Dear Friends,

Human nature in things financial

Over the last thirty plus years, as a self-styled 'financial psychologist', I've learned a great deal by observing the complexity of human nature, particularly around money. This observation has shown me that people can be irrationally optimistic or pessimistic when it comes to making financial decisions.

I've also learned that an important part of my role is to bring balance and clarity to those decisions.

Insurance, for example, is probably the most 'unloved' financial product ever sold. No one really believes they will need it – and, if they do, the payout is rarely enough.

Sometimes, however, they take advice.

My Melbourne based friend and client Anne didn't realise that her Trauma insurance covered her diagnosis for multiple sclerosis; she was paid-out $220,000. This has meant Anne could give up work between now and retirement and focus on keeping her body as strong as possible. A decade ago, I recommended that Anne and her husband Andrew (who was actually an insurance company executive at the time) take out this policy as part of a package of strategies. Fortunately, they agreed. Not all clients do.

Because of insurance we have been able to help a number of our clients rebuild their lives after the tragic loss of a partner and help couples manage the challenges of a career ending disease. There have also been a lot of conversations with clients who have questioned the value of the insurances* we've recommended.

Money does not fix these life challenges, but it can help soften the blow and provide a way forward in the darkest of days.

Some of my longer-term clients may recall our 'Now Sorted' service. This is a system of packaging all important documents in a fire/water/rodent resistant case, with back-up copies stored electronically. On the death of a loved one, or in times of fire, flood and other disasters, the system is designed to ensure immediate access to all the important material (including wills, title deeds and insurance information) via one location. Only a few people, including Julie and myself, took advantage of the offering. Most preferred the 'shoe box' or typical Aussie "she'll be right" approach. I still think it is a good service to take up.

Whilst keeping calm and rational in difficult times (such as those Australia has experienced this summer) it is also useful to also examine our prejudices against preparing for the worst. We are optimistic people, and despite the tragic events of this summer, we should remain so. Despite not always being consistent with our human nature, caution and conservatism has generally proved to be a prudent approach.

During the next 'personal review' season I will be actively encouraging a conservative approach to investment. As returns have been higher than expected, I may recommend that your portfolios are rebalanced to lock in the investment gains achieved over the last year.

In my experience, many people will want to 'roll the dice' again to see if they can get another year of outstanding results under their belt… this is going to challenge my skills as a financial psychologist, and I am certain that my views may challenge many.

After all, that is what you pay us to do!

Our job is to tell clients what they need to hear (NOT what they want to hear) and to always stick to a disciplined approach to ensure that can continue to 'get rich slowly – and stay rich.'

**Marinis Financial Group elects not to receive payment of commissions for life insurance products, with any commission component rebated to achieve an insurance premium reduction. Where this is not possible, any commission we receive will be offset against our flat dollar advice fee.*

And One More Thing:

I regularly hear from my clients that they wish governments would stop moving the goalposts. I believe that the opposition's proposed changes to franking credits was one of the reasons they lost the last election – investors and retirees are tired of all the tinkering.

If you would like to read my letter to Scott Morrison/Josh Frydenberg on the subject of maintaining stability and confidence within our superannuation system, please click **HERE** (Letter to the Hon Scott Morrison) and **HERE** (Letter to the Hon Josh Frydenberg).

And for a look at my recent media contributions, please visit our website www.marinisgroup.com.au or click **HERE.**

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,

Theo Marinis B.A., B.Ec., CPA., FPA®
Financial Strategist
Authorised Representative

GROW @ Marinis

PROFESSIONAL PRACTICE
FINANCIAL PLANNING ASSOCIATION of AUSTRALIA

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The Hon Scott Morrison
Parliament House
Canberra ACT 2600

14th February 2020

Dear Mr Morrison

Maintaining stability in super

In drafting this letter, I am cognisant of the complex issues being navigated by government on multiple fronts, not the least of which is the very real challenge to the budget surplus. In this setting, I am also aware that the subject matter I raise may seem peripheral to your concerns at this time.

Nevertheless, it is in the context of current budgetary considerations that I highlight the importance of maintaining a stable retirement savings environment.

Recent history dictates that whenever there are budget savings to be found, governments of both political persuasions have looked to make changes to the superannuation taxation system. This constant tinkering has already undermined the confidence of most Australians.

As well as playing the vital role of providing dignity in retirement, having adequate superannuation can actually remove a burden from the federal budget, bringing benefits to the economy in the form of increased retirement spending.

I would, therefore urge you to consider these benefits before considering further super changes.

Australia without superannuation would be a very different and poorer nation, characterised by struggling retirees and the inevitable federal budget blow-outs.

My recent Media Release dated 10 January 2020 is enclosed.

Sincerely,

distinctly different

Theo Marinis B.A., B.Ec., CPA., CFP®
Financial Strategist
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Encl.

Media Release 105 **10th January 2020**

What would Australia be like without Super

…or why I love the Christmas movie "It's a (Super) Wonderful Life!"

Superannuation exists for two reasons, in my view – to provide dignity in old age and to reduce pressure on the federal budget. Which of these is more important is a matter of contention (and here I need to disclose that I fall into the dignity camp).

Australia has almost $3 trillion in super[1] making us the fourth largest holders of pension funds in the world. However, there is increasing noise that our super system is too generous (and therefore, too costly in terms of incentives offered to long-term savers) and should be wound back.

What the anti-super rabble forget is that in 'pre-retirement savings system Australia' there were very few older people living in financial dignity. Those worn-out cardigans and the back yard 'mini-farm' memories of your grandparents did not mean they were the first hipsters!

According to Q Super (based on ABS figures), the average superannuation balance for people aged 15 and over in 2015/16 was $158,700 for men and $105,400 for women. In just two years, this has increased to $168,500 for men and $121,300 for women[2]. If this trend continues, there may be even more older people living in financial dignity in years to come.

More importantly we should consider what these funds can mean in retirement. The research from Q Super and the ABS also showed that for people over 75, the average superannuation balances are $376,200 for men and $270,300 for women[2]. When we debate the generosity of our super system, one argument to consider is what benefit this (approximately) $650,000 in retirement savings delivers to an 'over 75' home owning couple (and remember, these statistics translate into real people – our Granny, Nonna, Papou or Opa). These savings can, in fact, deliver dignity and some agency in how they live their lives.

Despite the "lies, damn lies and statistics" sprouted by the anti-super brigade, superannuation also already delivers very significant age pension savings to the government. As average superannuation balances increase, we can only expect these savings to the government to increase.

Based on the combined super balance of the 75-year-old couple mentioned above (and say $50,000 in other assets excluding their home) under Centrelink's asset test, their combined Age Pension reduction, and therefore, the savings to the social security system, would be approximately $23,830 pa.

Yet by drawing the prescribed annual minimum of 6% from an Account Based Pension (although they are not limited to this minimum amount) they will be self-funding annually, $39,000 of their retirement income. Add to this figure around $12,752 pa in combined Age Pensions, and the system has delivered them $51,752 pa in retirement income. Hardly a gravy train, yet still a retirement with dignity.

If their super savings are drawn down to around $340,000 (in reality most people are conservative, and do not usually draw more than the minimum income to preserve their capital for as long as possible) under the present rules, the couple in this example would then be entitled to a full combined Age Pension of around $36,600 pa.

This combination of super and full age pension will give that couple an annual base net income of around $57,000 tax free (the equivalent of a gross annual wage of $72,500) which is a fantastic backstop for those who have paid tax throughout their lives, fought for our freedom and built our infrastructure.

Bear in mind too, every day, the Australian super pool is increasing (being tipped to hit $10 trillion over the next twenty years) and the opportunity for a massive change is upon us. Within two decades, more than 90% of the working population will have contributed to super for their entire working lives. In another decade after that, contributions will have paid been at the rate 12% of annual wages – contrast that with those of us my age who, in 1988, started contributing at just 3.0% of their annual salary!

Driving this inexorable growth in long-term savings, there are at present a range of incentives to help Australians achieve their maximum allowable $1.6 million individual Transfer Balance Cap (TBC).

Yet despite the incentives, the achievement of this target is virtually impossible for the average wage earner. The false argument against super is that we, as a nation, are too generous in foregoing tax in exchange for long term savings – when in reality, it is only the wealthy who are really able to take the maximum advantage. The 75-year-old couple we considered earlier, with just over $600,000 in long term savings is not rich, and they are largely self-funding at this stage.

When I left Centrelink in 1997, around 94% of the Australian population over 65 were receiving the Age Pension. The remaining six per cent of self-funded retirees were generally former politicians, bank and insurance executives, or public servants. Today, only 66% of older Australians receive the age pension[3] and many of them are only part pensioners, as per the example above.

Imagine the liability that would exist now if super did not exist.

By not having to pay full Age Pensions for our retirees, our current super system has the potential to deliver billions of dollars in savings to the Federal Budget. In addition, it has created a pool of cashed up citizens who are capable and to some extent, prepared to 'SKI' (Spend the Kids Inheritances) by travelling, eating out, being entertained and buying better aged care experiences. Rather than this portion of the population being an economic burden on society, they are currently (and will continue to be) a major stimulator of growth.

In addition to the economic benefits, this group has revolutionised the cost of long-term savings (and therefore the entire financial services industry) by driving costs down every year.

The super revolution has also created massive employment in the financial services industry, with significant technological (and policy) innovation – primarily because in the 1980s Paul Keating and Bill Kelty imagined a future where workers could retire with the same benefits as public servants. A growing pool of super savings now drives Australian funds to invest more in overseas assets, with the resultant benefits of diversification and economic strength.

For the future, as approximately five million Baby Boomers eventually expire, the knock-on to the next generation will also see an unprecedented tsunami of wealth transferred to Gen X, Gen Y and some Millennials. In addition, there will be potential for a budget 'boon' as the optional and misleadingly named 'Death Benefits Tax' is collected (note that this tax liability <u>is</u> optional because it can be eliminated with careful planning via 'cash out and re-contribution' strategies).

We are living longer – and better. Who wants to be old, sick, and poor?

The policy aim should be for each individual to achieve their maximum (indexed) $1.6 million TBC, which will eventually mean that very few Australians will require, or in fact, be eligible for government support in old age.

In today's dollars, this $1.6 million per person, at a conservative 5.0% pa return (the actual 30-year rate of return on a balanced portfolio has been around 7.8% pa) will provide couples with annual tax-free spending power of $160,000, a very dignified retirement and the increased spending power to stimulate substantial employment growth.

Australia without superannuation would be a very different and much poorer nation, characterised by federal budget blow-outs and struggling retirees.

Perhaps we all need to go back and re-watch Frank Cappra's "It's a Wonderful Life!" (even if you only just viewed it at Christmas time) to realise, like George Bailey in that classic movie… how fortunate we are.

Reference sources: Current as at 26 November 2019[1]

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