Changes to Income Protection Insurance

What is income protection?

Also known as 'salary continuance insurance' or 'disability income insurance', income protection provides a portion of your income, for example 75% of your annual salary, if you are unable to work due to injury or sickness for a certain period of time. You need to advise your annual salary when you take out the cover.

Income protection policies always have a waiting period and a payment period. The waiting period is the time you must wait from when you make a valid claim, to the time you become eligible to start receiving payments. The payment period is the period you can be paid so long as you remain unable to work. Other terms and conditions apply depending on the policy. All of these factors affect the level of premiums you pay.

What are the changes?

Recently, the Australian Prudential Regulation Authority (APRA) announced that it is concerned that insurance companies have been keeping premiums at **unsustainably low levels** to compete for customers. APRA also think that some policies have very generous features and terms that, in some cases, provide a financial disincentive for people to return to work after successfully making a claim.

Has APRA announced what changes will be made?

Yes, effective from 31 March 2020, insurance companies must:

- stop providing 'agreed value' policies that are based on the income you advise at the start of cover, regardless of any subsequent change in income. This means no more 'agreed value' contracts can be bought or sold after 31 March 2020.

What other changes are likely to be made?

Other changes, effective from 1 July 2021, include:

- your insured income is to be based on your annual income at the time you make a claim, and are not able to look back more than 12 months
- limits of 100% of income replacement payments can be made in the first six months and 75% thereafter, with a total limit of $30,000 per month
- a maximum payment period of five years, with a right to renew cover
- insurance providers must have adequate risk management processes in place to mitigate the risks associated with long term benefit payment periods.

APRA is seeking feedback on the above changes from the industry by 29 February 2020 and will make a final decision by 30 June 2020.

What happens to existing policies?

If you have an existing retail income protection policy which include a 'Guarantee of Renewability' in the policy wording, that is, the policy is automatically renewed each year, your policy will continue.

Are policies which meet APRA's new expectations available now?

No, to purchase an income protection policy which takes into account APRA's changes we need to wait until the insurance providers have issued new policies with new Product Disclosure Statements.

(Source: RI Article Hub)

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ISSUE 01
Mar 2020

RIT Coastal

Special Edition: Coronavirus Market Impact

In this Issue

Jeff's Jottings

Welcome to our first quarterly newsletter for the year. I trust that you all had a safe and relaxing festive season surrounded by family and friends.

For those that attended any New Years Eve events, I hope you enjoyed the fireworks and festivities provided by our local councils - whether that be at a family friendly time slot earlier in the evening, or ringing in the new year with a bang at midnight.

Inevitably, the Coronavirus has now had an impact on our markets. Please take the time to read the important information on page three of this newsletter, concerning the impact it has had on our markets.

With Easter just around the corner, myself and the team at RIT Coastal wish all of our clients safe travels and happy times over the holiday break.

Kind Regards,

Jeff English

CEO and Senior Financial Adviser RIT Coastal

Market Update

Highlights in December

- The Reserve Bank of Australia (RBA) left the cash rate on hold at 0.75%.
- Australian government bond yields moved higher.
- Credit markets recorded negative returns.
- The ASX200 index decreased by 2.4% in December. Over the calendar year 2019 the ASX200 rose 18.4%.
- The Australian Dollar (AUD) and United States Dollar (USD) edged up throughout December, supported by a more favourable global growth outlook and a better than expected Australian November employment record.

Cash

As expected, the RBA kept policy rates on hold at the December meeting. The RBA staff hinted at the potential for further moves in 2020 and continued to make clear in both statements and speeches that it remained ready to cut "if needed".

Financial markets continue to expect rate cuts, with talk of another rate cut expected. There was a better than expected Australian November employment report. The number of jobs in Australia rose 39.9k in November (the bulk in part-time jobs), the unemployment rate fell 0.1pts to 5.2%, the underemployment dipped 0.2pts to 8.3% and the participation rate was unchanged at 66%. .

The RBA noted again "the Australian economy appears to have reached a gentle turning point" despite sluggish Australian GDP growth in the third quarter and Australia's economy grew by 0.4% (consensus: +0.5%/qtr) or 1.7% over the year. The annual pace of growth remains below trend of 2.75% and sits around the rates of growth recorded at the height of the global financial crisis.

Australian and Global Fixed Interest

Australian government bond yields climbed in Australia over the month of December, in line with market moves globally. The 10 year yield climbed from 1% to 1.32%, which made it one of the larger monthly moves this year.

The rise in bond yields was driven by the slow progress leading up to the US-China trade deal and the fact that Australian economic data was not as bad as feared.

Offshore, as was widely expected, the Federal Open Market Committee (FOMC) left the Federal Funds target range at 1.50 1.75% at the December meeting. Federal Chair Jay Powell emphasised there would need to be a "significant" and "persistent" increase in inflation before interest rates need to rise. On 13 December, the US and China agreed to a phase one trade deal and Prime Minister Boris Johnson's Conservative party won a decisive majority in the UK general election, paving the way for an further progress on Brexit. There was also some better news for global manufacturing and there were signs that China's growth slowdown had stabilised.

Global Credit

The major theme in Australian corporate bond markets in December was higher government bond yields leading to credit markets outperforming. There was less new supply of corporate bonds and that saw investors buy bonds in the secondary market, leading to a reduction in credit spreads (which lifts returns). This saw the Australian credit market record negative returns, but the returns were higher than recorded in other fixed income markets.

Global Equities

Global sharemarkets posted solid gains in December as key geopolitical risks around trade and the Brexit eased. But gains were capped by profit-taking at year-end. In 2019, the US benchmark S&P500 index notched its best annual gain since 2013, up 28.9%, while the Australian S&P/ASX200 index lifted by the most

Is it time to say goodbye to the 5 cent coin?

With rumours circulating again that the humble Australian five cent coin could soon be phased out, we thought we would share a short background on our smallest coin.

The five cent coin was introduced with decimal currency on 14 February 1966. The original reverse design of the echidna on standard circulating coins has not been changed since the introduction. The obverse design was altered in 2016 to mark the 50th anniversary of decimal currency.

All of the first issue of five cent coins in 1966 were produced at the Royal Mint, London. Since the first production from London, five cent coins have been produced by the Royal Australian Mint, the Royal Mint, Llantrisant (UK) and the Royal Canadian Mint.

A little known but interesting fact about the coin is that no five cent coins were produced at all in 1985 or 1986.

So is it time to say goodbye? Whilst some say yes, due to the demand of the coins declining by roughly half over the past five years, those who save their coins in a trusty piggy bank may disagree!

(Source: www.ramint.gov.au)

in a decade, up 18.4%.

Overall in December the US Dow Jones rose by 1.7%, the S&P 500 lifted by 2.9% and the Nasdaq rose by 3.6%. In Europe, the German DAX index rose by just 0.1%, and the UK FTSE gained 2.7%. In Asia, Japan's Nikkei rose by 1.6%, but the ASX 200 lagged, down by 2.4% in the month.

Over December, 17 of Australia's 22 sub-industry sectors posted losses. Food & Staples Retailing fell by the most (down 9.2%) followed by Telecommunications (down by 7.8%). Household & Personal products rose the most, up by 2.8%. Also of note, Consumer Durables & Apparel was among the sectors to post gains, up by 1.7%. Of the size categories, the ASX50 index fell by the most (down by 2.6%), followed by the ASX100 index (down by 2.4%), ASX200 index (down by 2.4%), ASX MidCap50 index (down by 1.5%); and Small Ordinaries down by 0.6%.

Over 2019, the All Ordinaries rose by 19.1% and the ASX200 lifted 18.4%. Total return on shares (All Ords Accumulation index) rose by 24.1% – the best returns in a decade.

Australian Dollar

The Australian trade-weighted index increased by 2.2% in December. The AUD rose against most major currencies except the New Zealand Dollar (NZD).

The AUD and USD edged up throughout December, supported by a more favourable global growth outlook and a better than expected Australia November employment report. The RBA's post meeting Statement also helped AUD early in the month.

As was widely expected, the RBA left the cash rate at 0.75% and maintained its easing bias. However, the RBA pointed out the downside risks to the global economy have "lessened recently" and signalled it wants to assess the effects of the recent cuts to the cash rate on the economy (75 basis points (bps) of rate cuts over the past 6 months) emphasising "the long and variable lags in the transmission of monetary policy".

(Source: Colonial First State)

Small Steps to Great Success

If you want to get ahead, financially, it's necessary to take some steps to get there. It may seem daunting and overwhelming but like anything, if you have a professional guiding you along the way, small steps can lead to something great.

Step 1 | Seek advice

It's hard to achieve great success without a team of experts behind you and your wealth is no different. Getting professional financial advice means your adviser can work through a myriad of options with you and implement a strategy aligned closely to your financial goals. Retirement planning, tax-effective super strategies, investments and estate planning? Your financial adviser can help.

Step 2 | Understand what role risk plays

One of the first things your financial adviser will do is work out your risk profile, which they will check at regular review meetings. Why? Because risk is related to return, and this will help drive the recommendations they make to you in terms of your financial plan. Generally, the higher the risk, the higher the return. While some people like higher risk investments because they have the potential to deliver higher returns, others prefer less risky investments. It's important to remember that markets are cyclical and shares are a long-term investment so if the market wobbles, your financial adviser is best placed to keep an eye on your investments and determine if they remain aligned to your overall financial strategy.

Step 3 | Check your super

Your superannuation could be your largest asset, other than your own home. Given it's such a large sum that you have been contributing to for years and years, and you are relying on it to sustain you in your retirement, isn't it something you want to get right? Sure, it's a long-term investment, but it's important that it is invested in-line with your risk profile and financial goals. And you DO have options. As well as your employer contribution, you can kick in a bit extra through salary sacrificing. Contributing more to super will not only boost your account balance, it could reduce the amount of tax you pay.

Step 4 | Stick to a budget

Sounds boring, right? But a budget is not boring, it's empowering!! Setting a realistic budget helps you understand where your money is going, what can be trimmed and where you can invest to save for your future. Understanding your overall financial health and having a budget aligned to your financial goals gives you a real understanding of the benefits of working with a financial adviser. You can start to see a real change in your circumstances. Having a budget doesn't mean giving up things you want, it just means you plan for them and you make sure you can afford them BEFORE you spend the money. Setting and sticking to a budget is really the simplest way to help you get ahead.

(Source: RI ArticleHub)

Coronavirus (Covid-19) Market Impact *

Overview

• From late December 2019 a new virus outbreak, officially called Covid-19 (a.k.a. "coronavirus"), emerged out of Wuhan, China.

• To date this outbreak was focused on China which accounted for 96.7% of 80,423 confirmed cases and 98.4% of 2,708 reported deaths (as at February 26).

• However, in recent weeks we have seen notable growth in cases particularly in South Korea and Italy as well as Japan, Iran and elsewhere in Europe.

Why did the outbreak affect markets?

Investors fear that the outbreak will further weaken the global economy not just China. Fears of spreading elsewhere into Europe would further weaken an already weakly growing European economy. There are now substantiated fears that this may upset global supply chains with companies such as Apple calling out revenue misses and potential difficulty in getting iPhones to market given factory shutdowns in China. Markets had arguably been rallying in recent weeks despite virus concerns on the assumption that it would be contained. This had seen share market valuations become stretched which heightened the damage we have seen in the last week when investor sentiment weakened.

Implications for your portfolio

Defensive assets like bonds and defensive subsectors such as property have benefitted. Our portfolios as of the most recent SAA review are less than 50% hedged for most risk profiles. These exposures have benefitted from the recent falls in the Australian dollar. We take a long-term approach to investing in emerging markets with their weight in portfolios reflecting their higher expected risk. Clients are not exposed to undue loss as a result. You will see more alarmist headlines such as "global markets lose $x trillion" or "the ASX falls $y billion":

• These headlines are literally true but are unhelpful and misleading. By triggering fear, they help news websites generate traffic and ad sales.

• However, negative daily or even weekly returns in markets can happen often.

- Taking a longer-term perspective is key. Holding for longer periods of time substantially improves the likelihood of a positive return as the below shows for the Australian share market over the longer term.

All Ordinaries Total Returns (1980 – 2020)

Time period	Positive return	Negative return
Daily	54.0%	46.0%
Weekly	57.7%	42.3%
Monthly	63.7%	36.3%
Quarterly	69.4%	30.6%
Yearly	72.5%	27.5%
Rolling 10 years	**100%**	**0%**

Ongoing monitoring and action

Our base case was for the outbreak to be gradually contained in the near term with its impact on the economy limited to weakness in the March quarter and potentially the June quarter of this year. Authorities also stand ready to commit to further stimulus with announcements of new Chinese fiscal stimulus being flagged while the US Federal Reserve has announced its willingness to be proactive should the US economy soften. As a possibility we raised in our previous update, news on the virus did contribute to higher market volatility. The scale of the economic shutdown is also likely to see poor economic data with early warning signs in "flash" Composite PMIs for the US (reflecting the weakness in trade and production as activity has softened). Currently Australian equity market volatility is at 12.6% (annualised) while portfolio composite proxies (using market index benchmarks) are also low. Periods of heightened volatility tend to coincide with share market corrections. Today's levels are below SAA thresholds and longer-term historical averages. All else being equal this would suggest leaving portfolios unchanged.

We will provide further updates if this view changes. If you have any questions or concerns about any of the content in this article please contact your Financial Adviser to discuss.

Sources: John Hopkins CSSE https://gisanddata.maps.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6 (Date accessed: 25 February 2020) Hamblin, James, "You're Likely to Get the Coronavirus" The Atlantic https://www.theatlantic.com/health/archive/2020/02/covid-vaccine/607000/ (Date accessed: 25 February 2020) Roberts, Michelle, "Coronavirus: Could it become pandemic?" BBC https://www.bbc.com/news/health-51358459 (Date accessed: 26 February 2020)

**As at 28 February 2020*

Office Closures

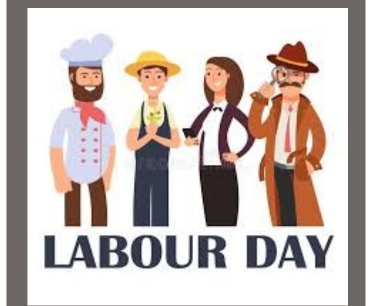
Please note the following office closures:

Easter

We will be closed for the Easter long weekend, 10th - 13th April, reopening Tuesday 14th April.

Labour Day

We will be closed Monday 4th May, reopening Tuesday 5th May



Did you know…

Hot Cross buns have been traced back as early as 1361 when a monk named Father Thomas Rocliffe was recorded to have made small spiced cakes stamped with the sign of the cross, to be distributed to the poor visiting the monastery at St. Albans on Good Friday.