Dear Friends

What the GFC + COVID-19 has taught me … so far

(A message for all our clients)

- Our portfolios will recover over time, just as they did after the Global Financial Crisis (GFC) 12 years ago.
- The Marinis (Cash) Buffer worked then, as it will now; it will get all of us through this current shock and allow us to recover financially.

For our clients who are contributing to super:

Your salary sacrifice and personal Concessional Contributions continue to attract the same tax benefits, however, you are now buying assets at a discount to what they were in late February, before the markets corrected. When investment markets rebound, the value of your new, discount priced investment units will rise – along with the value of assets held prior to the correction!

For our clients in pension phase:

Some good news: Your Marinis Buffer means you do not have to reduce your pensions – at all.

However, due to a recent rule change, if you do not currently require the same level of income, you have the option to reduce your Account Based Pension (ABP) income to half the normal government mandated minimum (starting at 4% pa, and increasing with age).

A case study:

You may remember one of my more colourful clients – during the GFC he changed his pension payment arrangements when the Government also gave us this opportunity. For the purpose of previous eGrow case studies, he referred to himself as “Billy the Goose”. Click here to read the full eGrow about “*Billy the Goose”.*

Billy, then in his 60s, a home owner, still contributing to his super, and taking the minimum allowable level of pension income, was receiving more than he wanted to spend from his balance of approximately $2 million in pension phase (part of his total balance of approximately $3 million invested).Therefore, he took up the option to reduce his pension income and continued to contribute to super, whilst still drawing a comfortable pension.

The impact of this decision effectively supercharged Billy’s retirement funds. His total investments more than doubled from their pre GFC lows to their high point earlier this year – where on paper, they were then worth around $6.1m. At the time of writing, Billy (now aged 70) holds a portfolio which is theoretically down by $0.5 million (but at around $5.6 million it is still around double what it was in the midst of the GFC). Bear in mind that he has (on average) drawn down a tax free $90,000 from his ABP each year since then.

Billy’s Marinis Buffer protected him through the GFC, so he didn’t need to sell good quality assets at bargain basement prices. He used his cash portion to tide him over – and now he finds himself in the ‘Magic Pudding’ position of generating more than enough to live on, whilst still growing his assets.

For our clients in pension phase, who also receive a part Centrelink pension:

One of the great benefits of being Australian is that after a lifetime of contributing, working hard and paying tax, many of us are entitled to a Centrelink pension. But as with any government payment, it comes with ‘red tape’.

The great news is that recently the government has relaxed the rules around Deeming, providing some relief from the Income Test. As a result, in most cases Centrelink pensions will automatically increase over time.

In addition, for those Centrelink clients whose Age Pension payments are subject to the Assets Test, due to the recent temporary decline in the balance of your ABP, you will receive a Centrelink Pension increase. The increase will flow through automatically in August 2020 via half-yearly updates (due each February and August) from pension fund providers.

The increase to your Centrelink pension will take effect soon as the automatic update is actioned, easing the cashflow requirements on your ABP, and allowing greater time for your balance to recover (as experience tells us it will).

In summary, the Government has created a Centrelink 'shock absorber' (over and above the Marinis Buffer) by reducing the deeming rate and halving the required drawdown, just as it did during the GFC recovery.

Remember too, that the Marinis Buffer within your ABP portfolio means that you don't need to change your ABP income levels if that income is still needed to meet your current retirement expenses.

Some frustrating (new) red tape:

Under current rules, **only pensioners themselves, can update Centrelink on significant changes to their asset position.**

This means that Marinis Financial Group is no longer able to update your situation on your behalf. Our past attempts have resulted in updates not being actioned (or even acknowledged) for many months and we have experienced delays, sometimes in excess of six months.

Currently the prospects for improvement are not good. As we are all aware, Centrelink has been swamped by applications from the many Australians who have suddenly found themselves out of work, as businesses close due to the virus lockdown.

Your options are to go to Centrelink **in person** (this option is definitely not recommended in the current health crisis) or you can update your details by **writing** to Centrelink (I recommend you retain a copy of the letter and the date you sent it and email it to us to record it for you). The best option is to update your details via **MyGov**, once the current rush has settled down.

Ideally, Centrelink could bring forward the automatic update from August 2020 to May 2020; you can read my letters to the Prime Minister and other cabinet ministers to request this change here.

How has the Marinis Buffer worked at times like this?

I'm delighted to report that none of my clients during the GFC in 2008/09 were forced to reduce their ABP income at all – Including during the recovery from that crisis in the following years – although some, like Billy, chose to do so. You can access a recent eGrow which explains how the Marinis Buffer works for retirees (both self-funded and part pensioners) here.

For many of you in retirement, economic boom and bust cycles will not be new. We have lived through and survived a lot of financial shocks in our lifetimes and we are generally resilient.

From my perspective, being a financial adviser in boom times would appear to be the most satisfying job in the world – but of course we have no real control over investment markets – just control over how your money is invested.

However, when the economy turns, I believe that is when our clients really begin to appreciate why they employ us!

We are working harder than ever, but even in these stressful times, this is the most rewarding time to be providing you with robust and experienced financial leadership – and we feel privileged to have this role.

As many of you will know, I have always had a boring approach to wealth creation; 'Get Rich Slowly and Stay Rich.' The value of that approach is clear in times like the present.

And one more thing:

Please refer to my most recent InvestSMART contribution here for more on what COVID-19 has taught me… so far.

As always, if I or any of my team can be of further assistance, please do not hesitate to call us on (08) 8130 5130.

Kind Regards,

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