



## NAVIGATING AUSTRALIA'S ECONOMIC CROSSROADS

### RESILIENCE, REFORM, AND THE ROLE OF PREFERENCE VOTES

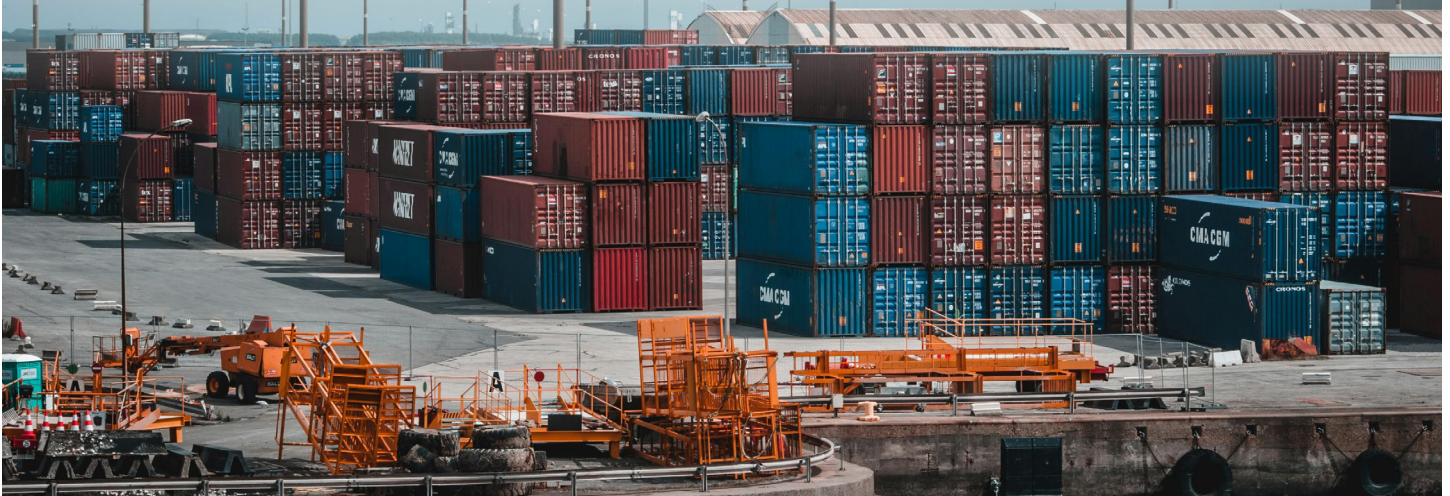


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BY WEALTH ADVISER

### Introduction: Setting the Stage

Australia finds itself at a critical juncture. The nation's economy, while resilient in many respects, faces mounting pressures from stagnant real income growth, rising costs of living, and declining productivity. These challenges have been compounded by global uncertainties, including geopolitical tensions and post-pandemic economic shifts. On the political front, Australia's preferential voting system has brought about a new era of electoral dynamics, with minor parties and independents playing an increasingly pivotal role in shaping policies.

This article explores how Australia can navigate this crossroads by addressing its economic challenges through reform, leveraging its unique voting system to foster resilience and inclusivity, and offering practical insights for investors seeking stability in uncertain times.

#### BEFORE YOU GET STARTED

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**In recent years, Australia has witnessed growing political fragmentation. In the 2022 federal election, nearly one-third of primary votes went to minor parties and independents—a trend that continued into subsequent elections.**

## Australia's Economic Challenges and Opportunities

### The Economic Landscape: A Report Card

Australia's economy has demonstrated remarkable resilience over the past decade, weathering global shocks such as the pandemic better than many other advanced economies. However, beneath this resilience lie structural weaknesses that threaten long-term prosperity. According to recent data, Australia's nominal GDP grew by 51% between 2017 and 2024. Yet this growth masks deeper issues such as stagnant real income levels and declining productivity.

### Key Challenges

#### 1. Stagnant Real Income Growth

Despite robust GDP figures, real income growth has failed to keep pace with inflation. This stagnation has eroded household purchasing power, leaving many Australians struggling to maintain their standard of living. The gap between wage growth and inflation is particularly concerning for middle- and lower-income households.

#### 2. Cost of Living Crisis

Rising housing costs have made Australia one of the most expensive countries in the world to live in. Sydney and Melbourne consistently rank among the least affordable cities globally for housing. Meanwhile, household debt levels are among the highest in the OECD, further exacerbating financial stress for families.

#### 3. Declining Productivity

Productivity growth—a key driver of economic prosperity—has been on a downward trajectory. Factors contributing to this decline include underinvestment in infrastructure, inefficiencies in public services, and a lack of innovation in key industries.

### Opportunities for Reform

While these challenges are significant, they also present opportunities for transformative reform:

- **Taxation Reform:** Simplifying tax structures could reduce inefficiencies and incentivise both domestic and foreign investment.
- **Infrastructure Investment:** Prioritising projects in renewable energy and digital infrastructure could boost productivity while addressing climate change.
- **Innovation Policies:** Encouraging private sector innovation through grants, subsidies, and partnerships could help Australia compete on a global stage.

The Treasury's projections for 2025 suggest cautious optimism, with GDP growth expected to outpace 60% of G20 economies. However, these projections hinge on implementing structural reforms that address underlying inefficiencies.

## The Role of Preferential Voting in Shaping Policy

### Understanding Preferential Voting

Australia's preferential voting system is unique among democracies. Unlike first-past-the-post systems used in countries like the United States or United Kingdom, preferential voting ensures that candidates must secure more than 50% of votes after preferences are distributed. This system fosters broader representation by allowing voters to rank candidates in order of preference.

### Political Fragmentation: A New Era

In recent years, Australia has witnessed growing political fragmentation. In the 2022 federal election, nearly one-third of primary votes went to minor parties and independents—a trend that continued into subsequent elections. Preference votes played a decisive role in determining outcomes in 136 out of 151 seats.

This shift reflects widespread dissatisfaction with traditional party politics. Voters are increasingly turning to independents and smaller parties that address specific local or ideological concerns. For example:

- The rise of 'teal independents,' supported by Climate 200 and Simon Holmes à Court, has highlighted voter demand for greater political accountability and integrity in governance.
- Minor parties such as One Nation have capitalised on discontent with major party policies on immigration and national security.

### Policy Implications

Preferential voting encourages coalition-building and compromise among parties, leading to more inclusive policymaking. However, it also creates challenges:

- Strategic preference deals between parties can dilute policy effectiveness.
- The rise of single-issue candidates may lead to fragmented policymaking rather than cohesive national strategies.

Despite these challenges, preferential voting remains a powerful tool for fostering democratic representation. By understanding how preferences shape election outcomes,

voters can make more informed decisions that align with their long-term interests.

## Implications for Investors: Navigating Uncertainty

### Economic Uncertainty Meets Political Fragmentation

For investors, Australia's current economic and political landscape presents both risks and opportunities. Economic uncertainty—driven by factors such as inflationary pressures and geopolitical tensions—has been compounded by political fragmentation.

#### Key Risks

##### 1. Market Volatility

Political uncertainty often translates into market volatility. Investors are wary of sudden shifts in fiscal or regulatory policies that could disrupt markets.

##### 2. Rising Interest Rates

While interest rates are expected to stabilise or ease slightly in 2025 after aggressive hikes during 2022–2024, their impact on housing affordability and fixed-income investments remains a concern.

##### 3. Geopolitical Tensions

Australia's economic dependence on China makes it vulnerable to geopolitical disruptions. Trade restrictions or diplomatic conflicts could significantly impact key industries such as mining and agriculture.

#### Strategies for Resilience

To navigate these risks, investors should consider adopting strategies that prioritise resilience:

- **Diversification:** Spreading investments across asset classes (e.g., equities, bonds) can mitigate risk.
- **Sustainable Investing:** ESG-focused funds offer long-term growth potential while aligning with global trends toward sustainability.
- **Long-Term Planning:** Leveraging tax-efficient strategies such as self-managed superannuation funds (SMSFs) can help preserve wealth during periods of uncertainty.

By staying informed about economic trends and adapting their portfolios accordingly, investors can position themselves to thrive even amid uncertainty.

#### Case Study: Lessons from Recent Elections

To illustrate how preferential voting shapes policy outcomes—and its implications for investors—it is worth examining recent elections:

1. In marginal electorates such as Wentworth (NSW), preference flows from independents played a decisive role in unseating incumbents.
2. The rise of teal independents has pushed major parties

toward stronger climate policies—a key issue influencing renewable energy investments.

These examples highlight how electoral dynamics can directly impact policy directions that affect both everyday Australians and institutional investors.

## Conclusion: Resilience Through Reform

Australia stands at a crossroads where economic challenges intersect with political transformation. Addressing structural inefficiencies through reform is essential for ensuring long-term prosperity. At the same time, leveraging the strengths of Australia's preferential voting system can foster more inclusive policymaking that reflects diverse perspectives.

For voters, understanding the power of preferences is crucial for shaping policies that align with their values and priorities. For investors, adaptability will be key to navigating uncertainty while capitalising on emerging opportunities.

As Australia moves forward into an era defined by both challenges and opportunities, resilience will depend on collective efforts—by policymakers, businesses, voters, and investors alike—to embrace change and build a more prosperous future.

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A photograph of an elderly couple embracing each other from behind, standing on a wooden pier or dock overlooking a calm body of water. The man is on the right, wearing a light blue button-down shirt and dark trousers, with his arms around the woman. The woman is on the left, wearing a white long-sleeved top and light-colored trousers, with her hair in a ponytail. They are both looking out over the water towards a distant shoreline with trees under a clear sky.

# LIFE EXPECTANCY REIMAGINED NAVIGATING FINANCIAL RISKS AND RETIREMENT REALITIES

Photo by cottonbro studio/www.pexels.com

**BY WEALTH ADVISER**

## Introduction: The Changing Perception of Life Expectancy

Life expectancy is one of the most widely misunderstood concepts in retirement planning. It is often quoted as a single number—a statistical average—but this simplification obscures the complexity of individual survival probabilities. For retirees, this misunderstanding can lead to miscalculations about how long their savings need to last, exposing them to longevity risk—the risk of outliving their wealth. As Australians live longer than ever before, retirement planning must evolve to address this challenge.

In addition to longevity risk, retirees face a host of financial uncertainties, including market volatility, inflation, sequencing risk, and behavioural biases. These risks require a nuanced approach that combines philosophical insights with practical strategies. This article explores how rethinking life expectancy can help retirees navigate financial risks and design resilient retirement plans that align with their personal goals.

## The Misconception of Life Expectancy in Financial Planning

Life expectancy is often misunderstood as a fixed end-point rather than a dynamic probability. For example, life expectancy at birth is an average based on population-wide data that includes infant mortality and other early-life factors. However, as individuals grow older, their survival probabilities improve. This means that life expectancy at age 65 is significantly higher than life expectancy at birth—a critical distinction for retirees.

## Don Ezra's Perspective

Don Ezra's article "Life Expectancy and Why I Don't Like the Expression" offers valuable insights into this misconception. He uses the example of a fictional species called Amici to illustrate how survival probabilities change over time. For instance, if Amici have an average life expectancy of 80 years at birth but survive to age 65, their new life expectancy increases to 85 years. This demonstrates that retirees should plan for longer lifespans than generalised statistics suggest.

## Implications for Retirement Planning

Failing to account for these nuances can lead to two major risks:

1. **Underestimating Longevity:** Retirees may deplete their savings prematurely if they base their plans on average life expectancy rather than individual probabilities.
2. **Overestimating Longevity:** Conversely, excessive caution may lead retirees to underspend and miss out on enjoying their savings.

To address these risks, financial advisers must educate clients about the probabilistic nature of life expectancy and incorporate personalised projections into retirement plans. External tools such as actuarial tables provided by the Australian Bureau of Statistics (ABS) can help refine these projections.

## Navigating Financial Risks in Retirement

Retirement introduces several financial risks that can jeopardise long-term wealth preservation. These include:

### 1. Sequencing Risk

Sequencing risk refers to the danger posed by poor investment returns early in retirement. For example, if a retiree experiences significant portfolio losses immediately after retiring, they may be forced to withdraw funds at depressed values, reducing their capital base and limiting future growth potential.

- **Example:** Consider a retiree who begins withdrawing \$50,000 annually from a \$1 million portfolio during a market downturn that reduces their balance by 20%. Their remaining balance after withdrawals would be \$750,000—substantially lower than if the downturn occurred later in retirement when withdrawals had already reduced the portfolio size.
- **Solution:** Strategies such as maintaining a cash reserve or adopting dynamic withdrawal rates can mitigate sequencing risk.

### 2. Inflation Risk

Inflation erodes purchasing power over time, making it particularly dangerous for retirees who rely on fixed incomes or conservative investments.

- **Example:** A retiree receiving \$40,000 annually from an annuity may find that this income covers fewer expenses as inflation rises. Over 20 years at an average inflation rate of 2%, their purchasing power would decline by nearly 33%.
- **Solution:** Incorporating growth-oriented assets such as equities into portfolios can help offset inflation risks.

### 3. Market Volatility

Market fluctuations can destabilise retirement plans by

creating uncertainty around income sustainability.

- **Example:** A retiree invested heavily in equities may experience anxiety during periods of market turbulence, leading them to sell assets at a loss.
- **Solution:** Diversified portfolios combining equities, bonds, and cash can balance growth potential with stability.

### 4. Behavioural Biases

Emotional decision-making often leads retirees to make suboptimal financial choices during periods of stress or uncertainty.

- **Example:** Panic-selling during market downturns or overconfidence during bull markets can disrupt long-term plans.
- **Solution:** Working with professional advisers can help retirees avoid impulsive decisions and stay focused on long-term goals.

## Lifetime Income Streams: A Solution or Oversimplification?

Lifetime income streams are often marketed as a solution to longevity risk because they provide guaranteed income for life. However, these products are not without limitations.

### Advantages of Lifetime Income Streams

- **Predictability:** Lifetime income streams offer consistent payments regardless of market conditions.
- **Simplicity:** Retirees do not need to actively manage investments or worry about running out of money.
- **Peace of Mind:** Knowing that income is guaranteed provides emotional security.

For example, annuities and defined benefit pensions are popular options for retirees seeking predictable income streams.

### Disadvantages of Lifetime Income Streams

- **Inflexibility:** Funds allocated to lifetime income streams are often inaccessible for emergencies or bequests.
- **Potential Underperformance:** Returns may not keep pace with inflation or alternative investments.
- **Complexity:** Many retirees struggle to understand the features and implications of these products without professional advice.

As highlighted in “Are Lifetime Income Streams the Answer or Just the Easy Way Out?”, these products are best suited for risk-averse retirees who value stability over flexibility. However, they should not be viewed as a one-size-fits-all solution. Combining lifetime income streams with other strategies—such as account-based pensions—can provide greater flexibility while still addressing longevity risk.

**Reimagining life expectancy is central to addressing longevity risk and designing resilient retirement plans. By understanding the nuances of survival probabilities, mitigating financial risks through diversified strategies, and aligning plans with personal goals, retirees can achieve both security and fulfilment.**

### Designing a Life with Money to Spare

Retirement planning is not just about preserving wealth—it's also about enjoying it. As highlighted in “Designing a Life - With Money to Spare,” retirees must balance financial security with personal fulfilment.

#### Aligning Financial Plans with Personal Goals

Retirees should begin by identifying their priorities:

- What lifestyle do they want in retirement?
- How much do they need for essential expenses versus discretionary spending?
- Do they want to leave an inheritance or donate to charity?

By answering these questions, retirees can create budgets that reflect their values while ensuring long-term sustainability.

#### Creating a Safety Margin

A safety margin provides a buffer against unexpected costs or extended longevity:

- For example, setting aside funds in low-risk investments such as term deposits can offer liquidity for emergencies.
- Retirees should also consider insuring against major health expenses through private health cover or long-term care insurance.

#### Seeking Professional Advice

Working with financial advisers is essential for integrating complex strategies into cohesive plans:

- Advisers can help retirees optimise tax efficiency through strategies such as superannuation drawdowns and franking credits.
- They can also provide guidance on transitioning from accumulation (saving) to decumulation (spending) phases.

### Conclusion: A Holistic Approach to Retirement Planning

Reimagining life expectancy is central to addressing longevity risk and designing resilient retirement plans. By understanding the nuances of survival probabilities, mitigating financial risks through diversified strategies, and aligning plans with personal goals, retirees can achieve both security and fulfilment.

Ultimately, successful retirement planning requires adaptability and informed decision-making. Whether through lifetime income streams or customised portfolios, retirees must embrace strategies that reflect their unique circumstances while preparing for an uncertain future.

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# TAX CUTS, HOUSING SUPPORT, AND HEALTHCARE REFORMS

## WHAT THE FEDERAL BUDGET MEANS FOR YOUR WEALTH

BY WEALTH ADVISER

### 1 Introduction: Framing the Federal Budget's Impact on Australians

The 2025-26 Australian Federal Budget has been unveiled, marking a pivotal moment for households, businesses, and the broader economy. With a strong emphasis on addressing cost-of-living pressures, enhancing housing affordability, and improving healthcare access, this budget aims to provide targeted relief while laying the groundwork for long-term economic resilience.

For individuals navigating these changes, understanding the budget's key measures is essential to making informed financial decisions. Whether it's leveraging tax cuts to boost disposable income, taking advantage of expanded housing schemes, or reducing healthcare expenses through enhanced rebates, this year's budget offers opportunities to preserve and grow wealth.

This article explores the practical implications of the Federal Budget's major reforms—tax cuts, housing support,

and healthcare improvements—while offering insights into how Australians can adapt their financial strategies to benefit from these changes.

### 2 Tax Reforms: Keeping More of What You Earn

One of the standout features of the 2025-26 Federal Budget is its focus on tax relief for individuals and families. The government has announced significant changes to personal income tax rates, which are set to deliver meaningful savings for taxpayers over the next two years.

From July 2026, the marginal tax rate for middle-income earners will decrease from 32.5% to 30%, while low-income earners will benefit from an increase in the Low-Income Tax Offset (LITO). Additionally, adjustments to Medicare levy thresholds will ensure that more low-income Australians are exempt from paying this levy, providing further financial relief.

These measures are expected to boost disposable income and stimulate economic participation. According to NAB's

**Housing affordability remains a critical issue for many Australians, and this year's budget introduces expanded measures aimed at helping first-home buyers and renters alike. One of the key initiatives is the expansion of the "Help to Buy" scheme, which allows eligible buyers to purchase a home with as little as a 2% deposit while the government takes an equity stake of up to 40%.**

analysis of the budget, "tax relief will help households manage rising living costs while encouraging spending and investment." For individuals, this presents an opportunity to reallocate savings toward long-term goals such as superannuation contributions or investments in diversified portfolios.

However, it's important to approach these changes strategically. As Deloitte highlights in its budget analysis, "structural deficits remain a concern," meaning that future tax policies may need to balance short-term relief with long-term fiscal sustainability. Australians should consider using their tax savings wisely by focusing on debt reduction or building emergency funds to safeguard against potential economic uncertainties.

### **3 Housing Affordability: New Opportunities for Home Buyers**

Housing affordability remains a critical issue for many Australians, and this year's budget introduces expanded measures aimed at helping first-home buyers and renters alike. One of the key initiatives is the expansion of the "Help to Buy" scheme, which allows eligible buyers to purchase a home with as little as a 2% deposit while the government takes an equity stake of up to 40%.

The scheme's eligibility criteria have been broadened significantly, with higher income caps (\$120,000 for singles and \$200,000 for couples) and increased property price limits across major cities and regional areas. However, as AMP notes in its analysis, "the scheme remains capped at 10,000 places per year," meaning competition for these spots is likely to be intense.

To complement this initiative, the budget also allocates funding for housing construction apprenticeships and grants aimed at increasing housing supply over the next five years. While these measures are steps in the right direction, Deloitte warns that "addressing supply shortages will require sustained investment beyond this budget cycle."

For prospective buyers, now is an opportune time to explore whether they qualify for these schemes and how they align with their financial goals. Consulting with a financial adviser can help individuals assess their borrowing capacity and understand the long-term implications of shared equity arrangements.

### **4 Healthcare Reforms: Reducing Out-of-Pocket Costs**

Healthcare costs are a significant burden for many Australians, but this year's budget introduces reforms designed to ease that pressure. Starting in November 2025, Medicare rebates for GP visits will increase substantially—marking one of the most significant boosts to bulk billing incentives in recent years. This change is expected to benefit over 11 million Australians by reducing out-of-pocket expenses for primary care services.

In addition to GP rebates, prescription costs under the Pharmaceutical Benefits Scheme (PBS) will be lowered further, with maximum co-payments reduced from \$30 to \$25 per script. Specific measures targeting women's health have also been introduced, including expanded rebates for IUDs and oral contraceptives as well as funding for menopause-related treatments.

According to NAB's commentary on healthcare reforms: "These initiatives not only improve access but also address long-standing gender disparities in healthcare affordability." For families managing tight budgets amid rising living costs, these changes represent tangible savings that can be redirected toward other priorities such as education or retirement planning.

However, AMP cautions that while these reforms are welcome news for households, they come with significant fiscal implications given Australia's ageing population and growing demand for healthcare services.

### **5 Broader Economic Implications: Preparing for Long-Term Resilience**

Beyond individual measures like tax cuts and healthcare rebates, the Federal Budget also addresses broader economic challenges such as energy costs and education affordability—both of which have far-reaching implications for household wealth management.

To combat rising energy prices, the government has announced targeted bill relief for low-income households and small businesses through direct subsidies funded by revenue from renewable energy investments. As Deloitte points out in its analysis: "These measures align with Australia's transition toward net-zero emissions but must be carefully managed to avoid inflationary pressures."



In addition, changes to HELP debt repayment thresholds aim to provide young Australians with greater financial flexibility early in their careers. Under new rules effective July 2025, graduates earning below \$60,000 annually will no longer be required to make compulsory repayments—a move designed to alleviate financial stress among younger cohorts struggling with high living costs.

While these initiatives offer immediate benefits for many Australians, they also highlight ongoing structural challenges facing Australia's economy—including persistent deficits projected over the next decade due largely to increased spending on social services.

## 6 Conclusion: Navigating Financial Opportunities Amid Change

The 2025-26 Federal Budget represents a mix of short-term relief measures and long-term structural adjustments aimed at fostering economic resilience during uncertain times. For individuals seeking to maximise their wealth amid these changes:

- Tax reforms provide an opportunity to boost disposable income—ideal for reducing debt or growing investments.

- Housing support schemes create new pathways into homeownership but require careful consideration of eligibility criteria and shared equity implications.
- Healthcare reforms reduce immediate out-of-pocket expenses while addressing systemic inequities in access.

Ultimately, navigating these opportunities requires a proactive approach informed by both expert advice and personal financial goals. By staying informed about policy changes and adapting strategies accordingly, Australians can position themselves not only to weather current challenges but also build lasting financial security.

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# Q&A: Ask a Question

## Question 1:

**My friend mentioned they're using the Home Equity Access Scheme (HEAS) to help fund their retirement. What is it, and how much can I get from it?**

The Home Equity Access Scheme (HEAS) is a government initiative that allows eligible older Australians to supplement their retirement income by unlocking equity in their home or other real estate. It provides a voluntary, non-taxable loan through Services Australia, with the loan amount secured against the person's property. You don't need to be receiving the Age Pension to apply, but you must be of Age Pension age and meet residency requirements. The funds can be received as regular fortnightly payments, a lump sum, or a combination of both, and interest is charged on the loan and compounds over time.

The maximum you can receive under the scheme is currently up to 150% of the maximum Age Pension rate, including supplements. The loan is typically repaid when the property is sold or can be repaid earlier if preferred. Importantly, a No Negative Equity Guarantee applies, meaning you won't owe more than the value of the property used to secure the loan. As of April 2025, the interest rate is 3.95% per annum, though this may change over time. You should speak to your financial adviser to help you navigate the appropriateness and suitability of using this scheme.

## Question 2:

**Can I nominate my siblings to receive my superannuation when I die?**

You can only nominate your siblings in a binding death benefit nomination if they meet the definition of a dependent under superannuation law at the time of your death. This means they would need to be financially dependent on you, in an interdependent relationship with you, or both. Simply being related—such as being a brother or sister—is not enough on its own to make them eligible.

If your sibling doesn't meet one of these criteria, you can still nominate your legal personal representative (your estate) and direct your super to your sibling through your will. It's important to ensure your nomination is valid under your fund's rules, as an invalid nomination could result in the trustee deciding who receives your benefit.

## Question 3:

**If I get a new job within the same industry, can I increase my income protection without going through underwriting?**

Some income protection policies include a guaranteed future insurability or benefit indexation feature, which may allow you to increase your cover without full medical underwriting—particularly if your income increases. However, this typically depends on the terms of your policy, how recently the cover was set up, and whether you meet specific criteria, such as remaining in the same occupation or industry.

It's important to note that conditions, limits, and timeframes usually apply. Some policies may only allow adjustments on policy anniversaries or require financial evidence of your new income level. If you're thinking about changing jobs or have already done so, you should speak to your financial adviser to understand the options you may have.