Nexia Australia

Investment Solutions

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Welcome

In this edition of Insights and Investment Solutions magazine, read the latest market update based on the highlights across the Australian market over the past few months.

We look at tips for creating the retirement you want, today and seeing how your credit score is affected by COVID-19.

We hope you enjoy this edition of Investment Solutions. If you require any further information, please contact your Nexia Advisor.

Market update

Alex Davis
Director - Perth

We look forward to 2021 being a year of recovery – both in a physical and economic sense. January saw the continued rollout across North America, Europe and Asia of three major vaccines, the second impeachment of former President Donald Trump and the inauguration of President Joe Biden.

COVID-19 Outlook

As many expected would happen, January saw a rise in COVID-19 case numbers around the world as many gathered for the western holiday season. While much of the northern hemisphere remains in some form of lockdown, the spread of the virus continues whilst the vaccine role out in the US has been slower than previously planned.

However, since the inauguration of President Joe Biden, the daily inoculation rate was more than 1 million per day on a 7 day rolling basis by the end of January, and daily cases had fallen significantly off the early highs of over 250,000 to 150,000 confirmed per day.

As for the UK, the highly contagious variant that was discovered in early December continues to spread around the country. Similar to the US, there are signs that the vaccination program combined with lockdowns have made a positive impact as daily case numbers have reduced towards the end of the month. In addition, for the first time the UK government has looked to introduce some form of hotel quarantine, a model we are familiar with in Australia, as well as shutting their borders to certain countries.

Australia

January is historically a quieter month for economic data and company announcements in Australia. As such, the RBA did not hold its regular first Tuesday of the month meeting. Of the available data, we saw headline CPI rise by 0.9% (trimmed 0.4%) in the December quarter.

The result was impacted by a range of state and federal government policies rolling off in Q3 and Q4 in particular childcare, excises, housing and electricity. With an annual trimmed mean rate of just 1.2%, inflation remains subdued and below the RBA 2-3% target band. The difficult economic conditions that we have spoken about in previous months have contributed to the below target inflation outcome.

The unemployment rate fell to 6.6% in December from 6.8% in November and below market consensus of 6.7%. This was the lowest jobless rate since April 2020. Both the full-time and part-time unemployment rates fell, and the participation rate increased to a 16 month high of 66.2%.

In addition to this, the underemployment rate fell by 0.8% to 8.5%, and the underutilization rate dropped 1.1% to 15.1%.

Despite some short-term lockdowns in major east coast capital cities over the last few months, these are key indicators that show individuals that have been unable to work due to physical lockdowns are getting back out there and finding jobs. Similarly, we have seen those that have been stood down are working more hours.

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How is your credit score affected by COVID-19?

Alanah Boylon
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If you're one of the many Australians financially impacted by COVID-19, who have deferred $218 billion worth of payments this year – fear not. Your credit score is unlikely to be affected by payment deferrals or mortgage holidays due to the current state of the world.

While that's good news, it's still important to maintain a high credit score by understanding how it's calculated and what you can do to maintain it in future.

So, what is a credit score?

A credit score is a number between zero and 1200 that reflects how much money you have borrowed, the way you use credit and your history paying off any loans and credit cards. This is calculated based on many sources of information including:

- Your personal details like your age, income and living arrangements.
- Financial information like how many loans and credit cards you have.
- Your bill paying history for expenses like energy and phone bills.
- While your credit score is a record of positive information, such as your track record making repayments on time and in full, it also encompasses negative information such as late payments, court adjudications, bankruptcies and insolvencies.

All in all, the higher the score, the better and the more likely lenders will be to approve loan or credit card applications you might make. The lower the score, the riskier you will be perceived by lenders, making them less inclined to approve your application for a loan, which is why having a high credit score is important.

How is it calculated?

Credit bureau are responsible for consumers' credit scores, which are calculated across the bands below:

Excellent: 841 – 1,200

Very good: 756 – 840

Good: 666 – 755

Average: 506 – 665

Below average: 0 – 505

What is a credit report?

A credit report sits alongside your numeric credit score and contains all the information used to determine that number. The report includes detailed information about the way you handle credit, such as your repayment history, as well as any defaults or overdue payments. It also encompasses information about your active loans and credit cards such as their value and repayment amounts.

Be aware your credit report will include a record of any defaults if you miss a payment valued at $150 or more that's overdue for more than 60 days.

What's it used for?

Banks and other financial institutions check your credit score and your credit report to see how likely you are to be able to make your repayments on new loans or credit cards for which you apply. Banks, telcos and energy companies also check this information every time you apply for credit with them.

What might cause your credit score to drop?

There are a range of reasons your credit score could drop, such as when you pay off a loan or cancel a credit card. While this might be confusing, this is because lenders have less information to assess how reliable you are at paying off debts or assessing loan applications.

Your credit score can also drop when you successfully take out new credit. This is because the average 'age' of your debt drops with the new loan. Over time, when lenders see you making regular payments on your new card or loan, your credit score should increase once more. Your credit score will also drop if you miss a payment, are routinely late making payments, or, if you go bankrupt.

How can I improve my credit score?

There are lots of steps to take to improve your credit score, including:

- Pay your bills and loan repayments on time, and, in full.

It's a good idea to set up direct debits so all of your obligations are automatically paid. This could help minimise the risk of missing a repayment and having this affect your credit score.

- Don't apply for too many new lines of credit, for instance multiple credit cards, at the same time.

Lenders can take this as a sign you're experiencing a cash flow crisis and need access to money fast, which can put you in the higher-risk category as a borrower.

- Lower your credit limit.

Lenders like to see borrowers using credit responsibly by paying off their repayments on time, and, in full.

Will my credit score be affected if I have deferred my mortgage repayments?

Banks have allowed borrowers who have been affected by COVID-19 shutdowns to defer loan and mortgage repayments for up to six months. Rest assured your credit score will not be affected if you have deferred your loan repayments.

This means that your credit report will not include a record that you have missed a payment as a result of deferring your repayments due to COVID-19. However, your credit score may be impacted if you have missed a payment on a loan or credit card for other reasons.

What should I do if I think my credit score is wrong?

You can take steps to correct your credit score if you think it's wrong. Contact the credit reporting agencies to amend details such as your name and address. If the error involves incorrect defaults or information on your file that is a result of identity theft, contact your credit provider.

Tips for creating the retirement you want, today

Sylvia Liang
Director - Sydney

Even if you don't plan to retire until you are eligible for the Age Pension – there are small steps you can take now to achieve your retirement goals. Given your retirement could make up a large portion of your lifetime, the lifestyle you want to achieve is an important consideration and a starting point for setting your long-term wealth creation plans.

Follow our retirement tips, to ensure you're in a position to enjoy your retirement for as long as possible.

1 Do you want to retire by a certain age?

While Australia doesn't have an official retirement age, there are some factors to consider when determining what age you might stop working. You might retire when you're eligible for the Age Pension, or when you reach your Preservation Age – the age when you can access your super.

Your retirement age might also be influenced by your profession, health, family circumstances, or individual preference. Retirement could reasonably span a period of 30 years or more, so the possibility that some of us may outlive our savings is not at all unrealistic. The main point to remember is, the earlier you retire, the longer you'll be relying on your super and savings, and the more you'll need to have saved to support yourself.

2 Add a little bit more into your super now

The first step is to consider asking your employer about setting up a salary sacrifice arrangement for your super. You could find, depending on your salary, you may save on your tax obligations. Super is a long-term relationship – the more attention you give it, the greater the potential. Even salary sacrificing a small amount now – like the cost of one takeaway lunch a week – can make a difference to your super balance over the longer term.

3 Review your investments approach

Looking at how your super is invested could make a big difference to your retirement savings goals. If you still have many years left in the workforce, you may want to look at what your risk appetite is, and consider a higher risk, higher return approach to your investment strategy. A Nexia Financial Adviser could help you work out what investment strategy may suit your needs.

4 Protection for the unexpected

If you have insurance in your super, you may want to check if your cover still suits you and your family's needs.

No matter what your financial position is today, an unexpected event can see it all unravel very quickly.

Insurance cover can help so that if there is an unforeseen event, you and your family can hopefully continue to move forward – and it can lessen the impact to your retirement savings.

5 What's on your to-do list in retirement?

It's important to think about how you want to structure your time when you retire, well before you leave full-time work. It's normal to have different views about what constitutes a dream retirement.

Think through your expectations about travel plans, making a sea or tree change and pursuing a hobby or even a new business. It's also wise to consider whether and how you want to financially assist your children or care for elderly relatives. Or you might want to continue working part time, while balancing your other life interests. These factors should be taken into account when planning how you want to fund your retirement, as well as the type of lifestyle you will lead.

6 Look at your debts

Will you be entering retirement debt-free? The Australian Securities and Investments Commission (ASIC) conducted research into credit card lending. After reviewing 21.4 million credit card accounts, they found 18.5 per cent of people struggle with credit card debt. You do not need to be a part of this statistic if you take control of your credit card debt.

Repaying as much of your debts as possible before you retire, can make a big difference to your lifestyle and the funds you'll have available in retirement. While building your retirement savings, also consider a plan to proactively clear your debt by using any free cash flow to reduce the amount you owe to strengthen your financial position. You may also want to consider any benefits gained from rolling your debts into one or using another provider that offers lower rates and fees.