RESETTING YOUR RETIREMENT AFTER COVID-19

Full Time Lives

VIRIDIAN ADVISORY

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Introduction

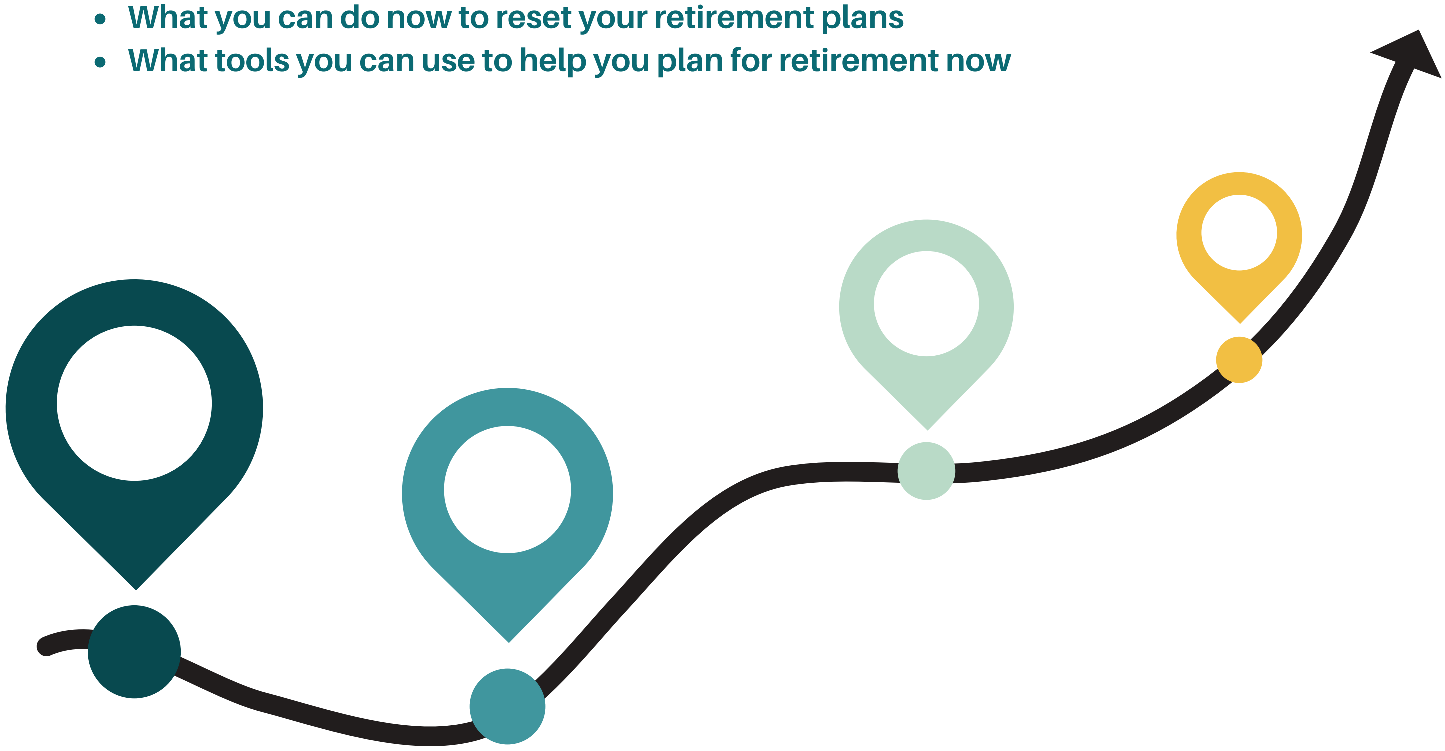
The coronavirus (COVID-19) pandemic has affected us all in so many ways. The world that we live in has changed so quickly and it's only natural that you may feel anxious, isolated or upset.
If you've been planning for retirement, you may also be concerned about the economic impact of the pandemic on your investments, income and cashflow.

Your concerns are completely valid and you may continue to feel upset, disappointed or frustrated for some time, but there's no need to panic because you're not alone.

In this guide we provide you with tips to help you reset your retirement now. We'll show you where to start and what things you may need to consider as you revise or think about creating a new plan for your retirement.

In this guide, we will explain:

- **How your retirement plans may have been impacted**
- **What you can do now to reset your retirement plans**
- **What tools you can use to help you plan for retirement now**

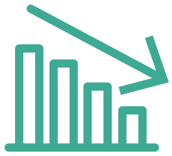


PART 1:

HOW COVID-19 MAY HAVE IMPACTED YOUR RETIREMENT PLANS

So much has changed in all of our lives over the past few weeks and months. We've gone from being free to do what we please to having enforced isolation and social distancing. There have also been many changes that have affected our economy and financial markets, and may have impacted your own personal income, cashflow or investments.

This may affect your retirement plans. In particular:



You may have less superannuation than you did before

You may be unable to save or invest as much money

You may not be able to retire when you want to

You may retire with less money than you expected to

There are many things that may have caused this. In the next section, we'll explore some of these in more detail.

1 VOLATILE FINANCIAL MARKETS

Financial Markets like the Australian Stock Exchange (ASX) have been particularly volatile since the beginning of March 2020, partly because of COVID-19.

Between March 2 and May 6, the Australian ASX 200 index dropped by 15.4%. Of course, these effects are not limited to Australia – the COVID-19 pandemic has affected financial markets across the world. For example, the USA's S&P 500 index also fell by 7.1% over a similar period.

If you have money invested in the share market directly then the value of this has probably reduced significantly as a result.

S&P/ASX 200 Inflection Points

As you can see from this chart, the value of shares fluctuates frequently. Even when there's a significant decline like we saw in March this year, and during the global financial crisis of 2008, you can see that markets do eventually recover. The value of your shares may be fluctuating more than usual at the moment because the market is especially volatile right now. That's because it's uncertain how long the pandemic will continue to affect our daily lives and business.

Source: Bloomberg, Infinity Asset Management. PE ratios are forward PE ratios. Past performance is not a reliable indicator for future performance.

Should a volatile market change your investment strategy?

If you have shares, you may be wondering if you need to actively buy and sell these more frequently to match the fluctuations in price. Generally, it's very difficult to get the timing right when purchasing shares. It's often better to hold on to shares through a volatile period then trying to pick the best time to buy or sell. But this decision will depend on your individual situation.

Similarly, it's not possible to predict whether shares will continue to go down, either. What's right for you will depend on your long-term objectives and what level of risk you're comfortable with. We talk more about this in a later section of this guide.

Declining financial markets will also probably have affected your superannuation balance. This is because the value of your superannuation account depends on the assets that your fund has chosen to invest in and how they're performing. These assets probably include shares which have been affected by market volatility.

If your superannuation has reduced by 20%, or even 10%, it can make a significant difference to the amount you will have to live on in retirement. Of course, the share market is likely to increase again, but how long this will take is uncertain.

When setting up your account you may have chosen an investment option, like a balanced or growth investment option. Of course no option can avoid fluctuations in the stock markets completely, unless you invest entirely in cash.

2 YOU MAY BE EARNING LESS

If you are working, you may have been stood down, had your hours reduced temporarily or even been made redundant due to COVID-19. If this is the case, you're not alone.

Data from the Australia Bureau of Statistics suggests that close to one million Australians have lost their jobs since social distancing measures were first introduced in March 2020.

More Australians have also had their hours reduced, or have been stood down completely. If you own your business you may also have seen a significant reduction in your revenue and this may have a flow on effect to you personally.

If this has happened to you, then you are probably earning significantly less than you had expected to this year. This may impact not only how much you have to live on, but also how much money you and your employer are able to contribute to your superannuation, and any additional investments you may have.

When you put less money into your superannuation or invest less, this directly affects the returns that you can make from those assets. In the short term this may just be a small amount, but over a longer period of time this can have a significant impact on the amount of money you have to retire on.

3 GOVERNMENT OR BUSINESS RELIEF MAY AFFECT YOUR FUTURE CASHFLOW

The Australian Government and businesses moved quite quickly to offer a range of financial relief to people who were impacted by the pandemic. As a result you may have accessed a range of relief including:

Deferring bank, rental and other bill payments

Many banks, landlords and businesses allowed their customers to defer payments – including mortgages, credit cards, rent and utility bills – for a period of time during the pandemic. This doesn't mean that you don't have to make the payment; in most situations it will mean you need to make the payment at a later date, or that the payment will be added to what you owe so the balance of your loan will increase. This is due to the interest and fees that you would have otherwise been paying during the time your payments were deferred.

In some cases you may need to make larger repayments at a later date, or you may be paying off your loan for a longer period of time than you may have originally planned. You will need to account for these extra repayments in your revised retirement plan.

Deferring tax payments or opting for a tax payment plan

The Australian Taxation Office has a range of systems in place to help people repay their tax debts during periods of financial hardship. If you have deferred payments during the pandemic, it's important to be aware whether these are still outstanding, and what the interest payable on these may be. If you have commenced a payment plan, you will need to consider:

- How many repayments you have remaining in your plan; and
- What the total amount payable will be (including interest)

These will all need to be factored into your retirement plan. If you are unsure of your tax obligations, you can contact the ATO on1800 806 218.

Accessing your superannuation early

During the pandemic, the Federal Government has given some people the option to access up to $20,000 of their superannuation early to help them cope financially.

If you have accessed your super early, you will already be aware of the affect this has had on your overall superannuation balance now. But this will also affect the amount of superannuation you have when you retire. You will need to take this into account in your retirement plan and think about how you can make up some of the lost ground.

Lucas is 35 years old and currently earns $75,000 per year. Due to COVID-19 he withdrew $20,000 from his superannuation balance of $80,000.

Taking into consideration the projected growth of his fund over time, he can expect to have $39,000 less at retirement than he would had if he hadn't withdrawn $20,000.

*Based on MoneySmart superannuation calculator

4 THE PROPERTY MARKET HAS BEEN AFFECTED

If you have invested in property, either by owning a rental property or through your superannuation fund, the value of your property may be affected. Some economists have estimated that house prices may fall by up to 10% in the next six months. There are several ways that your investments may be impacted:

- you may be experiencing cashflow issues if you have allowed your tenants to defer their rental payments;
- the value of your rental property may have declined. This may only impact you if you intend on selling the property soon; or
- You may earn less income in the future if the rental value of your property decreases for a prolonged period of time.

While the first issue is likely to be short term, it's unclear how long lower property and rental values may continue for, which means you may need to take this into account in your retirement plan.

Should you sell your property now?

For many people, selling one or more properties is a fundamental part of financing retirement. This means that there are now some extra questions to consider.

For example:

- Can you postpone selling for a period of time to see if you can recover losses?
- Can you change your current asset allocation to make sure you have enough cash flow until you are able to sell?
- Are you buying another property that may potentially be less expensive?

5 YOU MAY HAVE EXTRA MEDICAL COSTS

Whether you have contracted COVID-19, or suffered other medical conditions and incurred some unexpected medical costs, it's possible that these may have financial implications for you now and in the future. If these have affected your savings or income, then they may also need to be taken into account when reviewing your cashflow and income projections.

You may also have had to defer treatment for other conditions (e.g. elective surgeries) during the pandemic. It's important to be aware of the costs of these and how they might affect your retirement budget.

Finally, it's very important to be aware of any effects of the pandemic on your mental health. Any period of transition, anxiety, stress or grief can have lasting implications. Depending on your preferences for treatment, this may be something you need to factor in.

PART 2:

WHAT YOU CAN DO NOW TO RESET YOUR RETIREMENT

REVIEW YOUR GOALS AND OBJECTIVES

If you have been impacted by any of the five points in the previous section, it's a good idea to review your retirement plan.

The first step in any retirement plan has nothing to do with money. It involves looking at what your goals and objectives are in retirement. Do you want to travel? Spend more time with grandkids? Help your children buy a home? Renovate your home?

You may have already answered these questions when you first set out your roadmap to retirement, but given everything that's happened in the past few months your answers may be different.

If there are some things that have changed, these may have an impact on your retirement plans. For example, perhaps:

- You want to take extra precautions to make sure your and your family's health is protected
- Your plans for future travel may have changed, and this has affected what you want to do in your retirement
- You want to reassess what you can afford to do in retirement if your retirement savings have been reduced.

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At Viridian, our financial advisors go through what we call a whiteboard process with our clients that helps them review what's important to them and their families.

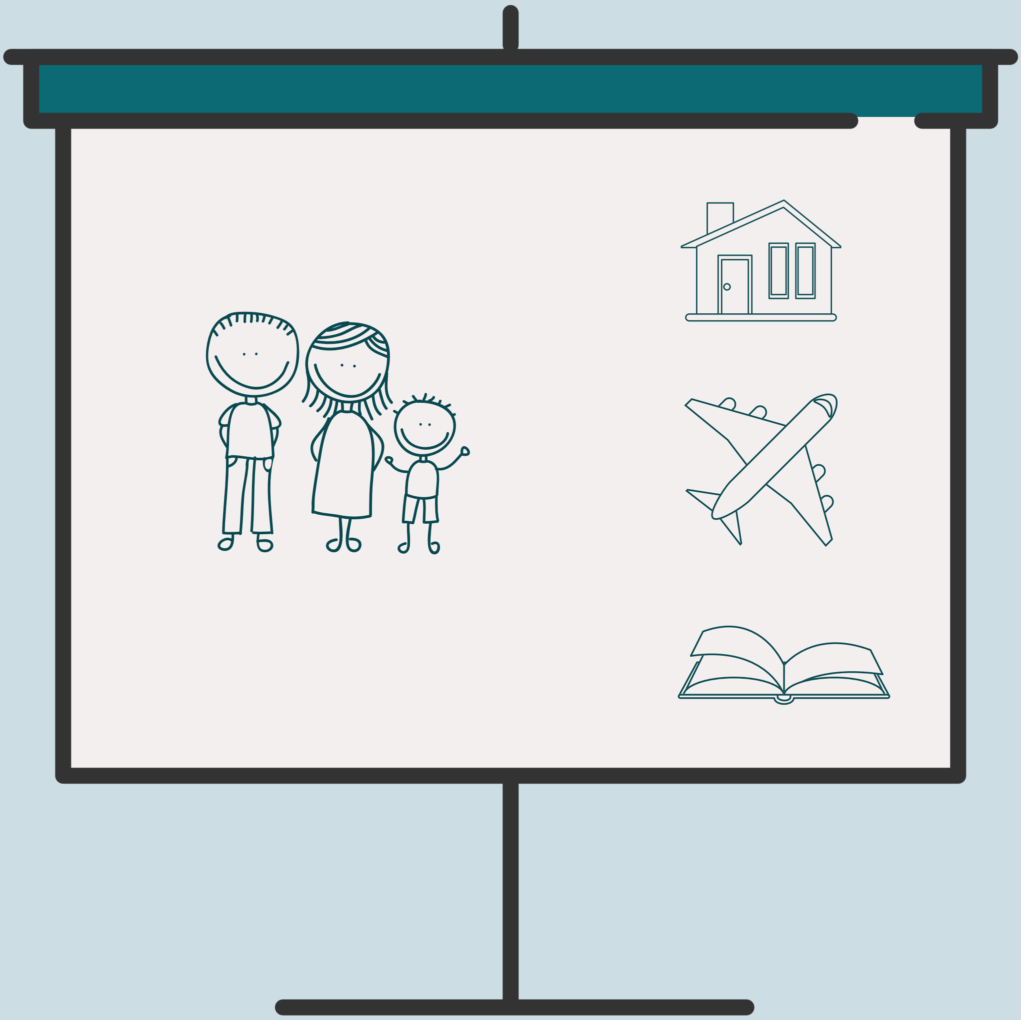
Through this process, we look at:

- who is important to you, whether this has changed and how these people may affect your retirement plans
- what your financial position is now and what protections you have in place
- what your aspirations are for retirement and if these have changed

The process explores what matters most to you, what makes you tick and most importantly how you feel about your position, your experiences and the issues you're facing.

Understanding what you think and how you feel about your family, your structures, your investments and most importantly your aspirations, should ultimately lead to sound long-term decisions.

This may be a good time to go through the process.



Natalie Yan-Chatonsky, CEO of Full Time Lives, shared some tips to help you review your priorities:

1 Explore what gives you a good sense of purpose

As you prepare to re-emerge from ISO and plan your next chapter, review the priorities in your life today. Other than the big considerations such as how you will look after your health, care for your loved ones and manage your finances, also review what activities that contribute a meaningful lifestyle and what makes you feel valued. The richness of your day-to-day is just as important as your long term plans. When you have clarity around what gives you a sense of purpose today, it is easier to shape the next chapter.

2 Plan for a multi-stage life

Now that we are living longer healthier lives than previous generations, the three traditional distinct stages life of 'study, work and retirement' are no longer relevant or sustainable. Rather than waiting to lead a life of leisure for potentially decades after one long career, take stock of where the world and your industry is going when considering your career transition. Career breaks are a great time to rejuvenate, re-energise and re-skill in areas that leverage your skills, your passion and what the new world needs and values.

3 Be playful and experiment

Whilst it might be counterintuitive during times of uncertainty to take risks, reduce the bigger risk of making the wrong lifestyle decision down the track. Create small experiments and projects to trial the activities and lifestyle and do the things that you have always dreamed of doing 'when I have time' *now.* You might be surprised by the result of taking small steps, driving you closer to where you want to be. It gives you an opportunity to pivot if it doesn't turn out to be how you expected, at no great loss.

REVIEW YOUR INCOME AND EXPENSES

Your income and expenses may have changed due to COVID-19.

These may have changed significantly, especially if you've lost your job or been stood down. Your expenses may have increased – or perhaps they've decreased, because you're not going out as much.

If you've taken advantage of some of the relief offered by the government or businesses – like deferral of rent, your mortgage or utility bills – you will need to pay for these later. In some circumstances, you may need to include these in your expenses later this year or repayments may be added to your loan which means you may be repaying your loan for longer.

If you've already retired, may also be able to voluntarily reduce your pension payments. The government has halved the minimum amount you need to withdraw from your pension for the 2020 and 2021 financial years. While it may be too late to do this for the 2020 financial year, you may want to do this for the next financial year if you can afford to.

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Understand where your money goes

Understand what you spend money on by going through your credit card statements and bank accounts. You may be surprised to find out how much you spend on some things, or that perhaps there are some expenses you're happy to do without.

Regardless of your situation, it's always good to review your income and expenses to make sure that you're still able to meet your financial goals.

REVIEW YOUR CENTRELINK ENTITLEMENTS

3

Many people are not aware of what they're entitled to receive from Centrelink, while others may not realise that they're now entitled to some benefits that they weren't before.

For example, the government has recently introduced some COVID-19 benefits. Social security, veteran income support recipients, family tax benefit recipients and people who have a Pensioner Concession Card or Commonwealth Senior Health Card received an additional $750 in April and are eligible to receive one more additional payment of $750 each in July.

This money can be used to supplement your income or superannuation. If you don't need it personally, you could also use it to help out family members who are struggling, or increase your investments.

Meanwhile, if your income has reduced, or the value of your assets or investments have changed, you may be entitled to some benefits from Centrelink that you weren’t before. For example:

Low Income Health Care Card

Offers additional discounts on things like medical scans.

Commonwealth Seniors Health Card

Offers discounts on medicines and other medical costs.

State-based Seniors Card

Offers a range of discounts on things like public transport, but this may differ depending on the state you live in.

Family Tax Benefit

Gives you additional payments to help with the cost of raising children.

Age Pension

Gives you additional payments if you’re over 66 years of age.

JobSeeker payments

If you’ve been stood down or lost your job you may be eligible for JobSeeker payments.

Do you know what you're entitled to?

It’s not uncommon for people to not be aware of the Centrelink benefits that they’re entitled to. Even if you’re not eligible for a regular payment, being eligible and enrolled for these benefits means you may still receive the additional $1,500 COVID-19 payment in July.

For example, did you know there are two different senior cards?

- The Commonwealth Seniors Health Card
- The state-based Seniors Card

You may be eligible for both cards and be able to access their benefits.

There may also be some opportunities for you to access or increase the Centrelink benefits you’re eligible to receive by restructuring your assets.

Not all assets are treated the same by Centrelink. Depending on your assets and how they're structured, Centrelink may look at them differently when determining whether you're eligible for benefits like the age pension. This means you may be eligible for benefits if you can restructure your assets or if your position has changed in the past few months.

This is quite a complex area to navigate and depends on your personal circumstances, so you may need to speak to someone who understands it to see what you may be eligible for or if you can restructure your assets.

REVIEW YOUR INVESTMENTS

4

The value of some of your assets may have changed as a result of COVID-19.

This may include the value of your:

- Home
- Investment property
- Superannuation
- Shares
- Cash

Depending on your objectives, income, expenses and the benefits you may receive, you may want to change what type of assets you're invested in or how much of each you have. You may want to do this for several reasons, like:

- To help you pay for some expenses that you've deferred
- To make sure you have enough to retire on
- To allow you to restructure your assets to take advantage of tax or Centrelink benefits that you may be entitled to
- To take advantage of potential opportunities in the share or property market

When you're considering changing what you're invested in, you should consider several things including:

- The risk of holding that asset compared to the return;
- How long you plan on holding that investment; and
- What your retirement timeline is.

What does 'Risk v Return' mean?

You may hear people talk about 'risk v return', but what does that actually mean? When it comes to assets or investments, the risk is the possibility that the investment will decrease in value over a period or time. The return is the amount of income or upside that you expect to receive from those assets.

As a general rule, the higher the risk, the higher the possible return. Take something like cash and shares, for example. Cash is generally a low risk asset. You can put it on the bank and receive a fixed return for it, but the return you receive for it is low. In comparison, shares are considered to have a higher risk than cash, but the return that you may receive for them is also potentially higher.

At the moment the Reserve Bank of Australia has a cash rate of 0.25%. Most savings accounts in Australia offer an interest rate of this or lower. This means if you invest $1,000, you will receive $2.50 in interest in a year. This is quite low, but you're guaranteed the return. In comparison, the ASX 200 has averaged a return of 9.27% per annum over the past 27 years. But the market has gone up and down over that time, increasing the risk of that investment and your return in any given year.

When deciding what assets you want to hold, you need to decide how much risk you're willing to take for a particular level of return.

As a result of COVID-19, you may have a different attitude to risk than you did before and may want to review what assets you hold and potentially change them. Depending on what your assets are, it may be easy to change your investment options.

For example, most superannuation accounts allow you to switch between lower risk investments (like Balanced options) and higher risk (like Growth options). It is possible to change your investment option, but it's important to consider timing when you do so. Your financial advisor will be able to explore this option with you.

However, if you'd like to switch from holding property to another type of asset, this may take more time and be more costly. This is because buying and selling property often takes longer and can attract other expenses like stamp duty and agent's fees.

Consolidate your superannuation

While it may seem like a small thing, putting all your superannuation into the same account can help you get ahead. This is because you may be able to accumulate more interest or return on a larger amount of money, and/or reduce the fees that you're paying.

If you're not sure whether you have superannuation in other accounts, you can check. Luckily, super funds are required to report any inactive accounts to the ATO twice a year. If an account in your name hasn't received any contributions or rollovers in the last five years, it will be considered **lost** and the ATO will have a record. You can move the balance of one account into another easily via your MyGov account.

If your fund has been unable to contact you, you may also have **unclaimed** super, particularly if you are over the age of 65. Unclaimed super is superannuation that is eligible to be withdrawn from your fund, and it is also reported to the ATO. You can also apply to claim it via your myGov account.

REVIEW YOUR INVESTMENT STRUCTURES

Depending on the assets you have and your objectives, you may hold them in different ways.

For example, some people have trusts, others have set up self-managed superannuation funds (SMSFs) or have invested in property.

Different structures have different benefits and potentially different tax consequences. Depending on your circumstances, you may be able to make some changes to how your assets are structured to take advantage of this now.

5

Different investment structures offer different opportunities

For example, Ying is 63 years old and planning to retire in two years. She has an investment property that she's thinking of selling. She's not sure whether this is worth doing now because she may not be able to sell it for as much as she could have before COVID-19.

There are several things Ying could consider, including:

- Whether she can move it into her SMSF so that the income from it is tax-free when she retires
- Whether there are any other tax or Centrelink benefits available to her that may make it worthwhile selling the property for a lower price. She may need to speak to a specialist tax advisor to determine this.
- What other investment opportunities are available if she sells the property.

REVIEW YOUR RETIREMENT TIMELINES

If the coronavirus pandemic has put a strain on your finances, unfortunately there will be some compromise on your original plan.

Whether timeframe or lifestyle is more important is entirely up to you – there is no right or wrong answer!

6

There are different ways you can reset your retirement

For example, Bassem is 58 years old and has enjoys a career as an airline pilot. Until March he earned $150,000 a year and held superannuation of $1.2 million but this is now worth $950,000. He was planning on renting in 2025 with $1.5 million.

Unfortunately, he was stood down in March and is now eligible for JobKeeper payments of $1,500 a fortnight for the next six months.

His partner, Amina, owns a small cafe which paid her a salary of $60,000 a year. Unfortunately, her cafe has had to shut down as a result of COVID-19 and she is receiving JobKeeper payments but is putting this back into the business to keep it afloat. They both have a rental property that is fully paid off and usually gives them $350 a week in rent, but they've had to defer that income for six moths for their tenants. They have two children who are no longer dependent on them.

With their shared income and superannuation significantly impacted, Bassem and Amina need to review their timelines for retirement. They have several options that they can review. These include:

- Changing their timelines for retirement. Perhaps they both need to work for a few years longer to meet their retirement goals.
- Reviewing their retirement goals to determine if they can reduce the amount of money they need and retire at the same time as planned
- Determining if they could possibly meet their retirement plans by restructuring their property investments.
- Determining whether they're eligible for any other benefits from Centrelink to help them meet their retirement goals

While there's no easy solution for them, this example shows that there are several different ways that may be able to reset your retirement.

PART 3:

WHAT SHOULD YOU DO NOW?

We understand that this may be a difficult time, but it's important to know that you're not alone. As we've outlined here, there are several things you can do to reset your retirement and put yourself back on track to meeting your objectives.

1 SPEAK TO YOUR FINANCIAL ADVISOR

Your financial advisor is an important resource during these times. They can help you review your goals, objectives and retirement plans. Whether you need detailed advice or just want a sounding board to discuss your options, get in touch.

Viridian's financial advisors are highly experienced, client focused and responsive. We have over 20 offices located across Australian and service over 10,000 clients.

We are a full service advice firm with expertise to help you with:

- Wealth and retirement planning
- Cashflow and income strategies
- Lending and borrowing
- Investment management and portfolio construction

2 REVIEW YOUR ELIGIBILITY WITH CENTRELINK

Some people who receive Centrelink benefits will be entitled to an additional payment of $750 in July. That's why it's important to review your eligibility for Centrelink benefits now.

3 ACCESS TOOLS AND RESOURCES THAT CAN HELP YOU

There are several different resources that you can use to help you. Some useful tools that we suggest you consider include:

- **MoneySmart Super Calculator:** estimate how much you'll have to retire on based on your current situation
- **MoneySmart Budget Planner:** track your income and expenses using a simple, online tool
- **myGov:** the government's portal for accessing Centrelink, the Australian Taxation Office and other government agencies

Some options for mental health support include:

- **Lifeline:** Provides a confidential online chat service (overnight), a crisis line and an SMS number for text messages
- **Open Arms:** If you're a current or former member of the Australian Defence Force (or there's a member in your family), you can access this nationally accredited mental health service via the phone, 24/7.
- **MindSpot:** A free digital service for adults in Australia, providing mental health support to those affected by the COVID-19 with a dedicated phone line.
- **Beyond Blue:** Those struggling to cope during the pandemic can access free, 24/7 counselling and advice via a dedicated COVID-19 phone line.

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