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DECODING THE AUSTRALIAN HOUSING MARKET

A GUIDE FOR BEGINNERS

INSIDE

1 Decoding the Australian Housing Market: A Guide for Beginners

4 The ultimate superannuation EOFY checklist 2024

9 The art of happiness – economics and the "hedonic treadmill"

13 Q&A: Ask a Question

BY WEALTH ADVISER

Introduction

The Australian housing market is a complex and multifaceted landscape that can be challenging to navigate for beginners. With its unique characteristics, diverse localities, and dynamic supply and demand factors, understanding the key aspects of the market is essential for anyone considering entering the property arena. In this article, we will explore the fundamental elements that shape Australia's housing sector, providing insights to help you make informed decisions.

Australia's Expensive Housing

One of the most striking features of the Australian property market is its high cost. As Dr. Shane Oliver from AMP Investments points out, "House price to income ratios have doubled since the year 2000." This means that housing affordability has significantly

BEFORE YOU GET STARTED

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deteriorated over the past two decades. Saving for a 20% deposit, which once took an average full-time wage earner five years, now requires ten years. Additionally, a valuation measure based on the ratio of home prices to rents, adjusted for inflation, indicates that house prices are around 36% above their long-term average. In global comparisons, Australia's median multiple of house prices to income stands at 8.2 times, higher than countries like the United States and the United Kingdom.

The Diversity of Australia's Property Market

While it is common to refer to "the Australian property market" as a single entity, the reality is far more nuanced. There is significant divergence between localities, with cities like Adelaide, Brisbane, and Perth experiencing rapid relative price growth recently. As Michael Matusik, a housing market specialist, notes, "This divergence partly reflects a combination of better housing affordability (with prices in Adelaide, Brisbane and Perth playing catchup after lagging pre-pandemic) and relative population growth (with Brisbane and Perth benefitting from interstate migration)."

Moreover, the level of overvaluation varies across cities and property types. For instance, while houses are generally more overvalued than units, Perth stands out as the least overvalued market for houses and is actually undervalued for units. Understanding these local variations is crucial for making informed decisions in the property market.

Population Density and Housing Market Trends

Tim Lawless, the Executive Research Director at CoreLogic, sheds light on the relationship between population density and housing market trends in Australia. As the country experiences its fastest population growth since the 1950s, cities and towns are naturally becoming denser. Interestingly, Melbourne and Adelaide have the highest population densities among capital cities, surpassing even Sydney.

Lawless notes that population density has a varying impact on rental growth and property values across different housing segments. For units, areas with high population density have shown slightly stronger rental appreciation over the past 12 months compared to lower-density areas. However, over the past decade, high-density unit markets have generally experienced lower value growth, possibly due to periods of higher unit supply.

In contrast, population density has little influence on house rents and values. Lawless suggests that the stronger rental growth in high-density precincts is unsurprising, given the high level of amenity, proximity to employment hubs, and academic facilities that appeal to a broad range of tenants, including students, professionals, and migrants.

Understanding these nuances in population density and housing market trends can help investors and homebuyers make more informed decisions based on their specific goals and target properties.

A key factor contributing to Australia's housing challenges is the chronic undersupply of homes since the mid-2000s. As Dr. Oliver explains, "This has been the case since the mid-2000s when immigration levels, and hence population growth, surged and the supply of new homes did not keep up."

Supply and Demand Dynamics

A key factor contributing to Australia's housing challenges is the chronic undersupply of homes since the mid-2000s. As Dr. Oliver explains, "This has been the case since the mid-2000s when immigration levels, and hence population growth, surged and the supply of new homes did not keep up." The pandemic briefly eased this pressure due to reduced immigration, but the reopening of borders has led to record immigration levels, pushing underlying housing demand to around 250,000 dwellings per year. However, home completions are only around 170,000 dwellings annually, resulting in a growing housing shortfall estimated to reach 200,000 dwellings by June.

This imbalance between supply and demand has been a significant driver of the surprising strength in home prices over the past year, despite the challenges posed by high-interest rates. As Dr. Oliver suggests, "Given home building capacity constraints and the desire to reduce the existing housing shortfall, immigration levels really need to be cut back to around 200,000 a year."

Key Considerations for Investors

For those looking to invest in the Australian property market, several key factors should be considered. Interest rates play a crucial role, with rate hikes often associated with cyclical price falls and rate cuts usually needed for upswings. However, as Dr. Oliver points out, "forecasting property prices is fraught," particularly in the current environment where the opposing forces of a major chronic supply shortfall and high mortgage rates are at play.

Investors should also be aware that property has similar long-term returns to shares, with both asset classes returning around 11% per annum since 1926. Property's low correlation with shares, lower volatility, and lower liquidity make it a good portfolio diversifier. However, in the current market, where high-interest rates relative to low rental yields often result in negative cash flow for property investments, savvy investors should focus on properties offering decent rental yields.

Conclusion

Navigating the Australian housing market requires a comprehensive understanding of its key aspects, from the factors contributing to its high prices and the diversity of its localities to the supply and demand dynamics shaping its future. While the market presents challenges, such as affordability concerns and the difficulty of forecasting price swings, it also offers opportunities for informed investors who consider the essential elements discussed in this article. By staying attuned to these factors and making strategic decisions based on local market conditions and investment goals, beginners can confidently explore the Australian property landscape.

References:

Dr. Shane Oliver, "Seven things you need to know about the Australian property market," AMP Investments, 09 Apr 2024.
Michael Matusik, "Baby Boomer housing needs," 17 April 2024.
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The ultimate superannuation EOFY checklist 2024

BY LIAM SHORTE
Republished from firstlinks.com.au

Yet again we have only a short time left to the end of the financial year to put our SMSF or other super funds in order and ensure we are making the most of the strategies available to us. Here is a checklist of the most important issues that you should address with your advisers before the year-end.

Warning before we begin

In the rush to take advantage of new strategies, don't forget how good you may have it already. Be careful not to allow your accountant, administrator or financial planner to reset any pension that has been grandfathered under the pension deeming rules that came in on 1 January 2015 without updated advice on the future consequences of losing the grandfathering. Point them to this document.

1. It's all about timing

If you are making a contribution, the funds must hit the super fund's bank account by the close of business on 30 June. Some clearing houses hold on to money before presenting them to the super fund.

In addition, pension payments must leave the account by the close of business unless paid by cheque in which case the cheques must be presented within a few days of the EOFY. There must have been sufficient funds in the bank account to support the payment of the cheques on 30 June, but a cheque should be your very last-minute option!

Get your payments in by Monday 24 June or earlier to be sure (yes I'm Irish), as the 30th is a Sunday this year. This is even more important if using a clearing house for contributions.

2. Review your Concessional Contributions (CC) options

Maximise contributions up to CC cap of $27,500 but do not exceed your limit unless you have Unused Carried Forward Concessional limits and Total Super Balance under $500,000 as of last 1 July 2023. Guidance on how to check your Unused Carried Forward Concessional limits via MyGov records available here.

Some of the sting has been taken out of excess contributions tax but you don't need the additional paperwork to sort out the problem. Check employer contributions on normal pay and bonuses, salary sacrifice and premiums for insurance in super as they may all be included in the limit.

From 1 July 2024, the CC cap rises to $30,000 per year and the Super Guarantee rises to 11.5%. Re-evaluate your

If you sell your home and you are over 55, consider eligibility for downsizer contributions of up to $300,000 for each member. It allows individuals to make a one-off, post-tax contribution to their superannuation of up to $300,000 per person from the proceeds of selling their home.

contribution plans for 2024-25. You'll need to use the new rate to calculate how much of your new indexed CC cap of $30,000 will be available to salary sacrifice or make personal deductible contributions.

3. Consider using the 'Unused Carry Forward Concessional Contribution' limits

Broadly, the carry forward rule allows individuals to make additional CC in a financial year by utilising unused CC cap amounts from up to five previous financial years. Eligibility requires a total superannuation balance just before the start of that financial year of less than $500,000 (across all your super accounts).

This measure applies from 2018-19 so effectively, this means an individual can make up to $130,000 of CCs in a single financial year just by utilising unapplied unused CC caps since 1 July 2018 ($25,000 x 3 + $27500 x 2). This is the last year to use any 2018-19 unused CCs as they fall outside the 5-year window from 30 June 2024.

Beware that once your income (including salary, investment income, employer SGC, and personal concessional contributions) goes over $250,000 you will be subject to Div 293 Tax.

4. Review plans for Non-Concessional Contributions (NCC) options

NCCs are an opportunity to move investments into super and out of personal, company or trust names.

Even up spouse balances and maximise super in pension phase up to age 75. Couples where one spouse has exhausted their transfer balance cap and has excess amounts in accumulation are able to withdraw and recontribute to the other spouse who has transfer balance cap space available to commence a retirement phase income stream. This can increase the tax efficiency of the couple's retirement assets as more of their savings are in the tax-free pension phase environment.

Make your tax components more tax free by using recontribution strategies. SMSF members can cash out their existing super and re-contribute (subject to their contribution caps) them back into the fund to help reduce tax payable from any super death benefits left to non-tax dependants. From 1 July 2022 you can do this until they turn age 75 (contribution to be made within 28 days after the end of the month you turn 75).

From 1 July 2024 the NCC Cap rises to $120,000 per year or $360,000 under the 3-year Bring Forward Rule. Re-evaluate your contribution plans for 2024-25.

5. Downsizer contributions

If you sell your home and you are over 55, consider eligibility for downsizer contributions of up to $300,000 for each member. It allows individuals to make a one-off, post-tax contribution to their superannuation of up to $300,000 per person from the proceeds of selling their home. But you must make your downsizer contribution within 90 days of receiving the proceeds of sale (usually the date of settlement). These contributions do not to count towards non-concessional contribution caps.

The $300,000 downsizer limit (or $600,000 for a couple) and the $330,000 bring forward NCC cap allow a single person to contribute up to $630,000 (or $1,260,000 for a

couple) in one year subject to their contributions caps. From 1 July 2024, this rises to $660,000 for a single person and $1,320,000 for a couple subject to their contributions caps.

Please be careful as this is a once only strategy and if you would benefit more in later years using the strategy, then maximise NCCs first.

6. Calculate co-contributions

Check your eligibility for the co-contribution, it's a good way to boost your super. The amounts differ based on your income and personal super contributions, so use the super co-contribution calculator.

7. Examine spouse contributions

If your spouse has assessable income plus reportable fringe benefits totalling less than $37,000 for the full $540 tax offset or up to $40,000 for a partial offset, then consider making a spouse contribution. Check out the ATO guidance here.

You can implement this strategy up to age 75 as a Spouse Contribution is treated as a NCC in their account (and therefore counted towards your spouse's NCC cap).

Consider splitting contributions with your spouse, especially if:

- your family has one main income earner with a substantially higher balance or
- if there is an age difference where you can get funds into pension phase earlier or
- if you can improve your eligibility for concession cards or age pension by retaining funds in superannuation in the younger spouse's name.

This is a simple no-cost strategy I recommend for everyone here. Remember, any spouse contribution is counted towards your spouse's NCC cap.

8. Give notice of intent to claim a deduction for contributions

If you are planning to claim a tax deduction for personal concessional contributions, you must have a valid 'notice of intent to claim or vary a deduction' (NAT 71121).

A notice must be made before you commence the pension. Many people like to start their pension in June and avoid having to take a minimum pension in that financial year but make sure you have claimed your tax deduction first. The same notice requirement applies if you plan to take a lump sum withdrawal from your fund.

9. Act early on off-market share transfers

If you want to move any personal shareholdings into super (as a contribution) you should act early. The contract is only valid once the broker receives a fully valid transfer form so timing in June is critical. There are likely to be brokerage costs involved.

10. Review options on pension payments

The government reverted to normal rates from 1 July 2023 (following covid-related reductions). Ensure you take the minimum pension based on your age-based rate. If a pension member has already taken pension payments of equal to or greater than the minimum amount, they are not required to take any further pension payments before 30 June 2024. For transition to retirement pensions, ensure you have not taken more than 10% of your opening account balance this financial year.

If a pension member has already taken a minimum pension for the year, they cannot change the payment, but they can get organised for 2024-25. So, no, you can't sneak a payment back into the SMSF bank account!

If you still need pension payments for living expenses but have already taken the minimum then it may be a good strategy for amounts above the minimum to be withdrawn as either:

a. a partial lump commutation sum, creating a debit against the pension members transfer balance account (TBA). Please discuss this with your accountant and adviser asap as some funds will have to report this quarterly and others on an annual basis.
b. for those with both pension and accumulation accounts, a lump sum from the accumulation account to preserve as much in tax exempt pension phase as possible.

11. Check your documents on reversionary pensions

A reversionary pension to your spouse will provide them with up to 12 months to get their financial affairs organised before making a final decision on how to manage your death benefit.

You should review your pension documentation and check if you have nominated a reversionary pension in the context of your family situation. This is especially important with blended families and children from previous marriages that may contest your current spouse's rights to your assets. Also consider reversionary pensions for dependent disabled children.

The reversionary pension has become more important with the application of the $1.6-1.9 million Transfer Balance Cap (TBC) limit to pension phase from 1 July 2023.

Tip: If you have opted for a nomination instead then check the existing Binding Death Benefit Nominations (many expire after 3 years) and look to upgrade to a Non-Lapsing Binding Death Benefit Nomination. Check your Deed allows for this first.

12. Review Capital Gains Tax on each investment

Review any capital gains made during the year and over the term you have held the asset and consider disposing of investments with unrealised losses to offset the gains made.

If in pension phase, then consider triggering some capital gains regularly to avoid building up an unrealised gain that may be at risk to legislation changes.

13. Collate records of all asset movements and decisions

Ensure all the fund's activities have been appropriately documented with minutes, and that all copies of all statements, valuations and schedules are on file for your accountant, administrator, and auditor.

The ATO has beefed up its requirements for what needs to be detailed in the SMSF Investment Strategy so review your investment strategy and ensure all investments have been made in accordance with it and the SMSF Trust Deed, including insurances for members. See my article on this subject here.

14. Arrange market valuations

Regulations require assets to be valued at market value each year, including property and collectibles. For more information refer to ATO's publication Valuation guidelines for SMSFs. On collectibles, play by the rules that came into place on 1 July 2016 or remove collectibles from your SMSF.

Tip: The ATO is targeting audit compliance this year on Property Valuations in SMSFs as we approach the implementation of the Division 296 Tax from 1 July 2025.

15. Check the ownership of all investments

Make sure the assets of the fund are held in the name of the trustees (including a corporate trustee) on behalf of the fund. Check carefully any online accounts and ensure all SMSF assets are separate from your other assets.

We recommend a corporate trustee to all clients. This might be a good time to change, as explained in this article on Why SMSFs should have a corporate trustee.

16. Review estate planning and loss of mental capacity strategies

Review any Binding Death Benefit Nominations (BDBNs) to ensure they are valid and check the wording matches that required by the Trust Deed. Ensure it still accords with your wishes.

Also ensure you have appropriate Enduring Powers of Attorney (EPOAs) in place to allow someone to step into your place as trustee in the event of illness, mental incapacity or death.

Check your Trust Deed and the details of the rules. For example, did you know you cannot leave money to stepchildren via a BDBN if their birthparent has pre-deceased you?

17. Review any SMSF loan arrangements

Have you provided special terms (low or no interest rates, capitalisation of interest etc) on a related party loan? Review your loan agreement and see if you need to amend your loan.

Have you made all the payments on your internal or third-party loans, have you looked at options on prepaying interest or fixing the rates while low? Have you made sure all payments in regards to Limited Recourse Borrowing Arrangements (LRBAs) for the year were made through the SMSF trustee? If you bought a property using borrowing, has the Holding Trust been stamped by your state's Office of State Revenue?

18. Ensure SuperStream obligations are met

For super funds that receive employer contributions, the ATO has introduced SuperStream, a system whereby super contributions data is made electronically. All funds should be able to receive contributions electronically and you should obtain an Electronic Service Address (ESA) to receive contribution information. If you change jobs your new employers may ask SMSF members for their ESA, ABN and bank account details.

19. Ensure you are meeting your Quarterly TBAR (transfer balance account report) deadlines

All SMSFs are required to report events that affect a member's transfer balance account within 28 days after the end of the quarter in which the event occurs, even if the member's total super balance is less than $1 million.

Example: All unreported events that occurred between 1 April and 30 June 2024 must be reported by 28 October 2024. This means you cannot report at the same time as your SMSF annual return (SAR) for the 2023-24 income year. More info here.

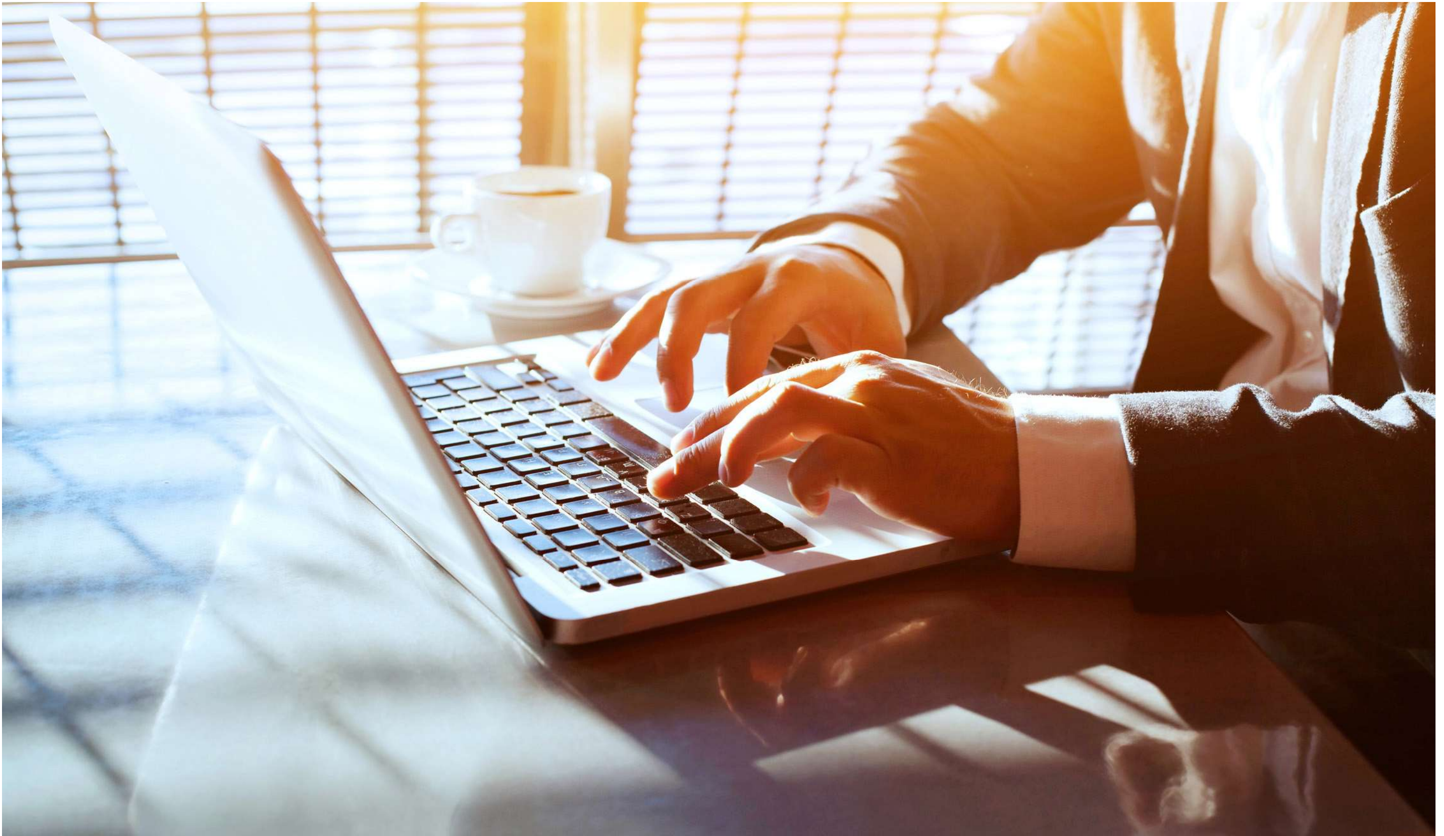
20. ASIC fee increases

The Government is adopting a 'user pays' model so expect increases to accelerate in future years. ASIC's current annual review fee of a special purpose SMSF trustee company is $63. For $436 you can pre-pay the company fees for 10 years and lock in current prices with a decent discount. There is a remittance form linked here.

21. Home Equity Access Scheme (HEAS)

The Home Equity Access Scheme formerly called The Pension Loan Scheme, lets older Australians who are Age Pension age or older get a voluntary non-taxable loan from the Government.

- No negative equity guarantee - Borrowers under the HEAS, or their estate, will not owe more than the market value of the property secured against the loan, minus any other mortgages or legitimate encumbrances.
- Immediate access to lump sums under the HEAS - Eligible people will be able to access up to two lump sum advanc-



es in any 12-month period, up to a total value of 50% of the maximum annual rate of Age Pension (currently $14,511.90 for singles and $21,876.40 for couples).

22. Careful if replacing Income Protection or TPD Insurance (Total Permanent Disability)

Have you reviewed your insurances inside and outside of super? Don't forget to check your current TPD policies owned by the fund with an own occupation definition as the rules changed a few years ago so be careful about replacing an existing policy as you may not be able to obtain this same cover inside super again.

There were major changes to Income Protection insurance in 2021 so be very careful about switching insurer unless costs have blown out as new cover is often vastly inferior to current covers. Read more here before switching cover.

23. Large one-off personal income or gain – Bring forward Concessional Contributions

For those who may have a large taxable income this year (large bonus or property sale) and are expecting a lower taxable next year you should consider a contribution allocation strategy to maximise deductions for the current financial year. This strategy is also known as a "Contributions Reserving" strategy, but the ATO are not fans of Reserves so best to avoid that wording! Just call it an Allocated Contributions Holding Account. See my article on this strategy here.

24. Providing proof of cryptocurrency holdings as of 30 June

You should be using an exchange that is set up for SMSF accounts. They should provide a Tax Summary but it may cost extra. Independent Reserve provides one audited by KPMG for $50. COINSPOT also offer tax reports that meet Australian Audit requirements.

The auditor will also want to verify holdings by checking:

- An exchange account is set up in the name of the fund
- Wallet purchased using funds from the SMSFs cash account

Cold Wallet audit management extra step: For annual audit purposes, take a screenshot of the assets held in your Ledger wallet (e.g. via the Ledger 'Live' App or similar) on 30 June and also on the day you submit your paperwork and email this to the tax agent at tax time.

Liam Shorte is a specialist SMSF adviser and Director of SONAS Wealth. He is also a Director of the SMSF Association and he writes under the social media identity of 'The SMSF Coach'.

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The art of happiness – economics and the “hedonic treadmill”

KEY POINTS

- Despite a big rise in GDP per person, surveyed measures of happiness have been flat to falling in the US and Australia.
- Younger people in the US, Canada, Australia and NZ are the least happy age group. This is a major change from 20 years ago and may be due to the rise of social media.
- Some suggest we are on an “hedonic treadmill” and should focus on something like Gross National Happiness.
- Such an approach would have major implications for investors, but it’s doubtful it would improve happiness.

BY DR SHANE OLIVER

Republished from amp.com.au

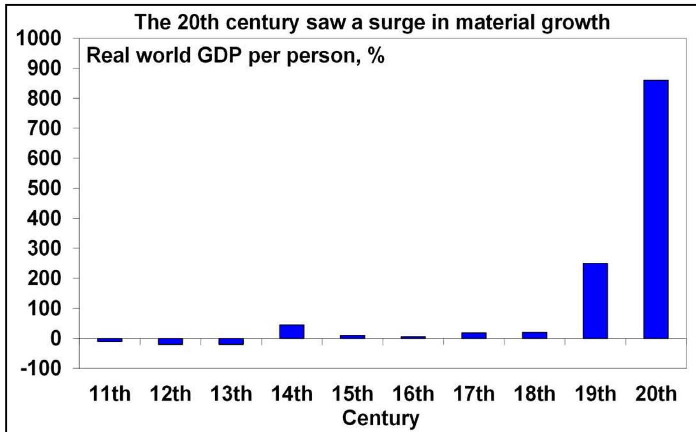
Introduction

On a recent road trip, I was listening to a bunch of Taylor Swift and Andy Williams’ CDs and what struck me was how different the topics of the songs were. Andy’s covers were far more upbeat (with songs like ‘Happy Heart’ and ‘For All We Know’) whereas Taylor has lots of ‘somebody done me wrong’ songs. Of course, it’s dangerous to generalise but then I saw a study from the University of Innsbruck finding that songs have become “gloomier” and “angrier” compared to 50 years ago - which made me think about what it tells us about the wider concept of happiness.

Pursuing happiness is at the centre of our existence. There’s lots of evidence happiness is good for us – happy people live longer, are healthier, more resilient, more creative, are better leaders and are more sociable. Which is where economics comes in. Despite often being portrayed as the “dismal science”, economics is in fact all about happiness. The economic problem is about how to maximise utility (or happiness) with limited resources. So, economics can be thought of as the “art of happiness”. But measures of happiness have been flat or falling in developed countries. So, what gives? Is economics failing us? This became a big issue in the 2000s with lots of books on happiness. There is now even a regular “World Happiness Report using Gallup surveys attempting to gauge happiness.

Rampant prosperity

The 19th century saw the start of rapid global economic growth.

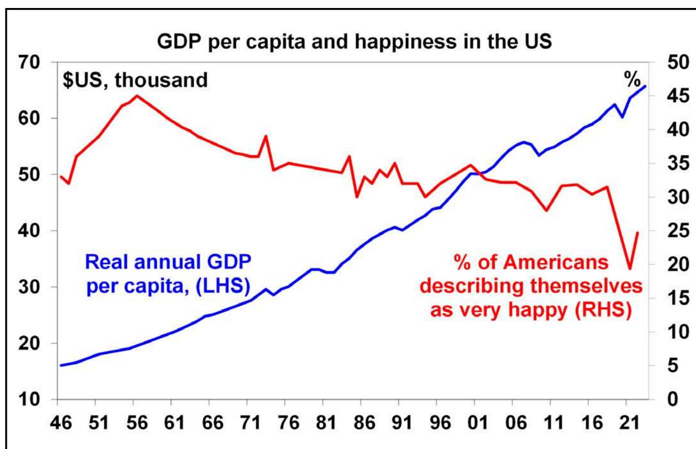


Source: Angus Maddison, AMP

This really took off in the 20th century as technological innovations such as electricity, the internal combustion engine and silicon chips came together to rapidly boost productivity. Consequently, real income or Gross Domestic Product (GDP) per person surged globally. This in turn led to a massive rise in material prosperity with, eg: large climate-controlled homes; high speed affordable travel; high quality & variety of food; a huge array of goods; a massive increase in lifespan, and instant communication & entertainment.

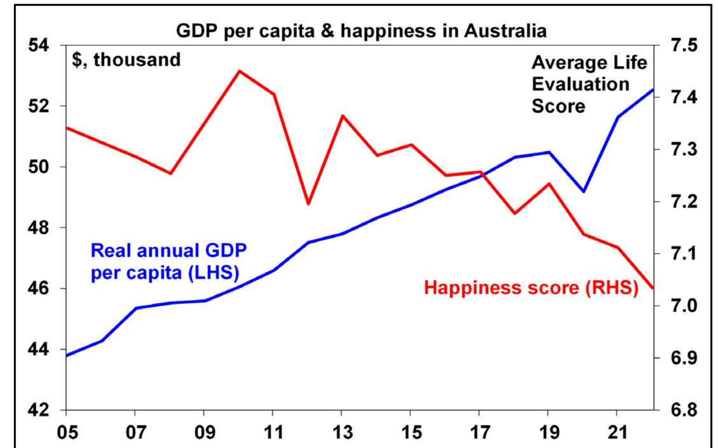
But stagnant happiness in recent decades

Despite the huge surge in material prosperity there is little evidence that happiness levels in developed countries have improved in the last fifty years. This is illustrated in the chart below for the US which shows the percentage of people who say they are "very happy", versus real GDP per person. As income has gone up over the last 50 years, happiness has fallen.



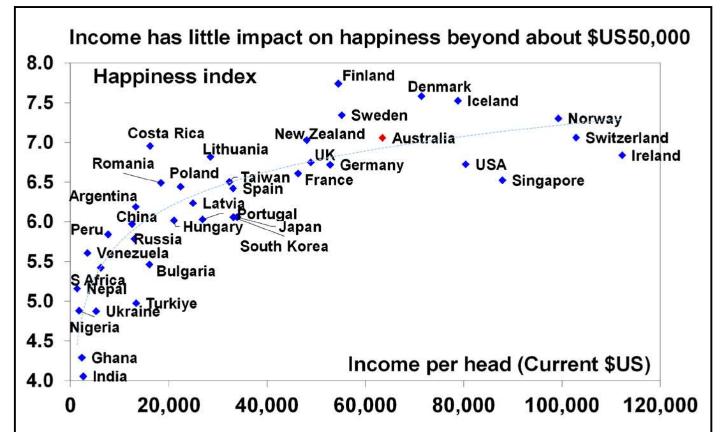
Source: US General Social Survey, IMF, AMP

It's a similar picture for Australia, although we only have Australian happiness data (from the World Happiness Report) for the last 20 years.



Source: World Happiness Report, ABS, AMP

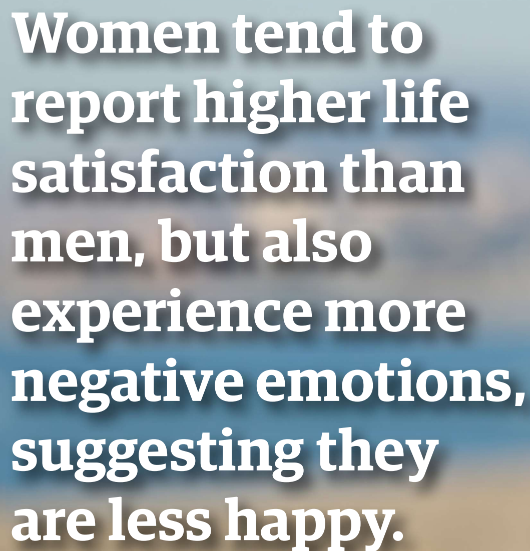
Stagnant or falling happiness is confirmed by rising trends in crime rates, depression diagnoses, suicide rates & drug abuse. This doesn't mean there is no link between income and happiness. The next chart compares income levels and happiness across countries. At low levels of income, extra income can have a big positive impact on happiness. But for countries beyond a certain level (around $US50,000), extra income has little impact.



Source: World Happiness Report 2024, IMF, AMP

This is not to say that happiness is not high in rich countries. In fact, according to the World Happiness Report for 2024 Finland ranks #1 as the most happy and Australia ranks #10 with the US at #23. Lebanon and Afghanistan rank at the bottom at #142 and #143. It's just that in rich countries variations in income across countries have little impact on happiness. Other findings from the happiness studies are as follows:

- Rich people are happier than poor people. This does not mean that society as a whole becomes happier as aggre-



gate income for everyone rises. This has become known as the Easterlin paradox.

- People compare themselves to others (keeping up with the Joneses) in determining their happiness so if average incomes rise they may feel no happier, which may explain the Easterlin paradox.
- Women tend to report higher life satisfaction than men, but also experience more negative emotions, suggesting they are less happy.
- Married men are happier than unmarried men, but it's less clear for women with some studies showing the opposite.
- Younger people in the US, Canada, Australia and NZ are the least happy age group. This is a major change from 20 years ago and may be due to the rise of social media giving rise to increased anxiety and depression amongst the young, particularly young girls. Poor housing affordability may also be impacting.
- Progressives are sadder than conservatives - possibly because they are more empathetic and focussed on a more negative world view.
- Physical & outdoor leisure, shopping, reading books, seeing relatives, listening to music and attending sporting and cultural events are associated with higher happiness. Time on the internet and TV is not.
- People in individualistic societies are happier and freedom to make life choices contributes to happiness.
- People adapt to their situation with evidence we are born with a genetically pre-set level of happiness to which we return to after good events (like winning the lottery) and bad (like having an accident).

Some have claimed that most people are on an "hedonic treadmill" of working ever harder to attain material wealth in the belief this will make them happier only to find it doesn't but resolving to work even harder.

From GDP to Gross National Happiness?

Many argue these findings present a challenge for economists. Economics is about maximising "utility", or happiness. But since happiness is hard to measure, economists assume a good proxy is income and consumption. If consumption is positively correlated with happiness, then policies to boost economic growth will boost happiness. But, if not, this may be misplaced. There are two schools of thought in relation to all of this. The first is to argue economic policy needs to be refocused on broader measures of wellbeing such as Gross National Happiness. The second argues that it is up to the individual to learn how to become

happy. The first approach would mean a radical change in economic policy with proposals to boost happiness like these: tax excessive work (as it doesn't lead to happiness); re-distribute income (because inequality leads to envy and keeps people on the "hedonic treadmill"); reduce the focus on competition and rivalry; spend more money on public goods such as parks; refocus on community; limit advertising to information to avoid creating demand for stuff we don't need; and switch to focussing on Gross National Happiness.

This would have big implications for investors, as these policies would lead to slower profit growth and lower returns from growth assets.

Legislating for happiness makes little sense

However, there are good reasons to be sceptical of proposals for government policy to target happiness:

Firstly, happiness is very hard to measure, making some of the findings referred to above questionable, and impossible to define objectively. Nationally determined concepts of happiness, such as Bhutan's Gross National Happiness concept, depend critically on subjective judgements that governments (or ethnic or religious majorities) may define to suit them. This can be used to justify religious or ethnic persecution and can be used to advance authoritarian aims.

Secondly, just because we get used to something doesn't mean we should stop doing it. Rising material wealth may not permanently boost happiness beyond a certain level because we adapt to it. It would have been expected that the huge increase in healthy lifespans or the increase in measured leisure time would have boosted happiness, but it hasn't. That does not mean we should cut back on health spending or reduce leisure. Policies to increase happiness by cutting work effort or income by redirecting people to other activities may flounder as those activities have the same problems as money, ie, people just get used to them.

Thirdly, while material progress may not be boosting happiness it is doubtful stagnation will either. Curiosity and the desire to advance are fundamental to humanity. Introducing policies to reduce work effort may reduce happiness by suppressing a sense of achievement. Oppression of individual advancement may explain low happiness in socialist countries.

Fourth, restricting choice in favour of officially mandated happiness guidelines may actually reduce happiness as evidence suggests that freedom to make life choices contributes to happiness.

Finally, we are partly dealing here with the outworking of success. The rise in affluence has given people in rich countries the time and money to search for happiness. It should also be recognised that the problems with social media and the decline in happiness it may be contributing to is also a problem of the economic success that gave rise to the technology, wealth and time that facilitate their use. Finding better ways to live with the success that has given rise to social media – a bit like the rules we set around driving cars – is arguably better than threatening to reverse it.

This is not to say that governments should not attempt to measure and boost wider measures of social welfare beyond GDP. But there is a danger in trying to legislate for happiness. There is nothing new in the concept that material wealth won't lead to lasting happiness. Most religions have long been pointing it out. Buddha long ago observed that most human suffering comes from desire and this has to brought under control to achieve happiness. But seeking happiness and enlightenment is up to individuals, not the state. Maybe Thomas Jefferson was on to something when he wrote in the US Declaration of Independence that all people had the right to "Life, Liberty and the Pursuit of Happiness" with the implication that happiness is something we can only pursue.

AMP Limited provides banking, super, retirement and advice services in Australia and New Zealand, supporting over one million customers and employing approximately 3,000 people.

Q&A: Ask a Question

Question 1

I've recently found out that I own both Trauma and Income Protection insurance covers. What is the difference between Trauma and Income protection Insurance?

Trauma insurance pays a lump sum if you're diagnosed with specific critical illnesses, helping cover immediate expenses. It's designed to provide financial support during health crises, such as heart attacks or cancer diagnoses.

Income protection insurance provides a regular income stream if you're unable to work due to illness or injury, covering ongoing living expenses like mortgage payments or bills. Unlike trauma insurance, it supports you financially for a broader range of medical conditions or injuries that prevent you from working.

Question 2

I have a friend of mine who recently set up a Self-Managed Super Fund (SMSF). What are the advantages of having a SMSF?

Self-Managed Superannuation Funds (SMSFs) can offer significant advantages, including control, flexibility, and cost-effectiveness. It allows you to have direct control over your investments, enabling you to tailor your strategies to meet specific financial goals and risk preferences. An SMSF may have lower costs, especially as your fund grows. Additionally, SMSFs can offer tax efficiencies, with lower tax rates on investment income and capital gains, along with potential deductions for contributions, subject to conditions. Estate planning benefits are notable, as you can nominate beneficiaries and dictate how your superannuation benefits are distributed upon death, ensuring your wealth is passed on according to your wishes.

Another advantage of SMSFs lies in asset diversification and the ability to spread risk across various asset classes. You and your family members can benefit from pooling your superannuation savings into a single fund, enhancing cost savings, administrative efficiency, and investment opportunities. Furthermore, SMSFs provide transparency and accountability, offering you detailed information about your investments, transactions and performance.

Despite these advantages, managing an SMSF entails responsibilities, including compliance with legal and regulatory requirements, investment strategy formulation, and administrative tasks. You should speak to your financial adviser before establishing and managing an SMSF.

Question 3

I've been told that I should get my Enduring Power of Attorney's (EPOA) sorted as part of my estate planning. What is an EPOA and what do they do?

In estate planning, an Enduring Power of Attorney (EPOA) is a legal document that allows you (the donor) to appoint another person or persons (the attorney or attorneys) to make financial and/or legal decisions on your behalf, especially if you become unable to make decisions by yourself due to illness or incapacity.

The attorney appointed in an EPOA can be anyone chosen by the donor, typically a trusted family member, friend, or professional advisor. The attorney's role is to act in the best interests of you and make decisions regarding financial and legal matters, such as managing bank accounts, paying bills, buying or selling property, and making investments. They must adhere to any instructions or preferences outlined in the EPOA and act within the scope of authority granted by the donor.

It's essential to choose an attorney carefully and discuss the responsibilities and expectations involved. Additionally, an attorney should act honestly, diligently, and in good faith, always prioritising the donor's wishes and best interests.

If you have a question that you would like to see answered in **Wealth Adviser**, please send it through to **centraladvice@wtfglimited.com**.

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