SUNDAY BUSINESS

Where retirees can stash their cash

AS OFFICIAL INTEREST RATE SEEM SET TO HEAD SOUTH, IT WILL PAY TO LOOK BEYOND BANK DEPOSITS

Anthony Keane

Financial strategy number one for many Australian retirees over many years has been to stick with the safety of cash in the bank.

For starters, your money is protected by federal government guarantees, plus it's generally easy to access and doesn't deliver the gut-churning swings of other investments.

However, the downsides – until the past couple of years – have been low interest rates paid on your deposits, and the likelihood that retirees miss out on stronger gains and growth from broader investments in shares, property, infrastructure and overseas assets.

Today, good bank deposits are paying around 5 per cent interest, better than inflation's 3.8 per cent, but cash returns have started heading south as banks prepare for looming cuts to official interest rates. More than 200 term deposit rates have been cut this month.

Financial specialists say keeping money in bank deposits makes sense for some retirees, particularly those with smaller savings, but for many there are other options that deliver more attractive tax savings, financial returns and long-term security.

Sadly for many older retirees, including those who did not benefit from compulsory superannuation's introduction in the early 1990s, the age pension is all they receive – currently paying $1144.40 fortnightly for a single and $1725.20 for a couple – plus associated health care and other concessions.

New research by the Council of Australian Life Insurers (CALI) found more than half of Australians intend to claim the age pension at some point during their retirement, and only 15 per cent say they do not intend to claim any age pension.

CALI CEO Christine Cupitt said retirement could be a complex life stage, especially when mixed with feelings about financial insecurity.

"Moving from earning an income to drawing on investments and retirement savings, including those in bank deposits, can be a big shift both mentally and financially," she said. "Approaching retirement can make people think and worry about the risk of outliving their savings and becoming completely reliant on the age pension."

CALI CEO Christine Cupitt

Ms Cupitt said lifetime income products could give some people peace of mind and everyone's circumstances were different.

"Access to affordable financial advice is so important, to ensure people can make informed decisions about their future," she said.

Here's a guide to retirement income options.

CASH DEPOSITS

Marinis Financial Group CEO Theo Marinis said many retirees were "pretty happy" with bank deposits.

"They know there's a $250,000 government guarantee, they feel comfortable with money in the bank," he said. "It depends on what it's there for. Is it your buffer or is it part of your investment portfolio?"

Too many bank deposits can mean too much tax, although advisers often recommend people keep two or three years of income needs in the safety of cash, then invest the rest in a diversified portfolio of assets aimed at going the distance.

ACCOUNT-BASED PENSIONS

These are pensions formed from rolling over your superannuation savings, and they come with the best tax benefits available to retirees: zero tax on income, capital gains and withdrawals for most people. Tribeca Financial CEO Ryan Watson said the "very favourable" tax rules were why a majority of people switched their money from super to these products when retiring.

Typical superannuation accounts, known as accumulation accounts, still must pay tax of 15 per cent on earnings. "In terms of an ideal place to hold your money in retirement, it really is hard to go past the account-based pension environment," Mr Watson said.

"The other question to consider is how should the money then be invested? A passive diversified investment portfolio across both growth and defensive assets is generally a good place to start, in consideration of your need for pension payments and the potential for lump sum withdrawals."

Despite the bad press that superannuation policies and changes often receive, there are generous limits for retirees. If you retire after age 60 you can now put $1.9m in an account-based pension and pay zero tax on its earnings or capital gains.

"Load up super as much as you can," Mr Marinis said.

"Try to keep yourself tax-free so you get to keep more of your returns."

> "Approaching retirement can make people worry about the risk of outliving their savings

LEAVING IT IN SUPER

Some retirees don't switch their super to an account-based pension, and this can be costly.

It's often because of a lack of understanding or advice, and retirees don't realise that the tax-free status is only for their pension, not their existing superannuation account, which still pays 15 per cent tax on investment earnings.

Mr Marinis said for someone with $100,000 in super, switching to an account-based pension could deliver them an extra $900 annually.

"Why keep paying 15 per cent tax on earnings when you can start a pension and pay zero tax?" he said.

"You don't need advice to do it. Just go to your super fund and say, 'I want to start an account-based pension.'"

If you're rich enough to have more than $1.9m in superannuation savings, you can leave the rest in your existing super fund – at least for now, with the Albanese government planning higher taxes for super balances above $3m.

SHARES

Many retirees have held direct shares for decades, and enjoy their continually rising dividend payments, with the big four banks among the most popular choices.

Others hold shares within self-managed superannuation funds or other superannuation pensions, and get extra financial benefits from the 30c-in-the-dollar tax credits attached to most Australian company dividends.

This tax strategy supercharges income returns from shares, although it can always be changed by governments. However, that's

Inflation, interest rates and silly government games

Anthony Keane

The most surprising thing about last week's Australian Bureau of Statistics inflation figures was not that annual CPI had fallen back under 3 per cent – a huge drop from that horror December 2022 number of 8.4 per cent.

It was not that the Reserve Bank of Australia looks no closer to cutting interest rates despite the US, Europe, Britain, Canada and other places pushing out rate cuts.

For me, the most surprising factor of the monthly Consumer Price Index Indicator data was the huge impact government handouts have had on official inflation. State-based electricity rebates combined with the federal government's $75 quarterly electricity bill discounts – for everybody – to push electricity prices down 17.9 per cent in the year to August 2024.

When Treasurer Jim Chalmers announced the $300 annual electricity credits in his budget earlier this year, he seemed pleased with himself that the policy would push down official inflation.

And it has. A 17.9 per cent fall in one CPI component will always bring down the overall annual inflation figure.

The big problem is that the Reserve Bank of Australia and economists see right through this government-engineered inflation number.

For starters, RBA governor Michele Bullock and her board don't focus on the headline inflation figure when deciding to raise or cut interest rates. They use the "trimmed mean" measure of inflation, which at 3.4 per cent is still above the RBA's 2-3 per cent target.

Ms Bullock reiterated last week that the cash rate is the only tool the RBA has to impact inflation. It raises the cash rate to lower CPI by reducing consumer spending and overall demand in the economy, as it has done with 13 rate rises since May 2022.

Conversely, cutting interest rates – which many countries are now doing – aims to support spending and inflation.

And it's clear that governments cannot try to trick the RBA by lowering inflation artificially. Unless the federal government continues spending billions of bucks annually on recurring electricity bill credits, their removal will eventually send electricity prices higher.

It's silly to hear the government complaining that it is working to lower inflation when it is clearly pumping extra money into the economy, which fuels demand and inevitably higher inflation.

It's even sillier to hear the Greens holding the Albanese government to ransom by refusing to support other legislation unless the government forces the independent RBA the cut rates. To quote a former Labor prime minister, fair shake of the sauce bottle, mate!

All this government and RBA argy bargy is a sideshow to the real problems facing households: mortgage repayments up 60-plus per cent in 2½ years, surging rents and living costs, and expensive loans and other bills that have smashed business owners.

The good news for borrowers is rate cuts are coming, albeit not as fast as in the US and elsewhere, where inflation is much lower.

Most economists believe RBA rate cuts should start in the first few months of 2025, with several pencilled in for next year. Just like we imported higher inflation amid global supply squeezes following the pandemic, we should import lower global inflation too.

Our relatively high interest rates keep the Aussie dollar strong, which also puts downward pressure on inflation and interest rates.

Borrowers – both business and households – just need to get through the next few months before long-awaited relief arrives.

Scott Pape is on leave

unlikely in the short term, because previous Labor plans to change the taxation of franking credits was seen as a key reason why they lost the 2019 federal election.

Shares have a lot more volatility than conservative investments such as cash, bonds and other fixed interest, so advisers generally do not recommend retirees hold 100 per cent of their wealth there.

PROPERTY

Many retirees are landlords, living off the rents they receive from tenants, although managing an investment property may be tricky if there is still a sizeable mortgage attached.

Other seniors store wealth in their own home, which is arguably the best tax-free investment that any retiree can have. It also doesn't count in the Centrelink assets test. However, your own home does not deliver income, Tribeca's Mr Watson said.

"In retirement, generating an income stream is a key consideration when it comes to investing," he said.

"Therefore, storing your wealth in your family home doesn't help meet this key goal in retirement.

"You want your money to be invested in income-generating assets and have an element of it that is liquid, and can be accessed in lump sum in case of an emergency."

However, Mr Marinis said retirees with enough wealth elsewhere could get bigger tax benefits if they "buy a better house".

"If you have got excess money, you may as well live in a really nice house," he said. "Any gains you make on that house will be CGT-free."

INSURANCE BONDS

Also called investment bonds, these are tax-paid investments that can be used strategically by retirees on higher incomes. They can offer tax, asset protection and estate planning benefits, and can invest your money across a wide range of assets.

"You can put excess money into the insurance bond so it's only taxed at 30 rather than 34 per cent," Mr Marinis said. "If you pass away it goes to your estate tax-free. Whether it's superannuation pension, investment account or an insurance bond, you can invest it identically. Put it in the correct structure to mitigate tax."

INCOME FOR LIFE

Lifetime income products such as annuities and lifetime pensions give people a regular income in retirement, helping prevent people from running out of retirement savings, with only a portion assessable in Centrelink's assets test. They have surged in popularity recently, with independent research finding sales jumped 220 per cent last year to almost $1.5bn.

People previously avoided annuity products because many kept your money if you died early, but today's products are more flexible, can revert to a spouse after you pass away and can have a residual capital value that goes to your estate once you die.

Annuity provider Challenger's head of retirement income, Aaron Minney, said lifetime annuities worked differently to other investments because they converted capital to income. "There are no explicit fees," he said.

"The costs are rolled up into the income payments provided. As at 23 September, a 65-year-old male would get paid $4938 in the first year for a $100,000 investment. This income will increase in line with the CPI every year and they have access to some of the capital up to age 84, and a full death benefit of $100,000 up to age 74."

Mr Minney said having an annuity was only part of the retirement puzzle.

"We see advisers and retirees typically allocating 20 to 30 per cent of their capital to a product like an inflation-linked, lifetime annuity," he said.

"Knowing you have an income for life gives retirees the confidence to enjoy their lifestyle in early years of retirement, while they are well enough to have experiences like travel. Without the security of a lifetime income stream, we often see retirees underspending, no matter the size of their super balance, due to the fear of running out."

TERM ANNUITIES

Term annuities provide guaranteed income for a pre-agreed term such as one, three or 10 years. There are a range of investment options available.

Mr Watson said annuities "certainly have a time and place" depending on a person's risk appetite and desire for certainty of investment returns.

Mr Marinis said annuities had received a lot of recent media coverage but he did not use them for clients regularly, usually only for "really, really conservative people" or when it could improve a person's Centrelink position. "They have a place, but it's not as much as annuity providers would tell you," he said.

Ins and outs of capital gains tax avoidance

Money Man

Brenton Miegel

I have an investment property that I have been paying off for 22 years. If I move into the property, does the CGT stop if I make it my primary residence? Does any CGT still exist if I were to sell, say, five or 10 years later? And further, if I don't sell and have made it my primary residence and the house is then inherited, do the children incur any past CGT if they sell? And what is the formula?

Moving into an investment property to make it your primary place of residence does not abdicate any potential capital gains tax (CGT). It will depend on how long the property is your primary place of residence as to how the capital gains tax may be calculated.

To use your example, given the property has been an investment for 22 years, you would need to live in the property as a primary residence for 22 years to have only 50 per cent of the capital gain assessable for CGT purposes.

If it is your primary residence and your children inherit the house, then this CGT implications would continue until disposal of the property. When calculating CGT (very broadly) you take the purchase price from the sale price to give you a gross capital gain.

You then divide this figure by two given the asset has been held for more than 12 months to get the net capital gain. If the asset is held in joint names the net capital gain would be split between the two investors.

I always recommend you speak with your accountant, or a licensed tax adviser prior to selling any asset where there may be CGT implications to understand the potential cost in each individual circumstance.

Does receiving an inheritance of approximately $500,000 affect my age pension?

The receipt of any inheritance of the magnitude you inquire about is likely to have a significant impact on any age pension income support you currently receive.

I would propose that if you are a single person, an inheritance of $500,000 is likely to put you over the asset test threshold and potentially preclude you from continuing to receive any age pension income support.

If you are a member of a couple, the receipt of $500,000 would see you lose approximately $39,000 of annual income support.

This is because for every $100,000 you receive you lose $7800 per annum in age pension income support.

There are limited investment strategies available to you to minimise this impact, and it would be appropriate to meet with a professional financial planner to discuss these if you are seeking advice of this nature.

Remember too that the deprivation rules would apply should you want to gift some of any inheritance to family members.

EMAIL YOUR QUESTIONS TO SUNDAYMONEY MAN@NEWS.COM.AU

Brenton is a director and an authorised representative of Goldsborough Financial Services Limited. His advice should be considered as an opinion. Readers should consider engaging their own personal financial adviser. Questions and answers may have been edited for length.

SHARE tips

Andrew Eddy
Morgans

BUY

Light & Wonder (LNW)
Recent news of litigation over L&W's Dragon Train game, leading to a stock sell-off this week, provides an opportunity to buy a growing gaming business.

Regis Resources (RRL)
With a very strong gold price, mid-cap gold equities have decoupled from the price of gold, and Regis has excellent upside potential if the gap is narrowed.

HOLD

Johns Lyng (JLG)
It is well-placed to benefit from a growing share of insurance, building repair and restoration activity in Australia and the US, and ongoing market consolidation.

Computershare (CPU)
While interest rate leverage is reducing, this is a quality business that has delivered excellent returns and consistent growth over time.

SELL

Commonwealth Bank of Australia (CBA)
Despite having the best financial metrics among its peers, CBA continues to be the most expensive, and the medium-term returns look really compressed.

Macquarie Group (MQG)
A quality franchise, but the recent strength in its share price is arguably unjustified given the earnings outlook hasn't significantly increased and market deals remain patchy.

Dylan Evans
Catapult Wealth

BUY

Steadfast Group (SDF)
Received poor press recently amid allegations it misled strata customers by not disclosing cheaper insurance options. This is an issue, but it represents a fraction of the overall business, so the impact should be limited.

Lynas (LYC)
Its annual result included a major fall in earnings. Looking past this headline shows a positive story with increased reserves and completion of the Mt Weld mine expansion.

HOLD

Wesfarmers (WES)
Retail has been a challenging environment, but Bunnings is one of the most reliable in this space with little competition.

Stockland (SGP)
Stockland's residential development arm is attractive, with potential for expansion to meet the need for increased housing and the government's national housing goal.

SELL

Metcash (MTS)
The business has improved but is still a risky proposition compared with peers. Slim margins are under constant pressure from Bunnings, Coles and Woolworths.

Mineral Resources (MIN)
Falling lithium and iron ore prices are combining with high debt levels to squeeze cash flow, for a risky situation.

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