MONEYNEWS
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2020 YEAR IN REVIEW – The Year When Everything Was Turned On Its Head

Just as we were recovering from the long drought and the worst bushfires on record, the global coronavirus pandemic took hold and changed everything.

Suddenly, simple things we took for granted, like going to the office or celebrating special occasions, were put on hold. While life is still not back to normal, Australia is in better shape financially than many people expected at the height of the economic shutdown.

Take superannuation. Far from being a wipeout, the average superannuation growth fund is on track to finish 2020 with a positive return of 3 per cent.[i] But it's been a wild ride along the way.

Australian Key Indices December 2020		Share Markets (% change) Jan - Dec 2020	
Economic growth*	-3.8%	Australia All Ordinaries	0.71%
RBA cash rate	0.1%	US S&P 500	16.37%
Inflation	0.7%	Euro Stoxx 50	-5.14%
Unemployment	6.8%	Shanghai Composite	13.87%
Consumer confidence	112.00	Japan Nikkei 225	16.01%

* Year to September 30, 2020 Sources: RBA, Westpac Melbourne Institute, Trading Economics as at December 31

The big picture

Globally, the US presidential election and Joe Biden's victory removed a major element of uncertainty overhanging global markets. As did the UK finally signing a post-Brexit agreement on trade and other matters with the European Union just before Christmas. However, trade tensions with China remain an ongoing concern.

The pandemic dragged an already sluggish global economy into recession, and we were not immune. In Australia, drought, bushfires, storms and the health crisis took their toll as we entered recession for the first time in 28 years.

The economy contracted 7 per cent in the June quarter alone, the biggest fall since World War II, before rebounding in the September quarter. Even so, in the year to September our economy contracted 3.8 per cent.[ii]

Final figures for 2020 are not in yet but an annual fall of 2.8 per cent is forecast, putting us in a better position than most developed nations.[iii] This is due in part to Australia's relative success at containing COVID-19, and massive financial support from Federal and State Governments and the Reserve Bank.

Interest rates lower for longer

After starting the year at 0.75 per cent, the official cash rate finished the year at an historic low of 0.1 per cent. The Reserve Bank has indicated it will keep the cash rate and 3-year government bond rate at this level for three years to encourage businesses to invest and individuals to spend.[iv]

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It seems to be working. Consumer confidence bounced back to a decade high of 112 points in early December as Australia eased restrictions.[v] Business confidence also hit an almost three-year high in November, but unemployment remains at 6.8 per cent after peaking at 7.5 per cent.[vi,vii]

While low interest rates make life difficult for retirees and others who depend on income from bank deposits, they gave share and property markets a boost in 2020 as investors looked for higher returns than cash.

Shares rebound strongly

In February/March when the scale of the health and economic crisis became evident, sharemarkets plunged around 35 per cent. As borders and businesses closed and commodity prices collapsed, investors rushed for safe-haven investments such as bonds and gold.

But it soon became apparent that there were economic winners as well as losers, with global technology and health stocks the main beneficiaries.

By the end of 2020, US shares were up 16 per cent, with the tech-heavy Nasdaq index up 48 per cent.[viii]

Closer to home, Australian All Ordinaries index was up 0.7 per cent, or 3.6 per cent when dividends are included. Some of the best performers were small tech stocks, which helps explain why the ASX200, which is top heavy with banks, resources and property trusts, fell 1.5 per cent.

Elsewhere, European markets were mostly lower reflecting their poor handling of the pandemic. While China and Japan performed strongly, up 14 per cent and 16 per cent respectively.

Commodities boost the Aussie dollar

China's economic rebound was another factor in the Australian market's favour, with iron ore prices jumping 70 per cent.[ix]

Rising iron ore prices and a weaker US dollar pushed the Aussie dollar up 10 per cent to close the year at US77c.[x]

Gold prices hit a record high in August against a backdrop of ballooning government debt worldwide, but prices eased as sharemarkets surged, finishing 25 per cent higher at US$1,898.[ix]

At the other end of the scale, oil was one of the biggest losers as economic activity and transport ground to a halt. Oil prices fell more than 20 per cent despite OPEC producers restricting supply.[ix]

Property surprises on the upside

Despite dire predictions of a property market collapse earlier in the year, residential property values rose 3 per cent in 2020 and 6.6 per cent when rental income is included.[xi]

Melbourne was the only city to record a price fall (down 1.3 per cent), with combined capital cities up 2 per cent.

The real action though was in regional areas where average prices lifted 6.9 per cent. While regional markets lagged over the past decade, 2020 saw more Australians embrace working from home and the possibility of living outside crowded cities.

Looking ahead

As 2021 gets underway, Australia is inching back to a new normal on growing optimism about the global rollout of vaccines to contain the spread of the coronavirus and allow more movement of people and goods.

Our economy is forecast to grow by 5 per cent this year, but there are bound to be bumps along the way, with the potential for new waves of the virus and ongoing trade tensions with China.[xii]

In the meantime, the Federal Government and Reserve Bank stand ready to continue stimulus measures to support jobs and the economy.

After the year that was, a return to something close to normal can't come quick enough.

i https://www.chantwest.com.au/resources/november-surge-drives-funds-into-black-for-2020

ii https://tradingeconomics.com/australia/indicators

iii https://www.commsec.com.au/content/dam/EN/ResearchNews/2021Reports/January

iv https://www.rba.gov.au/

v https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/economics-research/er20201209BullConsumerSentiment.pdf

vi https://business.nab.com.au/monthly-business-survey-november-2020-43972/

vii https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia/latest-release

viii https://tradingeconomics.com/stocks

ix https://tradingeconomics.com/commodties

x https://tradingeconomics.com/currencies

xi https://www.corelogic.com.au/sites/default/files/2021-01/CoreLogic%20home%20value%20index%20Jan%202021%20FINAL.pdf

xii https://tradingeconomics.com/australia/gdp-growth-annual

Friendly reminder... Don't get caught out in a phishing scam

Phishing is a type of online scam where criminals impersonate legitimate organisations via email, text message, advertisement or other means in order to steal sensitive information.

As a client of Moneywise, we will not ask you to pay, or provide account details, via an email without having previously discussed it with you. If you ever receive any such email, that looks like it is a genuine email from your Adviser or Portfolio Accountant, please call us first before taking any action.

Avoid phishing attacks:

1. Check that the email address and the sender's name match.
2. Check if the email is authenticated.
3. Hover over any links before you click on them.
4. Check the message headers to make sure the "from" header isn't showing an incorrect name.

Biggest Changes to Income Protection Insurance Since Its Inception

Moneywise has always had a philosophy of insuring your most valuable asset; your ability to earn an income. For many of you this is in place, but in recent times steep increases in policy premiums associated with increasing claims have threatened the viability of the industry.

Accordingly, the life insurance industry regulator, the Australian Prudential Regulation Authority (APRA) undertook a review of the life insurance industry on 2 December 2019 and came up with numerous proposals affecting new policies. Current policies will be honoured, however policy holders may want to consider the pro's and con's of this versus other options.

So what are the changes?

1. Agreed value policies (providing certainty at time of application about the amount of benefit payment at claim time) were removed from sale in the market from 31 March 2020 last year due to the benefits being too generous.
2. Between 31 March 2020 and 1 October 2021, the current indemnity value policies (benefit paid is based on your income at the time of claim) that still contain generous features and benefits will remain available for new applications.
3. From 1 October 2021 a far more basic indemnity value policy only will be available.

So what will these new basic indemnity value policies look like?

1. Benefit payments will be limited to no more than 75% of your income at time of claim.
2. The policies will no longer be "guaranteed renewable" through to age 65 & 70. Every 5 years your insurer will revise the terms and conditions of your policy and re-assess your income, pastimes and occupation.
3. Policy benefit payment periods will reduce from the current "to age 65 & 70" to a maximum of 5 years before it must be reviewed.
4. There will be stricter disability definitions that need to be met to remain on longer term claim.
5. Many of the additional policy options available at an additional cost will either be removed or more expensive than they are currently.
6. The premium cost is expected to be lower accordingly.

What are the important considerations given these changes?

Each client's circumstances will be different so the best thing you can do is complete a review of your existing financial position.

1. For those who don't have cover, are working and are under the age of 60 you have the opportunity to secure one of the current, more generous indemnity value policies or alternatively a new basic indemnity value policy, as some insurers have now released these to market.
2. For those with existing agreed value policies, given these are likely to be subject to future price increases (particularly for those with the larger insurers); you may wish to consider/compare the difference between keeping your policy or changing to one of the current indemnity value policies at a lower cost.
3. The reason to act now with a review or decision to get cover is that after 1 October 2021, which will come around quickly, the current generous indemnity value policies will be removed from sale in the market thereby reducing your choices. Those that secure them prior will have them honoured long term.
4. Don't forget the opportunity for your adult children, who may not have this type of cover, to get advice from Moneywise and secure a suitable cover and policy.

What Can You Do to Get Help?

Contact your Moneywise financial adviser or our life insurance specialist Chris Matlock on 03 9649-7611 or email info@moneywise.com.au and we'll provide the review and advice you need.

Home Care v Nursing Home – Options For Assisted Living

If there is ever a time when stress levels and emotions can run high it is facing the myriad decisions around caring for an elderly family member or loved one.

Discussions around where someone – whether it is yourself or a nearest and dearest – is going to live and how it is going to be paid for, are often fraught not least because decisions are commonly made under extreme pressure. A fall or a rapid deterioration in health can trigger the necessity for people to make crucial calls about a loved one's future care within days.

Australia's ageing population means it is inevitable that more people will need some sort of living assistance, either at home or in a residential facility. According to the Productivity Commission the number of people needing aged care services will increase from more than one million today to 3.5 million by 2030.

Both the Home Care Package and moving into a nursing home require an assessment by an Aged Care Assessment Team. Generally, these can be arranged through a General Practitioner or within a hospital. They can also be found via the Government's ACAT Finder on its website myagedcare.gov.au.

How much a person pays for services will depend on their financial situation, including whether or not they receive any Age Pension.

Home based support (Home Care)

While the preference for most people is to age gracefully in their own home, there are a number of reasons why it may not be an option for the long term.

Fortunately there are numerous private and Government supported services which are available to allow people to stay living in their own home for as long as possible.

The Home and Community Care program is the simplest way for people to get help which allows them to remain at home. Someone who needs services such as domestic help or basic nursing care can seek Government assisted care following a simple assessment by an approved provider. Where several services are needed for a person to remain in their own home a more comprehensive Home Care Package would be required.

There are four levels of home care packages available, providing basic care (Level 1) through to high care needs (Level 4).

The types of services you can receive under a home care package include:

- Personal Services – assistance with showering, toileting, dressing and undressing
- Nutrition, hydration, meal preparation and diet
- Mobility
- Nursing and health services
- Transport and personal assistance – shopping and attending medical appointments

Supported living (Nursing Home)

Unfortunately, not everyone's health allows them to remain at home. There is a wide range of residential care available for those people who for medical or physical reasons need to be in a supported living environment.

The cost of securing a bed in an aged care facility can depend on a number of factors including its location, the facility type and the level of care they require.

Where an accommodation bond is required the payment options are generally a lump sum or periodic payments, both of which could be several hundred thousand dollars.

It will depend on an individual's financial situation as to what is the best way to pay, including whether they are in a position to and want to sell their house to make the lump sum payment.

In addition to the emotional attachment some people have to their home, there may be someone still living in the home. The sale of a house can also have further financial implications, including impacting one's Age Pension.

An alternative to selling is to rent the house and use the rental income to meet the accommodation or care costs or look at alternative income producing assets such as those within a superannuation fund.

Choosing the best form of aged care and working out the most beneficial way of paying for it from a Centrelink and personal financial point of view requires expert knowledge of various systems, including aged care, Centrelink and taxation.

Please don't hesitate to call us and to discuss issues concerning aged care for yourself or your loved ones.

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