to borrow up to 1.5 times the maximum age pension paid fortnightly, or as a lump sum, capped at 50% of the annual age pension.

The loan has an interest rate of 3.95% and is lower than most reverse mortgages. The government recovers the loan amount, plus interest, when the last borrower leaves or dies.

For more information, see servicesaustralia.gov.au/home-equity-access-scheme.

Keep an eye on the assets test

Home ownership will give you choices that may improve your financial situation and wellbeing in retirement. But remember, you super is counted in the age pension assets test.

Key advantages of ownership are:

- The home is not means tested for the age pension;
- The government's Home Equity Access Scheme can help boost your age pension;
- It can help you pay for residential aged care;
- There is no capital gains tax on your home when it's sold;
- You can use the proceeds of selling your home to make a downsizer contribution.

"Most people in middle Australia probably want to organise their affairs to maximise the age pension. If they're on a part-pension and make a downsizer contribution, that can cause issues," says actuary Michael Rice.

"If you've got a $2 million home and then buy a $1 million flat, you've downsized sensibly, but now you've got $1 million and you're above the asset threshold for the pension. That's why you need to think about all these issues beforehand."

Filling the gap between financial advisers that service mainly wealthy clients and super funds is SuperEd, which specialises in age pension entitlement. For a flat fee of $450 it can help you work out what you are entitled to for the pension and how to organise your asset.

Vita Palestrant was editor of the Money section of The Sydney Morning Herald *and* The Age. *She has worked on major newspapers overseas.*

Investing in the kids' future

Pick four big global themes, invest in them regularly – and don't touch anything for 20 years

This month, I want to shift the focus from investing for ourselves to investing for our children. The topic is a little personal because I have been thinking about investing for my daughter, who just turned 10.

As parents, we get incredibly busy attending to the needs of our children in the here and now: things like quality and costly schooling and other lifestyle expenses.

What we often forget is the importance of maintaining a savings and investments fund for our children.

The purpose of such a fund is to be a genuine wealth builder. The children should not be allowed to touch the funds for the next 20 years and at that time they may use the funds to invest in real assets, not for consumption.

Investors should follow the following fundamental guidelines:

1. The fund should be locked for 20 years (you can't sell positions or take the money out).
2. Savings will be made into a brokerage account each month and investment purchases will be quarterly. (I will leave it to you to decide your annual investing goal, but I am thinking $10,000 a year.)
3. The fund will lock in four long-term themes and invest in them every three months.
4. Market timing and near-term economic forecasts are to be entirely ignored.
5. The fund will only invest in exchange traded funds (ETFs) as it's the easiest way to get scale and diversification at low cost.
6. Don't mess with it. You cannot sell existing positions.
7. You should review the strategies every five years and confirm the thesis for each theme.
8. You should involve the child over the investing term, encourage them to read about the impact of the themes their portfolio is investing in and discuss the portfolio with them as they grow older.

The next step is the exciting part, which is to pick the themes for the portfolio. From a personal point of view, I want this investment experience to be as much about risk mitigation through investing in diversified ETFs as it is an opportunity to imagine the future and help shape it with your own money.

Imagine 20 years from now

In two decades years, I expect we'll live in a world with mostly electric cars driving around on lithium batteries. Robots trained on artificial intelligence will be in the mainstream. The NASDAQ Index will become the main value-creation engine of the US stockmarket on the back of accelerating digitalisation of societies, and explosion of AI and computing power. India will become an even more significant growth engine for the global economy.

Here's a bit more of what I'm thinking:

Transition from fossil fuels

After the GFC of 2008, the Australian economy went into a period of record low inflation and low interest rates for the next 10 years. Economic pundits were telling us that we are in a perpetually low-growth cycle where there are simply not many exciting investment and growth opportunities around. People's wages went sideways for a long time and labour was underutilised.

With that uninspiring recent economic past, if there was ever going to be a great gift of massive, global investment opportunity then look no further than the transition of the world's dependence on fossil fuels to renewable energy, which includes electrification of cars and other road vehicles.

There have been plenty of big numbers thrown around for the level of investment required for this transition. According to management consultancy McKinsey, there will need to be $275 trillion of investment between now and 2050 to transition to a society run on renewable energy. That is more than three times the size of the annual world economy today.

Road transport contributes 12% of global greenhouse gas emissions from the burning of petrol and diesel in cars, trucks, motorcycles and buses. Sixty percent of road transport emissions come from passenger travel (cars, motorcycles and buses); and the remaining 40% from road freight. This means that if we could electrify the whole road transport sector, and transition to a fully decarbonised electricity mix, we could feasibly reduce global emissions by 12%.

If we assume expenditure on the value chain of electric batteries requires a 12% budget from the $275 trillion estimate, this equates to a $1.2 trillion annual investment in the lithium battery value chain alone – every year for the next 27 years. For this reason, we are going for an ETF that invests in a range of companies involved in the lithium battery value chain, including mining companies and battery producers.

4 FUNDS TO WATCH

Global X Battery Tech & Lithium ETF (ASX: ACDC)

Seeks to provide investment results that correspond generally to the price and yield performance (before fees and expenses) of the Solactive Battery Value-Chain Index. ACDC invests in companies throughout the lithium cycle, including mining, refinement and battery production.

Betashares Nasdaq 100 ETF (ASX: NDQ)

Aims to track the performance of the Nasdaq-100 Index (before fees and expenses). The Nasdaq-100 comprises 100 of the largest non-financial companies listed on the Nasdaq market, and includes many companies that are at the forefront of the new economy.

Global X India Nifty 50 ETF (ASX: NDIA)

Seeks to provide investment results that correspond generally to the price and yield performance (before fees and expenses) of the NSE Nifty 50 Index. NDIA offers access to 50 of the largest and most liquid publicly traded companies in India.

Global X ROBO Global Robotics & Automation ETF (ASX: ROBO)

Seeks to provide investment results that correspond generally to the price and yield performance (before fees and expenses) of the ROBO Global Robotics and Automation Index, with global exposure across multiple sectors and industries.

Engine of economic value

Over the past decades, the technology industry has judiciously been developing the core capabilities in software applications, hardware devices such as smartphones, data capturing, algorithms for machine learning and increased computing power. All these individual forces and innovations are starting to converge and are set to accelerate in the years ahead.

We can't yet fully comprehend how vast and pervasive the change will be at all levels of society due to this digitalisation, but if the past 10 years of smartphones was a teaser, then we truly have an exciting future of great innovations that will enrich our lives further. Companies such as Microsoft, Amazon and Google will be seen more like massive utilities and essential defensive holdings rather than just high-growth stocks. For this reason, I would much rather own a Nasdaq-100 index-based ETF than an S&P500 index ETF, which will have a lot of companies that will be disrupted by technology.

Incredible India

India will surprise a lot of people in the coming decades, once it emerges from China's shadow. It has a tremendously skilled and educated workforce and when you consider it in the context of a population of more than a billion people, then this labour pool can become a powerhouse for its economy.

India also has one of the youngest demographics in the world, so it can sustain high rates of economic growth for decades to come while other advanced economies deal with their ageing populations.

India is also the largest democracy in the world, and it has played a deft hand at balancing its interest in keeping peace and trade links with China and Russia on one side and the US and allies on the other.

It will be the winner in the increasingly political divide between China and the US. Indian shares have delivered a solid return over the past decades and this is set to continue, for its economy is on a fundamentally sound footing.

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When it's payday

A regular, fully franked dividend from a strong company can be an important source of extra funds

STORY PAM WALKLEY

For some sharemarket investors, dividends – regular payments from companies in which you are a part owner – are the main game. Owning shares that pay dividends can be especially important for people, such as retirees, who don't receive a regular income from work.

Dividends are investors' shares of a company's profits and are usually cash payments distributed at regular intervals, normally every six months in Australia. They can also be paid monthly, quarterly or yearly or even on a one-off basis in the form of a "special dividend".

Dividends can help boost portfolio returns in good times and bad, says the investing advice company the Motley Fool. "Cash payments aren't subject to market whims like a share price is – meaning these payments can cushion the returns of a portfolio during a sharemarket correction or crash."

So, how do you invest successfully in high-dividend stocks?

1 Do the research

Assess a company's financial health and stability, considering factors such as dividend yield, growth history and payout ratio. This helps identify companies with a strong foundation for consistent dividends, shows Forbes.com.

Dividend yields are particularly relevant. You work this out by dividing the previous 12 months of dividend payments by the current share price. Many websites, including online brokers, give you this information.

The higher the yield, the better for income investors, but only up to a point, says the Motley Fool. "Abnormally high yields can indicate heightened levels of risk."

Australia's four major banks have long been seen as a good source of sustainable dividends and at the time of writing had dividend yields ranging from 4.2% for CBA, 6% for NAB, 6.1% for Westpac and 6.4% for ANZ. But some companies are paying much higher dividend yields. For example, Magellan Financial Group (ASX: MFG) has a dividend yield of 15.4%. This is mainly due to a plunge in its share price following leadership turmoil and a lack of institutional investor confidence. MFG's funds under management (FUM) halved during the 2022 calendar year to $45.3 billion and stood at $42.7 billion at the end of April 2023

Payout ratios are also relevant. You work this out by dividing the dividend by the company's earnings per share. Although dividends are not usually paid out of earnings, but rather profits and long-term cashflow, the payout ratio gives you an idea of how easily the company can afford its dividend, says the Motley Fool. "The lower the payout ratio, the better, with ratios above 100% worthy of additional research."

The payout ratio can determine the sustainability of dividend payments, with lower ratios indicating more room for maintaining or growing dividends. High ratios suggest overpayment at the expense of growth and stability.

2 Diversify to minimise risk

If you spread your investments across different industries and sectors you create a well-rounded portfolio, which cuts risk. This protects your investments and increases the potential for long-term, consistent income generation, says Forbes.

If your investment funds are limited, it may be worth considering an exchange traded fund (ETF) that invests in dividend-paying shares. Vanguard Australian Shares High Yield ETF (VHY), for example, gives you access to 72 companies. Its current dividend yield is 5.7% and the forecast grossed-up dividend yield, which takes into account the effect of franking credits, is 7.3%. The ETF has a low management fee of 0.25% and pays distribution's quarterly.

Key dates for investors

Dividends are decided by the board of a company, a group of representatives elected by the shareholders, usually at annual general meetings. As a shareholder, you can attend these meetings and vote.

Key dividend dates:

- The declaration date is when you find out how much you will receive in the company's next round of dividend payments.
- The ex-dividend date is the first trading day in which an upcoming dividend is not included in the share price. If you buy the stock before that date, you get the dividend, but if you buy after you won't.
- The record date is the day the company makes a list of all its shareholders to allocate dividend payments.
- The payment date is the day you will get your dividend (or shares in lieu).

National Australia Bank (NAB), for example, announced its 2023 half-year results on May 4 (declaration date). May 10 is the ex-dividend date and May 11 is the record date. It will pay an interim dividend of 83 cents a share on July 5 (payment date).

for investors

NAB's dividend is fully franked, meaning that the company has already paid 30% tax on the profits from which the dividend payment comes.

Tax treatment of dividends

The Australian Taxation Office (ATO) usually treats dividend payments as personal income on which tax is payable.

Even if you decide to reinvest those dividends into more shares through a dividend reinvestment plan (DRP), the ATO will still treat this reinvestment as if you'd received the payments in cash, so you still must pay tax on them.

To reduce your tax liability, you can seek out dividend-paying companies that provide franking credits.

When a company pays a dividend from profits, the government has already taxed them at the corporate rate – usually about 30%. In Australia, shareholders receive this dividend payment with an acknowledgement of the tax already paid by the company. This is called a franking credit and enables you to take the equivalent amount away from your taxable income as a deduction.

If you have no taxable income, you can receive these franking credits as a cash refund.

For example, after NAB announced its half-year profit and dividend on May 4, its share price fell and at the time of writing its dividend yield is 6%. Its dividend is fully franked, so to work out the "grossed-up" yield divide the raw dividend yield by 70 and multiply by 100. In NAB's case, this amounts to 8.6%.

Some companies with overseas interests will only pay some tax in Australia – or sometimes none – so these will pay "partially franked" or "unfranked" dividends.

Many companies allow investors to set up a dividend reinvestment plan, enabling you to receive additional shares in lieu of a cash payment, which increases your shareholdings. This particularly suits those who don't need additional income at the moment. *M*

How $50k could be invested to top up income

Moira, aged 60, has just retired. She has $500,000 in her industry superannuation fund, which she has moved to a pension account. If she was aged 67 or over, she would be entitled to a part age pension as her assets fall below the $634,750 limit for a single homeowner.

Because she is worried her nest egg may be considerably smaller by the time she qualifies for a pension, Moira decides to take advantage of the downsizer rules enabling her to make a one-off contribution to her super of up to $300,000 if she meets all the rules (see ato.gov.au).

She sells the house she has lived in for more than 10 years and buys an apartment, leaving her with a $150,000 surplus. She puts $100,000 of this into super and invests the other $50,000 outside super, as she worries about possible future changes to super rules.

Moira has always been interested in the sharemarket so decides to invest her $50,000 into dividend stocks to boost her income. She's aiming for a minimum dividend yield of 5%, which would give her a dividend income of at least $2500 a year. She hopes to boost this with franking credits. She opens an account with Nabtrade, mainly for convenience, as she banks with NAB.

Being aware of the benefits of diversification, Moira puts $25,000 into the high-yielding Vanguard Australian Shares High Yield ETF (ASX: VHY). This gives her access to 72 companies, meets her criteria of paying at least a 5% dividend and pays distribution's quarterly, which suits Moira as she needs regular income.

The other $25,000 will go into five stocks and Moira researches these using her online broker's stock scanner tool. Her criteria are:

- Listed on the ASX.
- No micro or small cap stocks.
- A dividend yield of at least 5% but no more than 15%.
- Positive dividend growth rate.
- Positive earnings per share growth.
- Positive return on equity.
- Dividend payout of at least 40% but not more than 85%.

This brings up 20 companies, many already included in her VHY portfolio. To eliminate duplication, she excludes them.

After further research she has her list of five:

- Dexus (DXS), an Australian real estate groups that owns, manages and develops real estate assets and manages real estate funds.
- Fletcher Building (FBU), a manufacturer, retailer, home builder and partner on major construction and infrastructure projects, operating in New Zealand and Australia.,
- Insignia Financial (IFL) is an Australian financial services provider with services including portfolio and estate administration, financial advice and distribution and investment management.
- NRW Holdings (NWH) is an Australian-owned group providing diversified contract services to the resources and infrastructure sectors.
- Waypoint REIT (WPR) owns a portfolio of 402 service stations and convenience retail properties across Australia.

If Moira had used another set of criteria and hadn't been concerned about duplication with her exchange traded fund, she would have come up with different results, so this selection of shares illustrates the process and is not a recommendation for these companies.

Moira's chosen companies – the numbers

Company	Share price	Market cap	Dividend yield	Dividend growth rate	EPS growth	Return on equity	Dividend payout ratio
Dexus	$7.98	$8.6bn	6.5%	2.7%	36.4%	8.7%	49%
Fletcher Building	$4.41	$3.4bn	8%	29.2%	1.6%	11.8%	77%
Insignia Financial	$2.97	$2bn	7.5%	34.9%	28.7%	8.9%	72%
NRW Holdings	$2.43	$1.1bn	6.1%	38.9%	43.2%	16.3%	58%
Waypoint REIT	$2.60	$1.7bn	6.4%	3.9%	12%	7%	83%

Source: Nabtrade, sharemarket close May 5, 2023

SECTOR FINANCIALS

Rich pickings from the factory

A company that encourages its people to make money rewards shareholders as well

Money is the language of business. Okay, well, accounting is technically the language of business, but money is its alphabet. And, so, it should stand to reason that if your business is money itself, you're in a pretty good industry.

On balance, I think that's right. Banks, insurance companies, fund managers … at heart they have money as their inventory; it's literally their stock in trade. And how can you do badly, in that environment?

Of course, there are a litany of examples of precisely that – US bank failures are the most recent, but Magellan's woes over the past few years and the high-profile failure of HIH Insurance here in Australia in 2001 bear testimony to the challenges.

But also, as recently as the early 1990s (yes, that's recent if you're over a certain age!) a couple of our big four banks sailed closer to the wind than many remember. Our collective view (delusion) that our banks are unassailable might be worth reassessing. Which is not to say I think there's any imminent danger. It's to remind ourselves that assumptions can be dangerous, not only because they can lead to complacency.

Still, our big four banks are very profitable and well capitalised. Which means we can afford to be less concerned than our American or European counterparts, in particular.

Some would argue they're too profitable, but we should be careful what we wish for. We shouldn't condone oligopolistic returns, but we shouldn't make the

banks too fragile, either. They truly are too big to be allowed to fail, and the cost of avoiding such failure would be borne by the taxpayer.

Fund managers should also be great businesses. The stockmarket goes up over time and more money is being made and added, too. If you're managing a growing pile, that should be good for business. Of course, as Magellan has found out (it wasn't the first and it won't be the last, either), that money can quickly go to someone else. Or, if your competitors lower their fees (hello low-cost index funds!), you'll likely have to do the same, just to keep managing the assets you currently run.

And insurers have had a rough time of late, too. Again, in theory, the job is just to be the middleman, pooling policies whose prices are set appropriately and making a little margin on the way through.

In practice, though, trying to price policies that account for the increasing frequency and cost of national disasters is challenging. And with lots of competition, the risks are that you price too high and lose the business, or price too low and end up running a loss.

None of this is intended to suggest these are all bad businesses. Again, the profits of the banks are astronomical, in dollar terms, and the rest of the finance industry is doing very nicely, thank you very much.

But how can you pick a winner? Avoiding the risk of leverage and liabilities would instantly rule out any company with counterparty risk, including the banks and insurers. But they've done very well compared with poor old Magellan, whose share price fell from more than $65 in 2020 to less than $10 by the end of last year.

Foolish takeaway

Diversification is, as ever, key. But tasked with choosing one company, I'm going to remind you that incentives matter, in life and in business. When a company's executives get rich by making shareholders rich, that's a powerful combination. And the finance company which most embodies that reality is this month's Best in Breed: the Millionaires' Factory, Macquarie Group.

Best in Breed's tips so far

SECTOR	STOCK	ASX CODE
Discretionary retail	Premier Investments	PMV
Consumer staples	Woolworths	WOW
Commodities	South32	S32
Technology	Technology-One	TNS
Financials	Macquarie	MQG

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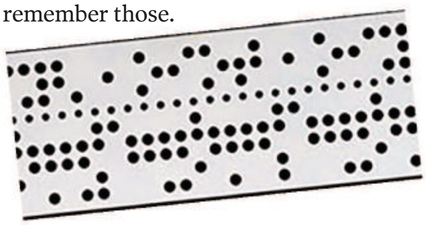
Sign up now for the next tech

It's the right time but wrong place for Aussie investors who want to profit from AI

If you weren't born in 1955, there was no way that you could be Bill Gates or Steve Jobs building an operating system. You had to be born at the right time to slot into the computer age. I was born six years too late in 1961. I remember having the option to do a subject called computer science at school. I chose geography instead because I spent my early life thinking it was cool to do as little as possible.

And from what I could tell from the other boys who did computer science (yes, I went to a boys-only boarding school) all it taught them was to print out Babbage cards (pictured below). You probably don't remember those.



Actually, knowing the sensible Australian investor demographic, you probably do!

I'm sure those boys in the first computer science classes all went on to effortless financial success. You didn't have to be a rocket scientist. All you had to do was be there when computer programming took off.

If I have any regrets, one of them has always been that I was there, at the right time, in the right place, being offered an opportunity to do what I know I would have loved – programming in its creative infancy. But instead, I chose geography. Because I thought it was cool to do as little as possible. Maybe you also made some dumb choices.

Well, here is some good news: you are here at the right time, at the beginning of the artificial intelligence (AI) revolution. It is a second chance. But you're just in the wrong place. Let me explain.

AI is all around us. From Siri to ChatGPT. At this very moment, there are thousands of future billionaires, programmers, who are developing apps that will slave off AI. It is a revolution, and it is going to change things. Search will be first. No more having to watch lame amateur videos on how to do pivot tables in Microsoft Excel. AI will tell you straightaway without all the bullshit in the way.

It will morph. At the moment, ChatGPT is free because it is hoping human interaction will finally teach AI "human commonsense". You see, AI doesn't have commonsense. If it is logical to kill all human beings or chop down all the trees, it just might, which is why it can't be trusted. Especially if you put it in a physical entity. It just doesn't understand that you just can't do some things. So, it's free. For now.

But at some point, the bullshit will be back and we will be paying for it, and we will become so dependent on it that we will be paying big for it. It will become a utility, the internet Mark II, and it will be able to charge whatever it likes.

Focus on big players

The recent US quarterly results season has been one of the first to include the impact of AI in a meaningful way. Microsoft smashed its earnings forecasts. Its earnings call post-results mentioned AI 50 times. The Microsoft share price went up 9% on the results, and the "surprise" took the other AI providers higher as well. Azure, Microsoft's cloud computing unit, saw revenue up 31% with its Intelligent Cloud revenue up 16%. Personal computing revenue was down 9%.

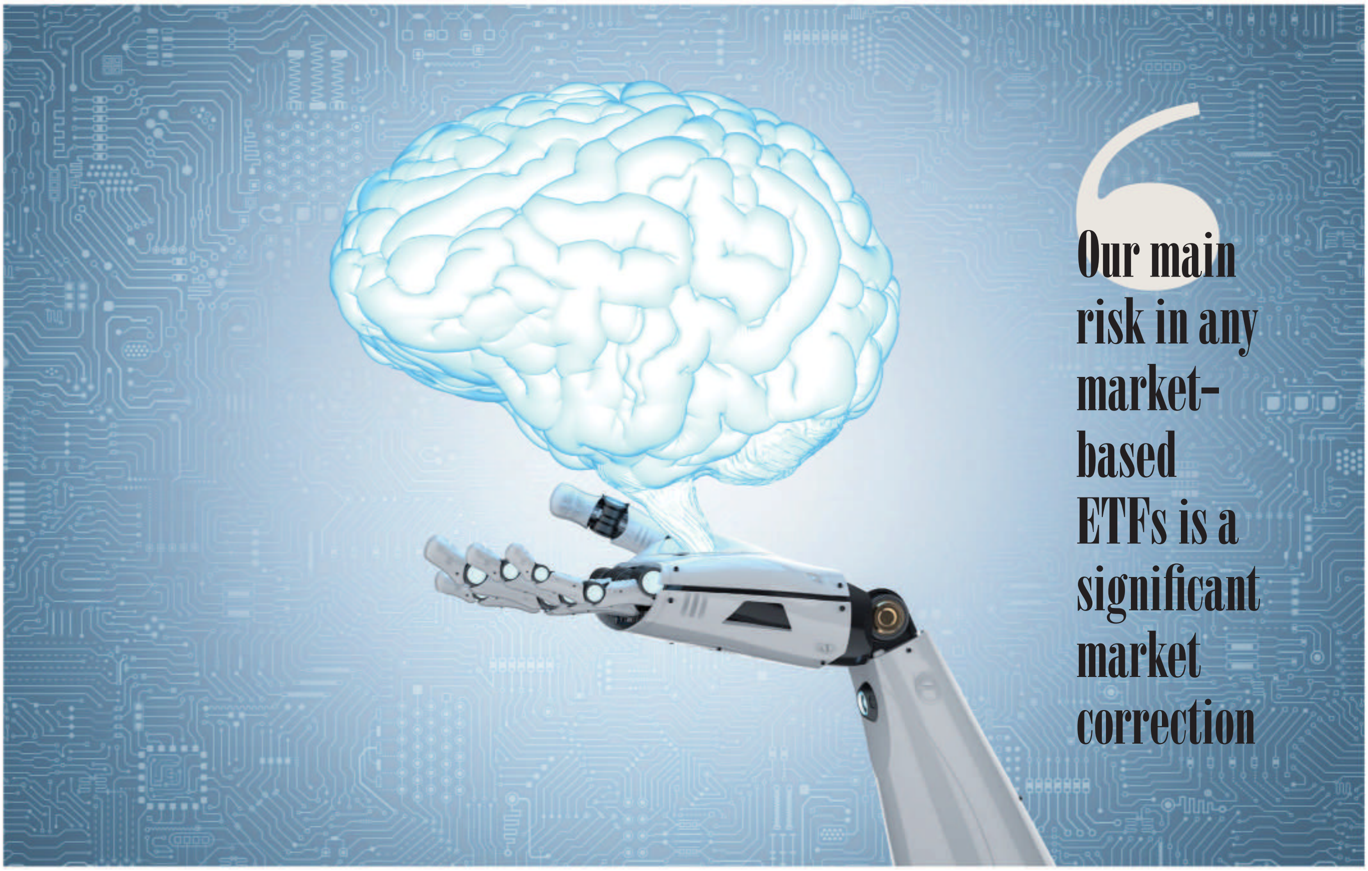
The interesting first realisation as I look to invest in AI exposures is that AI is a massive investment. To build a human brain using silicon chips (a language model), it takes a GPU farm. It is a huge undertaking, so huge that you can identify farms from space using an infrared camera (they are not very environmentally friendly).

Bottom line: small companies can't do it, the investment is too large, so there are only a few companies at the core of the world's AI engines. Which ones? Here are the companies that own some of the biggest language-learning models powered by machine learning and AI. This next bit was written by ChatGPT.

- OpenAI is a leading research organisation that has developed several large-scale language models, including GPT-3, one of the largest and most powerful language models available today.
- Google has developed several large-scale language models, including BERT (Bidirectional Encoder Representations from Transformers), which is used in Google search, and GPT-2, a precursor to GPT-3.
- Facebook has developed several large-scale language models, including RoBERTa (Robustly Optimised BERT Pretraining Approach), which is used for natural language processing tasks, such as sentiment analysis, named entity recognition and question answering.
- Microsoft has developed several large-scale language models, including Turing-NLG, which is one of the largest available today.
- Amazon has developed several large-scale language models, including GPT-2, which is used in its Alexa AI assistant.

Going hand in hand with AI is the exponential need for the cloud. The most exposed companies to the cloud infrastructure include Amazon, Microsoft, Google, IBM and Alibaba. Similar list.

There will be thousands of other companies making a fortune out of AI, some of them listed, no doubt, but let's get this right, right at the beginning. There are obvious stocks. You don't have to get complicated. But, amazingly, if you search for the best



AI exposures in the exchange traded fund market, you get a bunch of ETFs investing in a host of companies you've never heard of, companies involved in everything from robotics to automotive technology companies. They are missing the point.

To offer AI and cloud services you need a big balance sheet and only the biggest companies can do it. So, for the conservative Australian investor, the Global X FANG+ exchange traded fund (ASX: FANG) is about the best low-volatility exposure you can get. The ETF only has 10 holdings: Nvidia, Meta Platforms, Microsoft, Apple, Snowflake, Alphabet (Google), Amazon, Netflix, Advanced Micro Devices and Tesla.

That captures the main players. Stick to the big. No doubt there are a host of AI ETFs in the pipeline. But this is a good start. Plus, most of these companies are still coming off their lows of last year and are still way off their highs. Recovering sentiment.

Budget's pathetic $101m

And all this raises the question. Why would you want to invest in the Australian market? 25% of it is no-growth banks (good for income, though), 25% in volatile resources (good for trading), and the rest are companies exposed to a population of only 25 million people. Meanwhile, in the US, its biggest companies are exposed to revenue streams growing at more than 20% (AI and the cloud) and they are selling to 7.8888 billion people (population of the world). I rest my case.

And did you notice? The recent federal budget included $101.2 million over five years to support businesses integrating quantum and artificial intelligence technologies. A pathetic contribution to the once-in-one-hundred year industrial revolution that is AI. Australia doesn't get it; it's a backwater.

Marcus Today runs a strategy portfolio that communicates market timing and only invests in passive ETFs. As of now, this portfolio is 90% invested in US markets, with 60% in the NASDAQ and the FANG+ ETF. Another 30% is in the S&P 500.

Our main risk in any market-based ETFs is a significant market correction, in which case we will have to temporarily abandon our long-term assumptions. Temporarily. But if the game is timing stocks that are moving from bottom left to top right, then big tech should be moving from bottom left to top right. Buy AI. Buy the cloud. We have.

I feel like Forrest Gump investing in "some kind of fruit company" in December 1980. Forrest Gump's $100,000 investment in Apple would be worth $7 billion today. Keep it simple.

Marcus Padley is the author of the daily stockmarket newsletter Marcus Today. For a free trial of the Marcus Today newsletter, go to marcustoday.com.au.

Property slowdown takes its toll

Facing tough market conditions and more competition at home, the e-conveyancer PEXA is pinning its hopes on overseas expansion

STORY JAMES CARLISLE

When PEXA (ASX: PXA), the online property exchange, floated in July 2021, we wondered if things were as good as they'd get. We may have only been out by six months.

The total number of property transfers in Australia peaked at 1.7 million in the December half of 2021 and were down by 20% in the same period in 2022. To be fair, PEXA's share of those transfers increased from 80% to 88%, but that's more a reflection of the ongoing shift from paper-based to electronic conveyancing, where it continues to be the only game in town (although more on that in a moment). Even so, PEXA's transfer volumes fell by 16%.

Things have gone better for mortgage refinancings, which have already shifted almost entirely to electronic processing and where PEXA has a 99% market share. With homeowners scrambling for better (or at least less hefty) rates, transaction volumes actually rose by 7% over the year to a record level.

However, there are only two refinancings for every five transfers and they attract lower average prices ($49 compared with $87), so revenues fell 7% in the half even with a 5% price rise. Operating costs rose 8%, so that underlying earnings before interest, tax, depreciation and amortisation (EBITDA) for the core PEXA Exchange business fell 15% to $71 million.

We have no special insight into the property market, of course, but it does show how things can go in a highly leveraged business, with total market dominance, when that market turns down.

Our real concerns are around the potential for competition to come in and smash that dominance. Regulators are forcing PEXA to make its systems "interoperable", so that rival exchange platforms will be able to interact with it, specifically to negate any network effects and to promote competition.

At the time of the float, the first "interoperable" transaction – a refinancing in Queensland, apparently – was expected to take place in December 2021. That now looks as if it won't happen before September 2023, but happen it will.

First into the ring to take on PEXA will be Sympli, and it's a worthy contender, being 49% owned by ASX. We have no idea how things will turn out, but our guess is that both parties will come away with a few bruises.

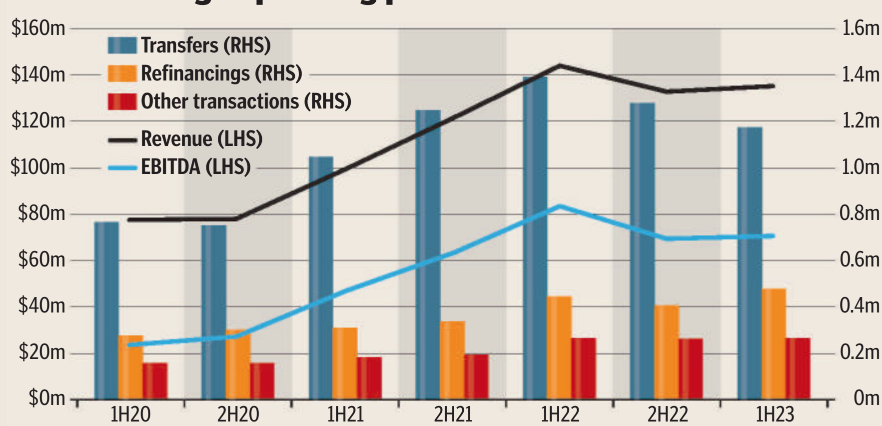
Perhaps this is why PEXA is doubling down on its growth strategies – PEXA Digital Growth (PDG) and PEXA International.

PDG aims to use the data generated by PEXA Exchange to provide insights and services to property market participants, such as estate agents, mortgage providers, property developers and the government.

It's early days, with only $4 million of revenue in the first half – and most of that came from a demographics consulting business, .id (informed decisions), focused on Australia and New Zealand, that was acquired during the period. The acquisition, combined with headcount increases, sent costs up more than fourfold to $12 million, with the segment making an operating loss of $8 million.

Who knows if PEXA can find a gem here, but we'd caution that an exchange that shares a market with someone else

PEXA exchange operating performance



EBITDA: Earnings before interest, taxes, depreciation, and amortisation

Source: Intelligent Investor

will have less valuable data than one that has a market to itself. Any weakness in the core business will also reduce the chances of success in PDG.

The company has also stepped up investment in its international business, which is aiming to establish property transaction platforms in other Torrens-title-based jurisdictions, such as the UK, New Zealand and Canada.

The main focus at the moment is the UK, and the company accelerated its ambitions there with the acquisition of an online mortgage refinancing specialist, Optima Legal, in December.

Optima is second equal in the UK market for remortgage processing, with a market share of 22% (the leader has 33%), and its clients include six out of the top eight lenders.

PEXA believes that by combining Optima's technology with its own, it will be able to reduce post-offer processing times from weeks to minutes, significantly increasing the number that actually proceed.

The main game, though, is property transfer and it's hard to see how Optima will help PEXA develop its platform for that. The technology is currently in development, with a launch date planned for 2024.

There are already numerous companies aiming to smooth the e-conveyancing process in the UK and it's not obvious where PEXA will fit within that; and wherever it does fit, you can bet the UK regulators will ensure healthy competition.

With the investment into the exchange platform and one month of Optima's costs, expenses more than doubled to $12 million for the international segment in the first half; with nearly $2 million of Optima revenue, that was reduced to a loss of $10 million.

Management has kept quiet about Optima's profits, which probably suggests there aren't any at the moment, and we'd expect that to remain the case in the international segment for a few years.

It's hard to put a value on PDG and International, but that need not matter at this point. Our main concerns are around the core Australian Exchange business, and how it will fare when Sympli, and potentially others, appear on the scene.

With the sharp fall in PEXA Exchange profits and the increased investment in PDG and international, underlying earnings per share are likely to tumble this year. The current consensus broker expectation is for 27 cents, which would put the stock on a multiple of almost 50.

Growth could come quickly in 2024 and 2025 if the property market recovers, but it could be a while before the company surpasses the 44 cents it made last year, especially if Sympli is able to take a significant slice of the market. Even that would mean a price-earnings multiple of almost 30.

It'd need to be a lot cheaper than that to get us interested. AVOID.

James Carlisle is a senior analyst at Intelligent Investor.

DATABANK

The tables on these pages contain data and information to help you compare managed funds, which are pooled funds managed professionally by investment experts.

Managed funds displayed in these tables are multi-sector or asset class specific. Multi-sector managed funds invest across a diversified mix of asset types spanning equities, property, bonds, cash, infrastructure, private equity and alternatives.

Managed funds are normally set up as unit trusts. You may be able to invest in them directly or through a platform.

Top 5 sector benchmarks

Sector	Benchmark	1-year return	3-year return (pa)	5-year return (pa)	10-year return (pa)
Australian Equities	S&P ASX 200 Accum Index	7.2%	7.9%	7.9%	8.0%
International Equities	MSCI World ex AU Index	0.0%	8.8%	10.6%	14.2%
Property	S&P ASX200 A-REIT Index	-6.5%	0.7%	6.3%	8.1%
Australian Fixed Interest	Bloomberg Barclays Australia (5-7 Y) Index	-5.9%	-3.2%	1.0%	2.4%
International Fixed Interest	Bloomberg Barclays Global Aggregate Index	-9.4%	-4.1%	0.0%	2.3%

Top 5 Australian funds by size

Name	APIR code	Mngmnt fee (pa)	Start date	Size	1-year return	3-year return (pa)	5-year return (pa)	10-year return (pa)
Vanguard International Shares Index Fund	VAN0003AU	0.18%	1997	$22,895m	-0.4%	8.4%	10.2%	13.7%
ISPT Core Fund			1994	$18,208m	6.1%	5.4%	6.7%	9.3%
Vanguard Australian Shares Index Fund	VAN0002AU	0.16%	1997	$17,695m	6.4%	8.0%	7.8%	7.8%
DEXUS Property Fund		0.55%	1995	$12,444m	6.6%	5.6%	7.5%	9.7%
Vanguard Australian Shares Index ETF	VAS	0.10%	2009	$12,176m	6.5%	8.0%	7.9%	7.8%
SECTOR AVERAGE		**0.68%**		**$770m**	**-0.8%**	**4.2%**	**5.3%**	**7.0%**

Top 5 funds by 1-year return

Name	APIR code	Mngmnt fee (pa)	Start date	Size	1-year return	3-year return (pa)	5-year return (pa)	10-year return (pa)
Lazard Select Australian Equity Fund	LAZ0005AU	1.15%	2002	$70m	19.0%	13.4%	7.5%	9.3%
Lazard Defensive Australian Equity Fund	LAZ0022AU	0.75%	2012	$21m	15.3%	14.9%	8.7%	9.2%
Paradice Equity Alpha Plus Fund	ETL8096AU	0.99%	2019	$127m	15.0%	18.0%		
Merlon Concentrated Australian Share Fund	HOW2217AU	0.52%	2018	$6m	14.8%	12.3%	7.8%	
PM Capital Australian Companies Fund	PMC0101AU	1.09%	2000	$70m	14.8%	20.2%	13.6%	12.0%
SECTOR AVERAGE		**0.82%**		**$726m**	**0.9%**	**6.6%**	**6.8%**	**8.8%**

Top 5 diversified funds by 1-year return

Name	APIR code	Mngmnt fee (pa)	Start date	Size	1-year return	3-year return (pa)	5-year return (pa)	10-year return (pa)
Orbis Global Balanced Fund	ETL3967AU	1.20%	2017	$7m	8.1%	9.8%	5.4%	
Morningstar High Growth Real Return Fund	INT0042AU	0.65%	2001	$80m	5.6%	9.1%	6.5%	8.4%
Allan Gray Australia Balanced Fund	ETL4654AU	0.76%	2017	$153m	4.8%	8.2%	6.0%	
CT Pyrford Global Absolute Return Fund	PER0728AU	0.80%	2014	$58m	4.7%	4.5%	5.0%	
Morningstar Multi Asset Real Return Fund	INT0040AU	0.74%	2000	$259m	4.4%	6.6%	5.0%	
SECTOR AVERAGE		**0.71%**		**$585m**	**-1.4%**	**3.6%**	**4.3%**	**6.0%**

Source:
Rainmaker Information. Data sourced February 28, 2023. *Numbers stated here depict averages, other than the Rank column, which is the total number of funds in the category. For any queries on these tables, please contact info@rainmaker.com.au.

DATA SOURCED FEBRUARY 28, 2023

These products may be recommended to you by a financial adviser.

The performance results displayed are the annualised investment returns each managed fund has delivered after taking into account taxes paid by the unit trust and investment fees.

Research was prepared by Rainmaker Information and for more information see **www.rainmaker.com.au**

RAINMAKER INFORMATION
INDUSTRY INTELLIGENCE

Top 5 Australian equities funds by 1-year return

Name	APIR code	Mngmnt fee (pa)	Start date	Size	1-year return	3-year return (pa)	5-year return (pa)	10-year return (pa)
Lazard Select Australian Equity Fund	LAZ0005AU	1.15%	2002	$70m	19.0%	13.4%	7.5%	9.3%
VanEck Australian Resources ETF	MVR	0.35%	2013	$338m	16.0%	16.1%	12.1%	
Lazard Defensive Australian Equity Fund	LAZ0022AU	0.75%	2012	$21m	15.3%	14.9%	8.7%	9.2%
Paradice Equity Alpha Plus Fund	ETL8096AU	0.99%	2019	$127m	15.0%	18.0%		
Merlon Concentrated Australian Share Fund	HOW2217AU	0.52%	2018	$6m	14.8%	12.3%	7.8%	
SECTOR AVERAGE		**0.67%**		**$803m**	**4.7%**	**8.5%**	**7.4%**	**8.3%**

Top 5 international equities funds by 1-year return

Name	APIR code	Mngmnt fee (pa)	Start date	Size	1-year return	3-year return (pa)	5-year return (pa)	10-year return (pa)
Hamilton Lane Global Private Assets Fund - AUD (UH)	PIM8461AU	1.70%	2021	$0m	23.6%			
PM Capital Global Companies Fund	PMC0100AU	1.09%	1998	$667m	13.5%	19.5%	13.4%	15.9%
Antipodes Global Fund	IOF0045AU	1.20%	1994	$2,381m	12.9%	8.7%	6.8%	13.6%
BetaShares Global Income Leaders ETF	INCM	0.39%	2018	$24m	11.7%	4.6%		
Schroder Global Recovery Fund	SCH0095AU	0.98%	2017	$13m	11.3%	11.4%	6.8%	
SECTOR AVERAGE		**0.83%**		**$781m**	**-0.7%**	**7.3%**	**8.7%**	**12.2%**

Top 5 income-focused equities funds by 1-year return

Name	APIR code	Mngmnt fee (pa)	Start date	Size	1-year return	3-year return (pa)	5-year return (pa)	10-year return (pa)
Merlon Australian Share Income Fund	HBC0011AU	0.95%	1985	$349m	11.5%	8.5%	5.2%	6.6%
Vertium Equity Income Fund	OPS1827AU	0.97%	2017	$98m	11.3%	10.4%	7.1%	
Vanguard Australian Shares High Yield ETF	VHY	0.25%	2011	$2,846m	11.1%	11.5%	8.6%	7.3%
Vanguard Australian Shares High Yield Fund	VAN0104AU	0.35%	2000	$1,265m	11.0%	11.5%	8.5%	7.2%
Plato Australian Shares Income Fund	WHT0039AU	0.90%	2011	$2,453m	10.5%	10.3%	10.1%	10.1%
SECTOR AVERAGE		**0.78%**		**$437m**	**6.0%**	**7.0%**	**5.7%**	**6.6%**

Top 5 ESG funds by 1-year return

Name	APIR code	Mngmnt fee (pa)	Start date	Size	1-year return	3-year return (pa)	5-year return (pa)	10-year return (pa)
Martin Currie Sustainable Equity Fund	SSB0125AU	0.77%	1998	$86m	8.4%	7.8%	6.2%	7.8%
Warakirri Ethical Australian Equities	WRA7701AU	0.77%	1993	$225m	8.4%	8.3%	6.8%	6.6%
U Ethical Australian Equities Trust	UGF2230AU	0.80%	1986	$508m	5.8%	7.5%	9.1%	8.5%
iShares Core MSCI Australia ESG Leaders ETF	IESG	0.09%	2021	$98m	5.4%			
GMO Climate Change Trust	GMO1979AU	0.76%	2021	$51m	4.8%			
SECTOR AVERAGE		**0.80%**		**$234m**	**-2.4%**	**4.9%**	**6.2%**	**8.2%**

WHAT THEY MEAN

Performance after investment fees. Investment returns after investment fees annualised to describe each fund's returns per annum. But if your managed fund achieves a high return and charges you an extra "performance fee", Rainmaker has not taken this into account. Past performance is not an indicator of future performance.

Rank. Funds are ranked against all managed funds in each segment, not just those included in each table.

Indices and averages. Arithmetic average investment returns or average fees for all fund investment options within each category, that is, not fund size weighted.

YOUR GUIDE TO SUPER DATA

The table contains information to help you compare super funds. It showcases publicly available MySuper investment options offered by some of Australia's biggest funds. Rainmaker categorises them into risk options based on percentage of growth assets in their portfolio. The high-growth risk option has more than 85% in growth assets (growth has between 75% and 85%), balanced has between 55% and 75%, and capital stable products have less than 55% growth assets.

The performance results are the annualised investment returns each option has delivered after all taxes and fees. Past performance is no indicator of future performance. The table only lists products that have achieved a Rainmaker Information AAA Quality Rating. For interactive performance tables, visit **moneymag.com.au/super/funds/compare**

Best Super Funds: Top 30 MySuper – February 28, 2023

Ranked by 3-year return

FUND & INVESTMENT OPTION NAME	Strategy	Growth assets	Risk category	1-year return	1-year rank	3-year return (pa)	3-year rank	5-year return (pa)	5-year rank
Active Super Accumulation Scheme - High Growth	LC	95%	High Growth	1.6%	7	7.1%	1	7.0%	3
Mine Super - High Growth	LC	89%	High Growth	1.3%	12	6.9%	2	6.7%	6
Telstra Super Corporate Plus - MySuper Growth	LC	89%	High Growth	2.1%	4	6.9%	3	6.8%	5
Aware Super Employer - High Growth	LC	84%	Growth	-0.3%	31	6.7%	4	7.0%	1
Maritime Super - MySuper	S	75%	Growth	1.6%	5	6.7%	5	7.0%	2
Hostplus - Balanced	S	81%	Growth	1.5%	9	6.6%	6	6.9%	4
GuildSuper - MySuper Lifecycle Growing	LC	100%	High Growth	0.0%	27	6.1%	7	6.6%	9
Mercer CS - Mercer SmartPath 1979-1983	LC	89%	High Growth	1.6%	8	5.9%	8	6.3%	11
Vision Super Saver - Balanced Growth	S	70%	Balanced	0.7%	19	5.9%	9	6.2%	12
AustralianSuper - Balanced	S	66%	Balanced	0.6%	20	5.8%	10	6.5%	10
Virgin Money SED - LifeStage Tracker 1979-1983	LC	90%	High Growth	0.1%	26	5.8%	11	6.6%	7
HESTA - Balanced Growth	S	69%	Balanced	1.4%	11	5.7%	12	6.1%	13
AvSuper Corporate - Growth (MySuper)	S	81%	Growth	3.6%	1	5.7%	13	5.6%	23
UniSuper - Balanced	S	68%	Balanced	1.4%	10	5.5%	14	6.6%	8
CareSuper - Balanced	S	77%	Growth	2.4%	3	5.5%	15	5.7%	18
legalsuper - MySuper Balanced	S	74%	Balanced	0.7%	18	5.4%	16	5.7%	20
Cbus Industry Super - Growth (MySuper)	S	73%	Balanced	1.0%	16	5.4%	17	6.0%	15
TWUSUPER - Balanced (MySuper) Option	S	72%	Balanced	0.4%	23	5.4%	18	5.2%	29
BT Super - 1980s BT Lifestage Fund	LC	88%	High Growth	-0.6%	33	5.3%	19	5.7%	21
Essential Super Employer - Lifestage 1980-84	LC	74%	Growth	0.5%	21	5.3%	20	5.4%	27
AMP SignatureSuper - AMP MySuper 1980s	LC	86%	High Growth	-1.2%	34	5.3%	21	5.3%	28
REI Super - Balanced (MySuper Option)	S	76%	Growth	-0.3%	30	5.2%	22	4.7%	34
FirstChoice Employer - FirstChoice Lifestage (1980-1984)	LC	96%	High Growth	0.5%	22	5.2%	23	5.0%	31
Spirit Super - Balanced (MySuper)	S	67%	Balanced	1.6%	6	5.1%	24	5.7%	19
smartMonday PRIME - MySuper Age 40	LC	86%	High Growth	0.0%	28	5.1%	25	6.1%	14
ANZ SCSE - ANZ Smart Choice 1980s	LC	80%	Growth	-0.4%	32	4.9%	26	5.7%	22
Rest Super - Core Strategy	S	69%	Balanced	1.1%	15	4.9%	27	5.0%	30
NGS Super - Diversified (MySuper)	S	72%	Balanced	0.2%	24	4.8%	28	5.4%	24
BUSS(Q) MySuper - Balanced Growth	S	74%	Balanced	0.8%	17	4.8%	29	5.4%	26
Equip MyFuture - Equip MySuper	S	60%	Balanced	1.2%	13	4.8%	30	5.4%	25
Rainmaker MySuper/Default Option Index				**0.8%**		**4.2%**		**5.8%**	

Benchmark Indices – Workplace Super

INDEX NAME	Performance to February 28, 2023		
	1-year	3-years (pa)	5-years (pa)
Rainmaker MySuper/Default Option Index	0.8%	5.3%	5.8%
Rainmaker Growth Index	0.6%	5.8%	6.1%
Rainmaker Balanced Index	0.1%	4.3%	5.1%
Rainmaker Capital Stable Index	-0.9%	1.8%	3.1%
Rainmaker Australian Equities Index	1.5%	7.2%	7.1%
Rainmaker International Equities Index	-2.4%	6.5%	6.8%

Source: Rainmaker Information. www.rainmakerlive.com.au

DATABANK

WHAT THEY MEAN

Performance after fees: When calculating fees, Rainmaker assumes a member has $50,000 in their account.
Strategy: Some MySuper products invest your superannuation based on age and are known as lifecycle funds (marked LC). The table includes the LC option for 40-year-old members. Non lifecycle funds are known as single strategy (S).
Rank: Funds are ranked against all MySuper investment options available in Australia.
Indices and averages: To produce these indices, Rainmaker analyses the results of more than 3300 investment options.

We're deflated by inflation

Breaking down the headline numbers reveals why some people are feeling more pain than others

Australia's rolling 12-month inflation rate – measured by the Consumer Price Index and climbing slightly from 6.8% for the year-to-end February, up to 7% for the year-to-end March 2023 – seemed to spook the Reserve Bank into again lifting the official interest rate by 0.25 percentage points in May to 3.85%.

Despite Australia's cash rate climbing again, we should spare a thought for people in the US, the UK and NZ, where official interest rates are 5.25%, 4.25% and 5.25% respectively. Australia's rates being 1.05 percentage points lower than the US, UK and NZ average prompts the reverse question: why is the RBA being so gentle?

The answer is that RBA governor Philip Lowe has said that while Australia must fight inflation with everything we have in our monetary policy arsenal, he doesn't want to crash the Australian economy and drive hundreds of thousands of people into unemployment.

Nevertheless, even though inflation climbed in March, the trajectory does seem to be that it is at least stabilising and beginning to dampen. It is now back to where it was seven months ago in August 2022, which is surely good economic news.

Inflation isn't, however, a one-size-fits-all measure. According to the Bureau of Statistics, there are almost 30 inflation sub-indexes, although it groups these into 11 majors: alcohol and tobacco, clothing and footwear, communication, education, financial services, food, health, household furnishings, housing, recreation and culture, and transport.

Illustrating how inflation varies across these components, a detailed look into Australia's inflation at the end of February 2023 through the past two years shows that while it has been an aggregate 12%, transport was up 20%, housing 17%, food 13% and household furnishings 12.1%.

Transport includes fuel, and it might surprise motorists that the fuel inflation index was down 17% since February 2022.

But a sub-index that hasn't been so kind to consumers is housing, which includes rents, prices for new dwellings and electricity prices.

While the broad housing inflation index is up 9.7%, the rents inflation index is up 17.2% and the electricity inflation index is up a staggering 27.2%. Gas price annual averages are up 47%.

But as aggressively as we think these costs are rising, according to the RBA, the average variable mortgage interest rate exploded 93%, rising from 2.9%pa in February 2022 to 5.6%pa in February this year.

So, as wildly as rents are growing, there's an argument that investment property landlords overall may be absorbing at least some of their interest rate increases. It's, of course, a different story for landlords on lower fixed-rate investment mortgages, and let's not forget that many landlords' loans valuation ratios would be nowhere near the full value of their properties.

That said, it's hard to care much about landlords with four, five, six or more properties publicly bleating about how tough life is for them now, but the fact remains variable interest rates have almost doubled in the past year.

Any talk of government-mandated rent freezes would thus send a shudder through the investment property sector and most likely only squeeze the rental market even tighter than it is already.

At the other end of the inflation scale, the past year has been good for Australians who enjoy vices such as tobacco, as that inflation index is down 29%. But for those who enjoy an alcoholic drink with their smokes, that inflation index is up 9.9%.

On the food front, the bread and cereals inflation index is up 6.8%, the health inflation index is up 4.8%, the dairy foods index is up 3.2%, the meat and seafoods index is down 4% and the fruit and vegetables index is down 6%.

If, however, you want to consume these foods, beverages and vices while holidaying around Australia, the travel and accommodation inflation index is up 20%. But on the bright side, the ACCC index of the price of discount economy air tickets in Australia, like the broad inflation index, is back to where it was in August last year.

Alex Dunnin is director of research at Rainmaker Information.

"Being an Olympian is a powerful calling card and has provided me with many opportunities in sport and business"

What's it like to win Olympic gold?
It was, not surprisingly, an amazing experience, particularly given that it happened at a home Games. We came to the Games as world champions knowing that if we performed well we would have a strong chance of competing for a medal, so we were very focused on executing well and not making any big mistakes. It was very exciting to win and a strange feeling to cross the final finish line – we had spent a decade planning up to that moment, but not a thought to what happened afterwards.

Did it change your life/ alter your lifestyle in any way?
It did in many ways. Being an Olympian is a powerful calling card and has provided me with many opportunities in both sport and business, which I would not have had otherwise. At a personal level, winning in Sydney satiated my drive to know whether I had the strength to win at that level and allowed me to walk away satisfied after the Games. I had always intended to retire after Sydney but I'm not sure what I'd have done if we had finished second.

Do you recall your earliest money lesson?
My family bred sheep and cattle and I was given the opportunity to work on the farms from an early age. I think the best lessons came early from the opportunity to "own" a sheep that then generated some income.

Tom King

The sailor won gold in front of a home crowd at the 2000 Summer Olympics in Sydney. Along with fellow gold medallist Mark Turnbull, he was awarded the Medal of the Order of Australia in 2001 and inducted into the Australian Sailing Hall of Fame in 2022. In 2009, King helped set up Nanuk Asset Management, a global equities fund that invests in companies that contribute to, or benefit from, improving global environmental sustainability and resource efficiency. He is currently the chief investment officer and a portfolio manager at Nanuk.

What was the first thing you recall saving up for?
A fishing rod. I still have it.

How did you end up in investment management?
I was always intrigued by financial markets, with which there are some interesting and relevant parallels with sailing. Stock picking and racing sailboats are both highly competitive. They both involve risk-based decision making in a constantly changing environment. And the longer-term outlook can be (unreliably?!) forecast, but shorter-term factors are volatile and less predictable.

Are there any similarities between smart investing and competitive sailing?
There are some key differences between a sporting environment and most workplaces. It took me a number of years to find my feet in the business world, where I didn't have the benefit of the confidence that comes from a decade of training. These days I think the big challenge is maintaining the right level of intensity.

In Olympic sport it's easy – you know years in advance that you are working towards an event on a particular day and you can commit totally to that knowing there is an end in sight. My role today is continual and it's important to maintain a balance that makes it sustainable.

How would you spend your last $50?
On my kids.

What's the next challenge you've set yourself?
To be a better communicator. It was never my strength, but it's so important to so many aspects of life.

Finish this sentence: Money is good for ...
lubricating the economy.

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INTEREST PAID TO INVESTORS
$244m

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RURAL
RESIDENTIAL
COMMERCIAL

TERM
AVERAGE
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LONGEST
36mths
SHORTEST
3mths

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