CONNECTION POINT.

Advice. Life. Investments. Superannuation and Retirement.

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Forget resolutions: why the new year is time for a new financial attitude

Genetic tests: what impact will they have on life insurance cover

Sequencing risk: why retirees can feel the impact of market downturns more than most

Five health steps for a healthier, more independent retirement

Equity markets defy uncertainty to post a booming year

Buckley's Financial Protection

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Buckley's Financial Protection

We hope you enjoy our latest edition of Connection Point.

Please contact our office if you would like to discuss anything in this edition.

From the team at
Buckley's Financial Protection

Forget resolutions: why the new year is time for a new financial attitude

The beginning of a new year marks the perfect time to re-set your financial foundation for the next 12 months and beyond. We look at how to make your goals a reality.

New year resolutions seem like a good idea at the time but as the years roll by, the number of broken promises grows ever higher for a lot of us.

A 2007 University of Bristol study of more than 3,000 people found 88% attempting to achieve common new year resolutions – such as losing weight or drinking less – failed a year later[1]. Yet more than half (52%) were initially confident they'd succeed.

However, getting better results doesn't necessarily need a big change in behaviour.

The Bristol study found that an extra 22% of men were more likely to succeed when they made specific goals or focused on the rewards associated with achieving their goal. Meanwhile, almost 10% more women were successful when they told their friends and family about their resolution or were encouraged to not give up when setbacks occurred.

Those tactics can help everyone to refresh their financial attitude for the new year. It's the perfect time to take another look at your goals and how to make them a reality, from your expenditure to your investments.

Redo your budget – and stick to it

Budgeting is about as popular as dieting – it makes people think of constant restraint while the eventual reward lurks somewhere far off in the distance.

However, a good budget sets a crucial financial foundation because it brings transparency about your unique spending behaviour. This, in turn, supports making small, achievable spending changes that can be sustained through the year.

Online spending trackers – many of which are free – now make it easier to monitor and review monthly spending. With many bank accounts now fee-free, it costs no more to have multiple accounts to 'bucket' different types of expenditure, such as for 'groceries' or 'rent'.

However, cutting larger costs over time can require a deeper evaluation of what's really important – to you rather than anyone else.

Reduce credit card and other 'bad' debts

Debt has the power to turbocharge wealth. For example, taking out a mortgage to buy a home or well-located investment property has helped many Australians build their savings over the long term.

However, debt can also wreck wealth. Credit cards and similar personal loans are often referred to as bad debts because they are used for purchases that don't appreciate in value.

A recent review of Australians' credit card debt by the corporate regulator, ASIC, found that 930,000 suffered persistent debt and 435,000 people were repeatedly repaying small amounts[2].

Reviewing this type of debt is a simple process. Part of this process may be to set up a plan to pay them off as fast as possible. For example, credit card debt could be paid off in full each month via a direct debit to avoid steep interest charges.

If it's not possible to pay off the entire amount, speak to your financial adviser about the merits of transferring the debt to your mortgage (where interest rates are far lower) or rolling it to a new card that charges a lower interest rate (or offers an initial interest rate-free period).

Set short-term financial goals, reassess/set long-term goals

It's easy to lose sight of the link between financial goals and lifestyle, particularly during the festive season when holidays are in full swing and expenses are high.

But as January rolls on and normal life resumes, reassessing both short and long-term goals is crucial to maximise the value of your hard work.

Short-term goals may involve budgeting to take regular holidays or to allow for luxuries on top of the usual day-to-day costs. Long-term goals such as buying a house often require a consistent approach involving saving and investing.

Whether your goals are as small as a weekly dinner out with friends, or as big as a holiday home, taking small steps that add up over time can make a big difference. Automatic monthly savings plans and having a motivational photo on your phone or in your wallet are ways that can reduce the temptation to spend.

Hire a professional to help guide you

Getting fit or losing weight is one of the most popular new year resolutions. A gym membership is often not enough – it takes a personal trainer to help people set up a plan and stay on track. Making that commitment also boosts accountability.

When it comes to finances, a financial adviser plays a similar role. They can help you to reach your lifestyle goals and ensure you stay on top of regulatory and market changes.

The state of investment markets is continuously changing, while new government regulations, particularly around superannuation and pensions, are regularly revised. A professional can develop financial plans that make the most of your individual circumstances. It's an investment in a better future.

Your adviser can help you set and reach your lifestyle goals. Contact our office today.

1 Quirkology - Experiment - Resolution Experiment. (2020, January 06). februarymarketing.com. Retrieved from http://www.richardwiseman.com/quirkology/new/USA/Experiment_resolution.

2 18-201MR ASIC's review of credit cards reveals more than one in six consumers struggling with credit card debt | ASIC - Australian Securities and Investments Commission. (2020, January 06). Retrieved from https://asic.gov.au/about-asic/news-centre/find-a-media-release/2018-releases/18-201mr-asic-s-review-of-credit-cards-reveals-more-than-one-in-six-consumers-struggling-with-credit-card-debt.

Sequencing risk: Why retirees can feel the impact of market downturns more than most

It's natural to be concerned about the size of the occasional market downturn, but older investors need to be wary about their timing.

No one wants to endure a market downturn, even if it's a normal part of long-term investing. Unfortunately for many older investors, a downturn that strikes at the wrong time can derail an enjoyable retirement.

It's all about the sequence of returns and the danger is magnified if a market shock takes place early in retirement or when savings are near their peak.

That's because older investors no longer have decades to let their savings recover from an eventual market upswing. The situation is compounded when retirees are also making withdrawals because they lock in losses when the market is at a low point (younger investors still making contributions are instead buying assets when they are cheap).

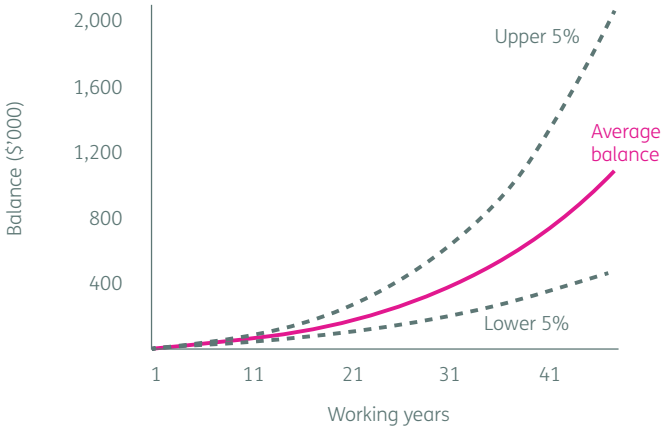
Research by the Productivity Commission shows just how large the impact of sequencing risk can be on a retiree who has worked for 47 years. Their average retirement balance was about $1.1 million however, they also had a 5% chance of the balance ending far lower (below $500,000) or a 5% chance of it being far higher (about $2.1 million)[1].

"Downturns in asset returns close to retirement have much larger effects on retirement balances than downturns early in the working life of a member — a problem sometimes referred to as 'sequencing' risk," the Productivity Commission warned.

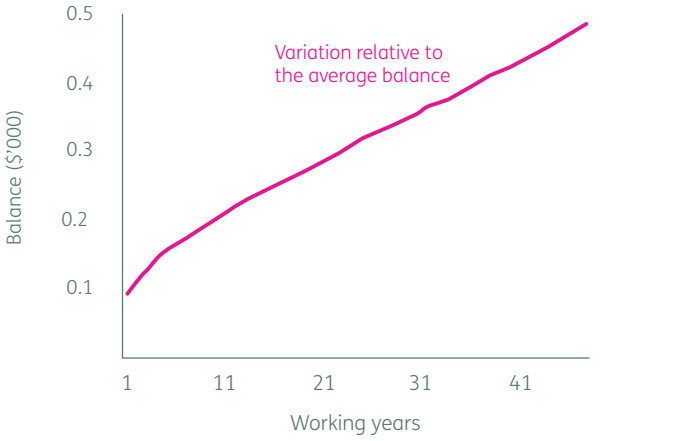
"Sequencing risk is particularly high for people in funds with exposure to assets with volatile returns (as compared to, for example, a large weighting to equities)."

The timing of returns can play a major role in retirement outcomes

Variations in retirement balances at retirement



The relative variation of balances increase as people work longer



Results are based on 10,000 bootstrapping replications with a block of 5 years. The 5 per cent upper fractile is the value of the balance above which 5 per cent of outcomes occur, white the 5 per cent lower fractile is the value of the balance below which 5 per cent of outcomes occur. The variation relative to the average balance is the coefficient of variation (the standard deviation of the balances at any given age and the average balance for that age from the simulations). The results were compared with the Monte Carlo program, and had a trivial impact of average balances. The 5th percentile balances were up to 12% less for the bootstrap results, but the effects on the 95th percentile were negligible. The coefficient of variation was higher for the bootstrap model by about 15%. Modelling of life-cycle outcomes produced smaller variations than these, and justified the use of the simpler and more flexible Monte Carlo method.

Source: PC calculations.

Managing sequencing risk

While investments such as equities can be more volatile, they also tend to deliver higher long-term returns than 'safer' assets such as cash. The Reserve Bank of Australia continued to cut official interest rates to new historic lows last year and few are predicting a change in course over 2020.

The result is many retirees – who face almost two decades in retirement – will struggle to generate enough income without investing in shares and other higher-returning assets.

Fortunately, there are multiple strategies to manage sequencing risk while continuing to generate realistic returns.

Diversification

Spreading your investments across a range of different asset classes is a key strategy to manage a range of investment risks including sequencing risk. Different assets respond differently to the same market conditions, which can lower volatility and dampen the impact of an equity market downturn.

Professional fund managers create a range of portfolios that are diversified by asset class and geography. They often include investments in international and Australian equities, listed property, international and Australian fixed interest, listed infrastructure, emerging markets and cash and short-term securities.

Bucketing

Bucketing has become an increasingly popular investment strategy among retirees – and with good reason: placing money in different accounts with different purposes can help control spending and provide peace of mind.

A short-term cash bucket could cover up to three years of day-to-day living expenses such as groceries and entertainment. A separate long-term bucket could be invested in growth assets such as shares for expenses like an occasional trip overseas or potential health issues down the track.

If the share market drops, retirees can ride out the downturn by continuing to draw down from their cash bucket while they wait for the share market to recover.

New strategies to manage risk

Some investment strategies, such as options and derivatives, specifically manage volatility and the risk of market downturns. These have been used for many years by large institutions, such as insurance firms, to manage risk and are now growing in popularity in the retail market.

However, they can also be expensive – particularly in a rising market – and can add another layer of investment complexity.

Managing sequencing risk is a balancing act given there is a clear investment relationship between risk and return. Striking the right balance is crucial to set up an enjoyable and safe retirement.

Your adviser can help ensure your investment portfolio is protected from sequencing risk. Call our office today.

1 Productivity Commission. Superannuation: Assessing Efficiency and Competitiveness, Inquiry Report no. 91 Technical Supplement 6. December 2018.

Genetic tests: what impact will they have on life insurance cover?

Low-cost genetic tests are poised to revolutionise personal health care, prompting the life insurance industry to tackle the issue with a new standard.

It took more than a decade and approximately $US2.7 billion to sequence the human genome in 2003. Fast-forward to today and US companies are offering the same service for as little as $US200.

Direct-to-consumer genetic tests promise to open up a new world of personalised medicine that can better treat our individual susceptibility to a range of diseases. That potential is starting to spur exponential growth in testing according to Peter Banthorpe, Senior Vice President and Head of Global Research and Development at global life and health reinsurer RGA (**UK**). "Twenty-six million people have now had a direct-to-consumer genetic test – that was at the start of 2019," he told the Actuaries Summit 2019 as part of a panel discussing the topic.

The benefits are far ranging. A person's genes might show they have a higher risk of breast cancer, so they start screening earlier. It might show other, lower risks, meaning they can avoid an invasive procedure until later in life.

Better individual genetic information may also spur lifestyle changes by increasing their relevance.

"I don't know about you, but I get pretty fed up but with being told I have to exercise more and not eat my favourite chocolate," Banthorpe said. "But if someone was actually telling me this isn't just generic health advice, it's very specific health advice, maybe that will have more of an impact and drive more lifestyle modification."

However, the science is still rapidly advancing. The interpretation of genetic risk factors continues to change – a risk today may not be considered a risk tomorrow, while telling someone they are at risk of a life-threatening disease such as Alzheimer's or cancer requires sensitivity and potentially counselling, which is not always available.

Sensitive genetic data raises ethical and privacy concerns

While the possibilities of genetic tests are rising, so too are potential ethical and privacy concerns. Safeguarding sensitive genetic data is crucial in an era of rising cyber-crime and data sharing between organisations without clear consumer consent.

It also raises questions about life insurance: should insurers be able to use an individual's genetic information to charge a higher premium, exclude insurance cover for certain conditions, or even deny insurance? If so, would that discourage individuals from seeking a genetic test, forgoing the individual and broader community benefits?

Life insurers already use certain health data, such as smokers versus non-smokers, to help set individual premiums and manage their risk of 'anti-selection', where people in worse health increase their life cover.

An increasing number of governments, regulators and industry bodies around the world are now launching regulation or guidance about how genetic data can be used and stored. The issue was considered by an Australian parliamentary joint committee inquiry into the life insurance industry in 2018, which has spurred the recent launch of an industry-wide FSC code.

The Australian approach: a moratorium

The new life insurance standard[1], which took effect from July 1, 2019, allows Australians to receive up to $500,000 of lump sum death or TPD cover without having to disclose an adverse genetic test result. It also allows for a maximum $200,000 of trauma/critical illness cover and up to $4,000 a month in total income protection, salary continuance or business expenses cover.

"No one will be required to take a genetic test for the purposes of insurance and research tests are excluded if the person's never going to get the result," Kirwan said.

The moratorium makes Australia the only country in the world apart from the United Kingdom where individuals can choose to disclose a favourable genetic test while not disclosing an adverse result. The moratorium will be in place until at least June 30, 2024 and reviewed in 2022.

"We don't want life insurance fears to put people off getting the help they need," Kirwan said. "We don't want life insurance fears to stop people taking part in research, not least life insurers should be beneficiaries of genomic research – if we all live longer and get more healthy lives, then of course, that benefits insurance."

Do you have concerns about the impact that genetic testing may have on your life insurance? Speak to your adviser today to ensure your loved ones remain fully protected.

1 Financial Services Council. Standard No. 11: Moratorium on Genetic Tests in Life Insurance.

Five health steps for a healthier, more independent retirement

The Royal Commission into Aged Care recently acknowledged a greater need for preventative care and the need for 'ageing in place'. We take a look at how older Australians can take better care of themselves to delay or avoid a move into residential aged care.

It's not enough to live a long life unless you're well enough to enjoy it. The good news is that it's possible to make some early lifestyle adjustments to boost your chances of living a healthier life in the comfort of your own home, well into your twilight years.

1. Diet

Accredited Practising Dietitian, Joel Feren, says it's essential to maintain a balanced diet if you want to ward off age-related conditions that may impact your wellbeing and independence like heart disease, cognitive decline, stroke and osteoporosis.

"We know that certain nutritional requirements should be increased in older age," says Feren, who is also a spokesperson for the Dietitians Association of Australia. "That includes protein, B2, B6, vitamin D and calcium. By ensuring you eat a diet rich in these nutrients, you also ensure that you reduce the risk factors of age-related disease as you age."

2. Exercise

Research shows that exercise can reduce falls in older people and can even protect against cardiovascular disease, stroke and diabetes. Dementia Australia also claims exercise can defend the brain against cognitive decline. The organisation advises seniors to integrate aerobic exercise, strength and flexibility training into their routine for the best health results.

3. Home modifications

The Productivity Commission, in its 2015 paper on housing modifications, revealed a growing trend for seniors to modify their house to meet their physical needs. In doing this, they're prolonging the amount of time they can live at home, delaying or avoiding a move to residential aged care.

Modifying your home could involve installing a mobility ramp at the entry, lowering wall switches so they are at a wheelchair-friendly height and having wide, level access to the shower.

4. Social connection

An active social life may help you to live a longer life in good health. As shown in the famous Nurses' Health Study from Harvard Medical School, being socially integrated can lead to greater health, life satisfaction, and longevity over time.

Macquarie University research also suggests that participating in a social activity in older life may protect your mental and cognitive health. Joining a social group – like one based around a common interest in art, exercise, community or religion – could also ward against depression.

5. A sense of purpose

A study involving almost 7,000 people aged over 50, published this year in The Journal of the American Medical Association (**JAMA**) Network Open, reveals that seniors who have a purpose in life are more likely to live longer and less likely to die from heart, circulatory and digestive diseases.

A life purpose in this sense was seen as anything that brought meaning to life, from family connections to volunteer work or a spiritual pursuit.

How a protein-rich diet in older age can help you

While weight loss in our younger years often means a loss of fat, when you're over age 65 it may mean a loss of muscle density.

"Losing muscle mass may become critical in your older years because it can impact your bone health, mobility, strength and immune system," explains Feren, spokesperson for the Dietitians Association of Australia. That's why there are different dietary recommendations for people over 65.

"To guard against muscle loss, it's best to eat a nourishing diet rich in protein. Be sure to consume at least one protein source with each meal, choosing meats like chicken and fish, dairy and plant-based sources like legumes, nuts and seeds."

For a financial plan that gives you the freedom to enjoy retirement while providing for your future needs, speak to your financial adviser today.

Equity markets defy uncertainty to post a booming year

Equity markets around the world ended 2019 on a high as central banks continued their supportive policies in the face of rising economic uncertainty.

Global share markets have posted their strongest annual returns in decades despite lacklustre economic growth and ongoing geopolitical uncertainty.

The MSCI World Ex Australia (**NR AUD**) index delivered 4.26% over the December quarter, lifting full year returns to an outsized 28%.

Those surging gains were partly the result of a lower starting point thanks to a market correction just over a year ago, which prompted the US Federal Reserve to backtrack on plans to unwind its $US4 trillion balance sheet.

But despite strong equity markets, US economic growth remains subdued even as the unemployment rate remains at a 50-year low of 3.5%. The US-China trade stoush continues to drag on while more recently, escalating hostilities between the US and Iran has added to geopolitical instability.

Nonetheless, emerging markets such as China performed well over the year, with the MSCI Emerging Markets Index (**AUD**) gaining 19.1% in 2019 after a strong December quarter.

Developed markets also performed well as central banks followed the lead of the US Federal Reserve System and continued accommodative policies such as cutting interest rates and buying assets.

In September, the European Central Bank cut interest rates and approved a new round of bond purchases to prop up economic growth. Germany – the eurozone's largest economy – is beset by a manufacturing slump while Brexit remains a key issue to be resolved.

A UK election on December 12 resoundingly returned Boris Johnson's Conservative Party with a new mandate to withdraw the UK from the European Union on January 31.

The Australian economy continued its soft run although a flat December quarter on the share market barely dented the S&P/ASX 200 Total Return Index's impressive 23.4% annual gain.

The Reserve Bank of Australia's (**RBA**) latest 0.25% interest rate cut in October 2019 halved rates over the full year to 0.75%. Further rate cuts are likely with the RBA also floating the possibility of introducing quantitative easing to stoke stubbornly low economic growth and inflation.

The RBA has called on the federal government to stimulate the slowing local economy through fiscal policy (via government expenditure and tax rates) as monetary policy (traditionally via changes to interest rates) reaches the end of its effectiveness.

So far, record low interest rates and a round of tax cuts delivered mid-year failed to boost consumer confidence, with household expenditure remaining weak. However, rate cuts did help propel national dwelling prices to rise 4% over the December quarter – the fastest three-month period since November 2009 according to CoreLogic.

The economic impact of Australia's extraordinary bushfire season presents another unknown, with Moody's Analytics estimating the damage is likely to exceed the $4.4 billion set by 2009's Black Saturday blazes.

Your adviser can help explain current market events and ensure your investment portfolio remains on track to meet your goals. Contact our office today.

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