Facts & figures

Did you know?

Women have significantly less money saved for their retirement.

Half of all women aged 45 to 65 have $8,000 or less in their superannuation funds, compared to $31,000 for men.

Eligibility for the Age Pension currently commences at age 65 for males (females are moving towards age 65).

However, in its 2009 budget the government announced that Age Pension eligibility would gradually increase to age 67 by 1 July 2023.

Type 2 diabetes is projected to become the leading cause of disease burden by 2023.

It is projected that, by 2030, the number of Australians living with severe disability will have increased to 2.3 million because of population growth and ageing.

People approaching retirement age are using the equity in the family home as a source to:

- assist children in home ownership
- fund an overseas trip
- simply live a lifestyle their income cannot support
- retire early

SOURCES
3. Australia’s Health 2010, the 12th biennial report from the Australian Institute of Health and Welfare (AIHW).
4. Ibid.
5. Household savings and retirement: Where has all my super gone? A report on superannuation and retirement for CPA Australia by KELL Research, October 2012.

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Looking after your financial life

The Count Report

WINTER 2013 ISSUE NO. 112

Wealth in Australia: a success story
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Welcome
A message from the CEO


It’s always interesting to learn about how Australians manage their wealth, and I hope this edition gives you some great food for thought.

In this edition our cover story ‘Wealth in Australia: a success story’ brings together a number of reports on how the general wealth of the country has fared in recent times in comparison to other nations, as well as Australia’s own past performance.

In ‘A penny a day’ we look at how important it is to establish and develop good savings habits as early as possible. It’s never too soon for younger generations to start learning about the benefits of saving and eventually investing for their future, and older generations have the wisdom of hindsight to help.

Have you ever wondered how people approaching retirement age are using their family/home equity? In our back page feature ‘Facts & Figures’, you will find some interesting statistics on how some key events might unfold as a significant portion of the population heads toward retirement.

To start us off in this edition our regular contributor Stephen Halmarick discusses recent economic events in his ‘Market Update’.

In partnership with your Count Financial Adviser, we look forward to helping you achieve your lifestyle and financial goals. If you have any questions at all, please contact your Count Financial Adviser.

Regards,

David Lane
Count Financial Chief Executive Officer

Market update
An economic update from Stephen Halmarick, Head of Economic and Market Research, Colonial First State

The big three
What have been the major economic events of the past few months?

In Japan
The most significant news flow was the aggressive monetary policy decision by the Bank of Japan (BoJ), designed to ensure the rate of inflation rises to the new 2% target within just two years. These monetary policy actions, including purchases of Japanese government bonds are designed to try and break the 15 year cycle of deflation in Japan. There could be a significant impact not only on yen-denominated assets, but also on other assets around the world as the interest rates in Japan are forced lower. The BoJ expects these policy measures to support the economic recovery, to change expectations of financial markets and the Japanese community, as well as improve asset prices.

In the US
There have been early signs of the negative impact on economic activity and confidence from budget cuts. Q1 GDP came in lower-than-expected at 2.5% on a seasonally adjusted annualised rate (versus 3% expected). The government sector detracted 0.8% from growth post ‘Fiscal Cliff’ and the sequester. US employment has been mixed, with March numbers weaker, yet April numbers stronger. The unemployment rate is now 7.5% and the lowest since December 2008.

Housing market data continued to be a source of strength for the US economy. The FHFA US House Price Index rose 0.7%/month and is now up 7.1%/year as increased demand and supply constraints have forced price gains. This, when combined with the equity market rally, is supporting consumer confidence.

In Australia
In Australia headline inflation increased by a lower-than-expected 0.4%/qtr in Q1 2013, taking the annual pace of inflation to 2.6%/yr from 2.2%/yr in Q4 2012. See chart below for details. This lower inflation reading, a persistently stronger Australian dollar and some mixed signals about the domestic economy prompted the Reserve Bank to cut official interest rates in May by 25 basis points to 2.75%.

AUSTRALIA ANNUAL INFATION (%)

Source: Bloomberg. Data to 31 March 2013
Wealth in Australia: a success story

A report into the wealth of Australian society draws a positive image of a nation that has fared well throughout turbulent times.

It’s easy to look at what is happening around the globe and feel concern for our future prosperity as a nation, and as a result for ourselves as individuals. But a report from IBISWorld, Australia’s largest provider of industry-based research, paints a reassuring picture of where we stand compared to other nations and in relation to our own past.

Once obsessed with investing in real estate, we’re beginning to show signs of thinking outside of bricks and mortar as our only form of investment. Residential property was 54.7% of our collective asset value (as of mid-2011) and is falling in terms of percentage of our portfolios. Around 80% of this real estate is owner-occupied and the other 20% represents investment properties. Part of the explanation for this decrease in real estate’s overall weight in our personal value is that superannuation value is beginning to rise as other investment classes recover from the GFC period.

Another asset class falling in importance in our ownership portfolio is durables, or such items as cars, furniture and appliances, which sits at just 3.6% of our total value.

Australian investing comes of age

Superannuation makes up 21% of our total wealth, shares around 3.3% and deposits, including savings, add up to 9.8%. The total of all financial assets, in fact, now makes up 38.3% of our wealth, a big lift from 27.5% in 1989. By 2060 financial assets are likely to account for over half of our wealth, says Phil Ruthven, IBISWorld Chairman.

This is an important sign as it means Australians are beginning to understand the importance of diversity in helping to protect and grow our own wealth. We are also putting more money than ever into superannuation as our population ages and the likely stressors on aged care and medical systems become more significant. Despite the economic turmoil of the last decade, our real income across all earnings classes is continuing to grow. Average gross household income stands at $130,000 compared to just below $80,000 in 2000. At the same time our formal education levels are rising, as is our life expectancy.

Wealth distribution

Wealth distribution is always a serious question when it comes to average household income figures. After all, if most of the wealth is held by a small percentage then the rich drag everybody’s apparent wealth figures upwards, while the real figures remain much lower.

In Australia, the richest 20% receives 46.7% of Australia’s gross household income. Tax breaks for low-income earners, means testing of social security payments and other financial benefits create far greater inequality than in nations such as the USA. In America the richest 5% control 62% of all wealth and the top 20% owns 85% of all wealth. Interestingly, IBISWorld research has revealed that wages make up just 57% of our total household income. The welfare component of household income is rising from 10.5% in 2010 to 8.9% in 2011, Investment Income is rising – standing at 11.4% in 2011 – as the retiring baby boomers begin to draw on their superannuation savings.

What it all means

In a recent presentation, Ruthven said Australia’s economy was the best placed of any in the OECD. The international investment scene will not stay down indefinitely and the sky is not falling in, but troubled economies will likely take the rest of this decade to ‘get their mojo back’, he said.

Part of Australia’s great positioning has to do with our actual geographic location and, of course, with our wealth of natural and mineral resources. Our economy and society has been integrated into Asia, Ruthven says, and particularly into China. As other territories struggle for flat or low growth figures, Asia is powering ahead with growth of 6% to 7% per annum – almost double the global average. Almost 80% of our goods and services exports now go to Asia, but of course our export industry is currently feeling some pain thanks to the strength of our dollar, itself a result of our nation’s strong outlook.

So strong, in fact, is our current situation that a recent global wealth report in Australia’s median wealth above every other nation in the world. The median wealth per adult in Australia in 2012 was measured at US$194,000. Average wealth per adult was measured at US$355,000, the second highest in the world after Switzerland. The proportion of Australians with personal wealth above $150,000 was found to be higher than any other nation in the world and eight times the world average.

There is a lot to be positive about in Australia’s economic and financial figures, but on a personal level it must be broken down further to find out exactly what it means for individuals. There is still noticeable disparity, for instance, between the wealth of Australian men and women. A report filed after a 2009 study by the National Centre for Social and Economic Modelling stated that levels of wealth for men and women were highly unequal across categories of age, income, occupation and industry. Even when it appeared within an industry that pay levels were relatively even between the sexes, researchers reported that more often than not there would be fewer women within those occupations.

Average wealth for all women surveyed was around $10,000 compared to $119,000 for men. Women generally had around 59% the wealth of men.

The research also revealed that wealth within households tends to increase until the ‘principle household reference person’ reached 55–64 years of age, then declines rapidly between the ages of 60 and 65. So the greater the level of superannuation and the better the financial advice, the better chance a person will have of making it through that initial period with finances intact to face the next few decades.

All of these insights provide an excellent big-picture image of the great standard of living we have in Australia. Most importantly, they highlight the need for a solid understanding of the setting that we find ourselves in when faced with investment choices. If we know what is going on around us, if we truly understand the forces at work and the resulting financial dynamics, then we can be confident that we are financially literate and able to make clear investment decisions. The figures tell us that Australians are making more of the right decisions.

Our wealth is growing, in some cases it’s the envy of the world, and our investments are becoming more diversified. We no longer place all of our eggs in one basket, the home – but instead look to spread risk between various asset classes. But as our population ages and becomes more heavy… those that have sought the finest advice and made the best decisions will find themselves much more comfortable than those that have not. As our population ages and becomes top heavy… those that have sought the finest advice and made the best decisions will find themselves much more comfortable than those that have not.
A penny a day

One of the most valuable gifts parents and grandparents can give children is helping them understand the importance of sound money management. It’s never too early to learn about the real benefits of saving and investing for the future, and grandparents have the wisdom of hindsight to offer practical tips and advice that might otherwise be lost in the day-to-day noise of family life. It can start with something as simple as the gift of a moneybox, coupled with some words of encouragement about how quickly small change can add up to a significant sum that the child can use towards a major purchase like a new bike, trainers or computer games. Incentives can also be useful at this time in encouraging children to maintain a regular savings plan. Motivation in the form of rewards for saving is especially important for children who may be too young to grasp the concept of patience. For example, helping them by offering to match their investment dollar-for-dollar or setting a deadline (Christmas, Mum’s birthday) will inspire them to persevere with their goals.

Explaining the value of taking the long view on savings is also worthwhile in helping children understand how a desire to spend $5 on sweets today will affect their goal of having a new $300 surfboard next summer. If you’re planning to match their deposits, you can be firm and stipulate what your share can go towards. A half-and-half approach often works well (for example, half of the birthday money can be used at their discretion and the other half towards their long-term goal) and will make the task less arduous. Above all, make children part of the process. Involve them, as much as practically possible, in setting out their financial plan. A calendar or chart with targets they can mark off as they go is enough to begin with. (Your own financial adviser can help you get started.) Then ensure you provide encouragement along the way, and celebrate achievements with non-financial rewards that build emotional capital, like a one-on-one fishing trip or an afternoon at the movies.

Parents and grandparents can also provide practical suggestions for children that will help them to increase their savings beyond what may be achievable through pocket money alone. Finding extra jobs they can do around their home and yours or in their local community — earning extra money by doing some housework or gardening, a paper round or babysitting — will not only bring in welcome cash, it also helps children build a sense of independence so they’re not always relying on mum and dad (or grandma and grandpa) as their main source of financial capital.

Beyond the moneybox

Children, like adults, go through a variety of life stages that dictate their financial goals and you can be there every step of the way as driving lessons and cars replace bikes, or new shoes are swapped for gap year holidays and the expense of further education and training. You can start from birth by setting up a separate savings account for them to which you contribute independently. Your financial adviser can advise you on how much and how often you’ll need to add to the account, depending on the goals set. It’s also wise to have a conversation with your own children, and grandchildren, because the goal posts will change over time and you want to make sure everyone is working towards a common purpose. For example, you might decide to dedicate a savings account to cover your grandchildren’s school and university fees. This will leave your children to concentrate on providing essentials like food, clothing and other health and household-related expenses. Your grandchildren’s accounts can then be geared specifically towards youthful pursuits as part of an ongoing, holistic financial education that will set them up to achieve grown up goals like saving for a home of their own, professional development and starting a family.

Your financial adviser can provide information on a range of strategies so you can feel comfortable knowing that you’re giving your loved ones the support they need to get the best start in life. With the benefit of your wisdom and experience, your grandchildren will discover how easy it is to plan for a bright future by thinking ahead, setting realistic goals and making savings a family affair.