

Contents

- Division 296: the initial moves to make before the windows close *Liam Shorte*
- Avoid unnecessary CGT with this estate planning clause *Shani Jayamanne*
- The hidden trade-off in fixed income ETFs *Martin Smith*
- The mortgage free retirement is fading *Osei Wiafe PhD*
- The key question to inspire a confident and purposeful retirement *Derek Gascoigne*
- Making the case for a 'good enough' portfolio *Christine Benz*
- Is the US market as expensive as CAPE says? *Jason Teh*
-

Editorial

For years, one of the most famous economic findings was that money could improve wellbeing only up to a point. I think this likely provided many with a sense of comfort, because it suggested there were limits to what the pursuit of additional wealth could achieve.

More recently, [newer research by the same author has complicated the picture](#) by implying that emotional wellbeing continues to improve alongside income, well beyond the thresholds that were previously identified.

This finding came back to mind when reading Shane Oliver's latest insights on [the economics of happiness](#). Much of the developed world has seen decades of rising prosperity, yet measures of happiness have remained broadly flat.

The two observations are difficult to reconcile. At the individual level, higher incomes seem to be associated with greater wellbeing. At the societal level, ever-increasing prosperity does not appear to be producing ever-increasing happiness.

Beyond the academic jargon, economics has always struck me as an attempt to understand human behaviour. This is why I think the paradox is so fascinating. The average Australian today enjoys material comfort that would have bewildered previous generations. So why aren't we correspondingly more content?

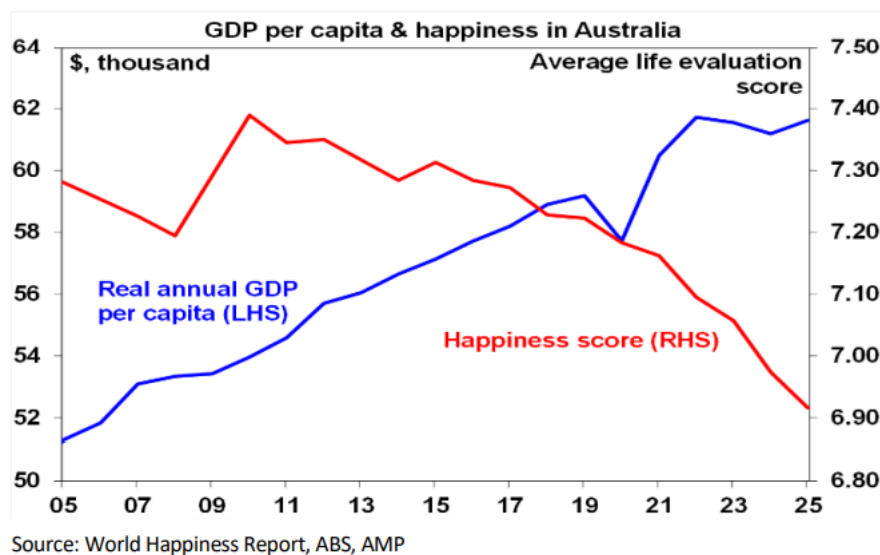
A life our ancestors would envy

To begin answering that question, we need to step outside our own moment in history. For thousands of years, life revolved around survival and retirement as we understand it today was unimaginable.

My grandmother was born towards the end of World War II. She likes to joke that for most of her life, the family was vegetarian for economic, rather than moral reasons. Meat was a luxury not afforded to the masses.

Truth be told, I occasionally find the thought strangely unsettling. We tend to mull over history as though it belongs to another world when in fact, it often still sits at our dining table. By these standards, many of us now inhabit a different universe entirely.

We can communicate instantly across continents and be anywhere in a matter of hours rather than months. There are now medical treatments for ailments that would have once rendered one incapacitated. A visitor from another century would assume that we had solved the problem of happiness. However, the chart below suggests otherwise.



If happiness is primarily a function of material conditions, we should be living through a golden age. Of course, in most respects we certainly are, but clearly comfort and happiness are not quite the same thing.

When money stops being the main problem

A common explanation for this paradox is what psychologists call hedonic adaptation. Economists often refer to this as the hedonic treadmill. It seems that humans tend to adapt quickly to changes in circumstance. The excitement of a new house fades, just as the long-awaited retirement eventually becomes a part of everyday life.

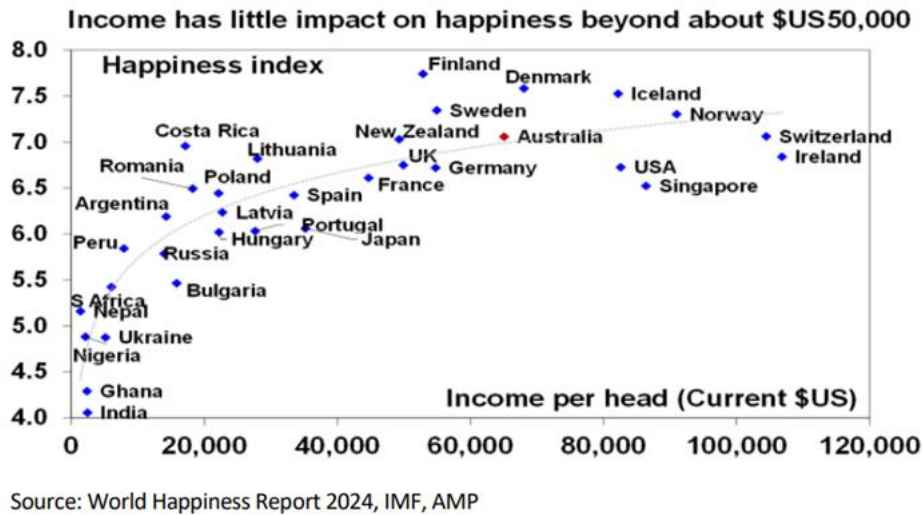
Shane points out that select researchers argue chasing greater levels of material success leads to the discovery that improvements in happiness are only temporary. There might be a good deal of truth to this, though I don't believe it explains as much as we think.

One thing that strikes me about debates on money and happiness is how quickly they present a false dichotomy. Either money creates happiness or it comes from somewhere else entirely. But as we know, most things tend to exist in the grey.

Financial insecurity is not simply an inconvenience or romantic condition that builds character. It is incredibly difficult to contemplate self-actualisation when you are suffering or worried about keeping a roof over your head. Those who have experienced it know that money can solve an extraordinary

number of immediate problems. It is for this reason that I've always found the phrase "money can't buy happiness" rather hollow.

The evidence strongly indicates the richer countries tend to be happier than poorer ones. Yet there is also something more complex going on. Switzerland is significantly wealthier than New Zealand but reported happiness levels are similar.



Extra income appears to matter immensely when people are struggling to meet basic needs. However, beyond a certain level, the gains are less dramatic. The better question is why income's contribution to happiness appears to change beyond a point. Perhaps wealth alters the nature of our problems rather than eliminating them.

The tyranny of expectations

I often feel that modern prosperity has replaced physical burdens with psychological ones. Though there is less uncertainty about survival, perhaps there is more about our significance.

Another finding highlighted in Shane's paper is that people naturally compare themselves to others. If everyone's income rises together, our relative position is largely unchanged, even if absolute standard of living has improved.

Of course, comparison is not a new notion, but what has changed significantly is its scale. We have moved from comparing ourselves with neighbours, colleagues and a handful of local rivals, to everyone imaginable.

Social media now enables a constant stream of curated lives, which when measured against our own can appear much more prosperous. Shane highlights this as a possible contributor to declining wellbeing, especially among younger people. However, comparison alone likely doesn't explain everything.

A mere few decades ago, an overseas holiday was the sort of experience people spoke about for decades. Today, some regard it as an annual entitlement. I can't be the only one who becomes mildly irritated if an app takes more than a few seconds to load. I say this while holding a device in my hand that contains most of humanity's accumulated knowledge.

We possess a strange ability to normalise yesterday's miracles. It is easy to pass this off as ignorance or greed, but it could also simply reflect that hedonic adaptation.

What happens after we reach the finish line?

I would hesitate to conclude that financial ambition is somehow misguided. The more interesting question may not be why people pursue wealth in the first place, rather what happens once they have largely succeeded.

I'd imagine many readers have spent decades saving consistently, investing through several market cycles and preparing diligently for the future. If all goes well, eventually the future arrives.

For much of our working lives, we are occupied by the challenge of accumulation. Then once financial security is achieved, the question is no longer whether we have enough, but what 'enough' was even for. What do we do with the freedom that wealth creates?

The purpose of prosperity

I've gradually come to think that the most useful way to view money is as a facilitator of happiness, rather than a source itself. This may be why the relationship between money and happiness remains elusive. A certain level of wealth cultivates a sense of security and choice. Whilst these are not trivial achievements, purpose likely belongs to a different category altogether.

The stern face of Sir John Monash on the \$100 note cannot instruct us on how to spend our freedom, or what kind of life is ultimately worth living.

Accumulating "enough" is never the end of the story. For those fortunate enough, it is just the beginning of another chapter.

Simonelle Mody

Also in this week's edition...

- Several planning windows are narrowing for those affected by Div 296. **Liam Shorte** walks through [the initial moves to make](#) before your options disappear.
- **Shani Jayamanne** explores one [overlooked clause in an estate plan](#) that may create a ticking CGT time bomb for families.
- Similar-looking investments can still produce surprisingly different results. **Martin Smith** analyses [the hidden trade-off in fixed income ETFs](#).
- A new study shows that [the mortgage free retirement is fading](#). Retirement researcher, **Osei Wiafe** suggests a nation-wide rethink.
- The transition to retirement can often be harder and less fulfilling than expected. **Derek Gascoigne** poses [a key question to ask](#) before we hit this stage.
- Some investors spend years chasing the perfect strategy. **Christine Benz** makes [the case for a 'good enough' portfolio](#).
- **Jason Teh** is back to evaluate [whether the US equity market is really as expensive as the CAPE ratio suggests](#).

Curated by Simonelle Mody and Leisa Bell

Division 296: the initial moves to make before the windows close

Liam Shorte

The most valuable planning happens before 1 July 2027 – and the single best lever, equalising balances between spouses, closes the moment one of them dies. What follows is general information for advisers and trustees, not advice on any particular fund.

Equalise balances while both spouses are alive

Division 296 measures each member as an individual, not the couple as a unit. A couple each holding \$2.5 million sits entirely below the threshold. The same \$5 million held by one spouse, with the other on nothing, exposes around \$2 million to the extra tax for no reason other than how the money is split. While both spouses are alive and both can still receive contributions, that split is movable: contribution splitting of concessional contributions to the lower-balance spouse, re-contribution after a withdrawal, directing future contributions toward the spouse with room, and the spouse contribution all push the balances toward the middle.

Scenario	Primary levers
Single or couple combined below \$3m, approaching over time	Monitor projected balances against an indexed threshold. Keep both spouses' balances broadly even so each uses their own \$3m for as long as possible. Consider making the SMSF cost base election even before any member crosses \$3m, where the fund holds appreciated assets and is on a path to exceed. No withdrawal action is usually warranted yet.
Couple — one above \$3m, one below	Equalise. Spouse contribution splitting of concessional contributions, re-contribution to the lower-balance spouse where a condition of release is met, and directing future contributions and SG to the lower spouse all shift balance off the over-threshold member. For the over-threshold member, manage realised earnings — turnover, distribution timing, asset location.
Couple — both above \$3m	Equalisation offers little once both are over the line. Focus moves to managing realised earnings, the cost base election, asset location within and outside super, redirecting new capital to outside-super structures, and death benefit planning so the first death does not stack both balances onto the survivor.
Single member or survivor above \$3m	The highest-exposure position, with no spouse to equalise with. Manage drawdowns above the pension minimum to bring TSB down by 30 June, consider partial commutation and withdrawal where eligible, redeploy withdrawn capital to a suitable outside-super structure, and align estate planning so the estate is not left with an unfunded final-year assessment.

The hard deadline is the first death. When a spouse dies, their balance must leave the super system or convert to a death benefit pension for the survivor – it cannot be split back to even the couple out. A

death benefit pension counts toward the survivor's own balance, so a survivor who inherits a large benefit can be carried well above \$3 million with no mechanism left to unwind it. Equalisation is the cheapest Division 296 strategy on the table, and it has an expiry date nobody can forecast. Treat it as the first conversation, not the last.

Move capital to the next generation

A parent who has met a condition of release can take money out of super entirely, lend it to adult children, and have the children recontribute it as non-concessional contributions. The capital shifts into balances sitting far below any Division 296 threshold while staying inside the family. Document the loans as loans: written agreements, terms stated, repayable on demand or on the parent's death. Pair that with a non-lapsing binding death benefit nomination directing the child's remaining super to their estate, and a will that controls where it lands (loan can be repaid to the parent's), so the capital stays in the bloodline rather than leaking to a child's former partner.

The numbers reward acting across the indexation step. Take a parent with \$4 million and two adult children. Before 30 June 2026, the parent withdraws \$240,000 and each child contributes \$120,000 as a non-concessional contribution under the 2025/26 cap. Once the cap indexes to \$130,000 on 1 July 2026, the parent withdraws a further \$1,050,000: each child contributes \$130,000 in 2026/27, then triggers the bring-forward in 2027/28 to contribute \$390,000 – three years at the indexed \$130,000 cap. That is \$640,000 into each child, \$1.28 million across the two, with the children's balances needing to be under the relevant total super balance threshold of \$2.1 million for the full bring-forward to be available. The parent's balance falls from about \$4 million to roughly \$2.71 million by the 30 June 2027 measurement date – under the threshold for the transitional first year, so no Division 296 reaches them for 2026/27 at all.

Year	NCC per child	Cap basis
FY2025–26 (pre 30 June 2026)	\$120,000	Standard annual cap (\$120,000); bring-forward not triggered
FY2026–27 (pre 30 June 2027)	\$130,000	Indexed annual cap (\$130,000 from 1 July 2026); bring-forward not triggered
FY2027–28 (post 1 July 2027)	\$390,000	Three-year bring-forward triggered at the indexed \$130,000 cap
Total per child	\$640,000	

Commute and recontribute to reset components and protect the survivor

Pension commutation paired with recontribution does two jobs in one move. Withdrawing a taxable-heavy benefit and recontributing it as a non-concessional contribution lifts the tax-free proportion of the balance, which matters most for the death benefits tax a non-dependant child would otherwise wear. Run across a couple, the same mechanism feeds the equalisation work above: commute from the higher-balance spouse, recontribute to the lower, and the components improve while the balances even out. The window is the period while both members are alive and both can still receive contributions. Once a member can no longer contribute, the lever is gone, so the sequencing of commutations against age and contribution eligibility needs to be mapped years ahead, not in the final return.

Direct death benefits out of super

The default outcome – a death benefit pension to the surviving spouse – is exactly the thing that compounds a survivor's balance toward Division 296. The alternative is to direct the death benefit out of the super system to the estate, through a binding nomination, and have a testamentary trust receive it. The capital then sits outside super entirely, the survivor's own balance keeps compounding only on its own earnings, and the testamentary trust can stream income to beneficiaries on favourable terms, including to minor children at adult marginal rates.

The trade-off is real and has to be priced. Money paid to the estate loses the concessional super earnings rate and any tax-free pension treatment it would have carried inside super. So this suits couples whose survivor is already near or above the threshold, where the saving on future Division 296 outweighs the earnings tax given up – not couples with room to spare, who are better off keeping the benefit in the concessional tax environment. The decision turns on the survivor's projected balance, not a general preference for keeping money in super.

The two paths compared

	(a) Death benefit pension to survivor	(b) Lump sum out of super
Survivor's TSB	Increases by value received — immediately at date of death	No change — funds leave the super system
Division 296 exposure (survivor)	Carried forward; can arise at the next 30 June even within the TBC grace year	Removed on that money for all future years
Transfer balance cap	Reversionary: credit deferred 12 months. Non-reversionary: credit on commencement	No TBC impact
Death benefits tax	Nil to a spouse (tax dependant) where deceased or survivor 60+	Nil to a tax dependant; 15%/30% on taxable component to a non-dependant (no Medicare via estate)
Best suited to	Income continuity for a spouse who stays under \$3m after the benefit	Keeping a survivor's TSB down where they are already at or above \$3m

Use the cost base election deliberately, and watch the loss trap

SMSFs get a one-off election to reset the cost base of fund assets to market value as at 30 June 2026 for Division 296 purposes. For a fund sitting on large unrealised gains, resetting lifts the starting point so that future realised earnings – and the Division 296 they attract – are measured from the higher base. The catch is that the election is all or nothing across the fund's assets, and that is where it bites. A fund holding some assets above cost and others below cost cannot cherry-pick the winners. Electing to reset also locks in the lower market value on the loss-position assets, raising the future taxable gain on those when they recover. Model the whole portfolio before electing, not the assets in profit alone, and check

the lodgement deadline – the election is made by the due date of the 2026–27 return and cannot be reversed once in.

Manage realised earnings and asset location above \$3 million

Once a balance sits well above \$3 million and equalisation has run out of room, the question becomes when earnings are realised and where the assets are held. Division 296 taxes realised earnings, which makes the timing of asset sales a tax decision rather than purely an investment one. Deferring a realisation defers the liability, and bunching gains into a year a balance happens to sit below the threshold can sidestep it altogether. Asset location is the other half of the answer: high-growth, frequently traded assets inside a large super balance manufacture the realised earnings Division 296 feeds on, while the same assets held outside super – in the member's own name, a family trust, or an investment bond – stay out of the calculation entirely.

This is where the transfer balance cap and Division 296 pull against each other. The transfer balance cap, now \$2.1 million, rewards moving as much as possible into the tax-free pension phase to minimise earnings tax. But every dollar in pension phase still counts toward the \$3 million Division 296 balance. A member who maxes their pension transfer to cut earnings tax can find that same balance sitting squarely inside Division 296's reach. The two caps are not reconciled with each other; you choose which one to optimise, fund by fund, member by member.

None of these levers stay open forever. The cost base election closes with the 2026–27 return, the indexation step is a one-time uplift you either use or lose, and equalisation ends at the first death. The cost of waiting is not theoretical – it is a balance that has hardened above the threshold with nothing left to move it.

This article is an adapted version of an original blog post that can be found [here](#).

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'](#). If you'd like a no-obligation conversation about whether an SMSF is right for your situation, or you want a straight-talking second opinion on an offer you've received, reach out.

General Advice Disclaimer: *This article is general information only and does not constitute personal financial, legal or tax advice. The rules governing SMSFs are complex and individual circumstances vary significantly. You should obtain advice from a licensed financial adviser before acting on anything in this article. The author holds AFSL authorisation through Sonas Wealth Pty Ltd, corporate authorised representative of Viridian Advisory 476223.*

Avoid unnecessary CGT with this estate planning clause

Shani Jayamanne

For many couples, the family home is their biggest asset. It can also be the most emotionally complicated asset to deal with when one partner dies.

Complicating the situation further is tax. The main residence secures a CGT exemption, and the ATO allows a two-year grace period from the date of death to sell the home. If the asset is not disposed of within two years of death, it may lose its CGT exempt status as a primary place of residence. This can reduce an estate by hundreds of thousands of dollars.

This is not an uncommon situation. Any complications or confusion about what to do with a property can delay a sale. These situations include any conflicts about what to do with the property in the first place – whether to sell it or keep it in the family.

Mortgages do not stop just because of the death of a family member. Beneficiaries in disparate financial circumstances mean some may be able to afford the mortgage, while others cannot. All these variables can add delays to the disposal of a family home and disqualify the CGT exemption.

Adding an additional layer of complexity is a blended family. Imagine a couple who have been together for 15 years. One partner has two adult children from a previous relationship. The other partner has no children.

The home is owned solely by the first partner. When they die, their children expect to eventually inherit the property, but their surviving partner still lives there. They may have spent years building a life in the home and may have no desire - or financial ability - to move.

Simply leaving the house to the surviving partner might solve the immediate problem, but it does not resolve it entirely. The children may have to wait until their stepparent dies before receiving their inheritance. By then, the surviving partner may have changed their will, remarried or left the property to someone else.

I spoke to estate planning lawyer and founder of Estates Now, Abbey John, about a solution to this issue – a right to reside clause.

Right to reside

Abbey says the arrangement can be used to provide a surviving spouse with safety and security while preserving the eventual inheritance for other beneficiaries.

“The spouse wants to be able to live there and feel the relief of having a home, at least for a certain period of years.”

You don’t necessarily have to choose between the house and the children, as a right to reside can be written into a will so that a person has the right to live in a property for a specified period.

That might be two years, five years or, depending on the circumstances, for the person’s lifetime. At the end of the agreed period, the property can pass to the other beneficiaries under the will. That creates a middle ground between two common approaches.

The first is to leave the property outright to the surviving spouse. The second is to leave it directly to the children, potentially forcing the surviving spouse to sell or leave the home.

“The family home is a massive one, because everyone wants safety and security,” Abbey says.

If the property is solely owned by the deceased, there is no automatic transfer to the surviving spouse. The will needs to deal with what happens to the property. A right to reside can provide the surviving

spouse with certainty about where they will live while also establishing what happens to the property afterwards.

For example, a will might provide that a surviving spouse can live in the property for five years. At the end of those five years, the property could pass to the deceased's children.

The exact terms matter. A right to reside is not necessarily the same thing as giving someone ownership of the property, and the legal and tax consequences can differ depending on how the arrangement is drafted.

Interaction with the capital gains tax exemption

Tax treatment is another reason to consider the structure carefully.

The general rule is that a qualifying dwelling inherited from a deceased estate can receive the capital gains tax main-residence exemption if it is disposed of within two years of the deceased's death. There are also circumstances in which the exemption can apply where the property continues to be the main residence of the deceased's spouse or an individual who has a right to occupy the property under the will.

This is particularly relevant when a right to reside allows someone to remain in the home beyond two years.

The ATO specifically recognises an individual with a right to occupy a home under the deceased's will as one of the people whose occupation can be relevant to the main-residence exemption. There are conditions and different rules depending on the circumstances, including how the property was used, when it was acquired and who occupied it.

Abbey says this is one of the reasons the right-to-reside structure can be useful.

Where a surviving spouse has a legitimate right to reside and continues to occupy the property as their main residence, the CGT treatment can be different from a situation where the property is simply held as an investment after the deceased's death.

The important point is that the will, the ownership of the property and the way the property is used all need to work together.

A right to reside isn't just for blended families

A right to reside gives families the opportunity to make a distinction in their will – the right to live in an asset and the right to own it. Although the use case of a right to reside is clearest with a blended family, Abbey says it has been useful in many family situations.

For example, an elderly parent might want to ensure their partner can remain in the family home after they die, while ultimately leaving the property to their children. This helps to safeguard the property from future claims from potential beneficiaries that may not currently exist.

The arrangement can also be used where there are multiple properties, and the family wants to allocate assets according to each beneficiary's needs.

What happens when the right ends?

A right to reside needs to be carefully drafted. The will should establish who has the right to live in the property, how long that right lasts and what happens afterwards.

At the end of the period, the property might pass to the children or other beneficiaries. That can provide a surviving spouse with a degree of certainty without making them the ultimate owner of the asset. It can also remove some of the uncertainty that otherwise emerges after someone's death. John says this is particularly important because the family home can become a source of enormous stress when there is no clear plan.

"There's a lot of competing interests," she says. A surviving spouse may be thinking about where they may live, and children may be thinking about when they will receive their inheritance. A well-constructed plan helps answer both questions and gives certainty to all parties.

The important part is having the conversation

A right to reside isn't necessarily the right solution for every family. The appropriate structure depends on the family's circumstances, the ownership of the property, the needs of the beneficiaries and the terms of the will.

The broader lesson is that estate planning doesn't have to be an all-or-nothing decision. There can be arrangements that provide your partner with a secure place to live while preserving an eventual inheritance for your children.

The tax treatment can depend on the precise circumstances, so it is worth getting legal and tax advice before putting the arrangement in place. It can save hundreds of thousands of dollars.

The most important step, Abbey says, is to think about what would happen if you weren't there to explain your wishes. If the answer is unclear, your will probably needs more work.

Shani Jayamanne is Director, Investment Specialist, at Morningstar Australia.

The hidden trade-off in fixed income ETFs

Martin Smith

The investment analysis and historical FIIG client return figures referred to below were prepared by FIIG Securities Limited (AFSL 224659), a wholly owned subsidiary of AUSIEX.

Fixed income exchange traded funds (ETFs) have become a popular way for investors to access the bond market. They are familiar, liquid and easy to trade, making them a convenient option for investors and advisers building diversified portfolios.

But convenience should not be the only consideration when assessing fixed income investments.

Many investors assume a bond ETF will provide broad exposure to attractive income opportunities across the fixed income market. In reality, its performance is shaped by the index it tracks, the securities included in that index and the fees charged along the way.

This matters because many Australian bond indices are designed around the size and liquidity of the market, rather than an investor's need for income.

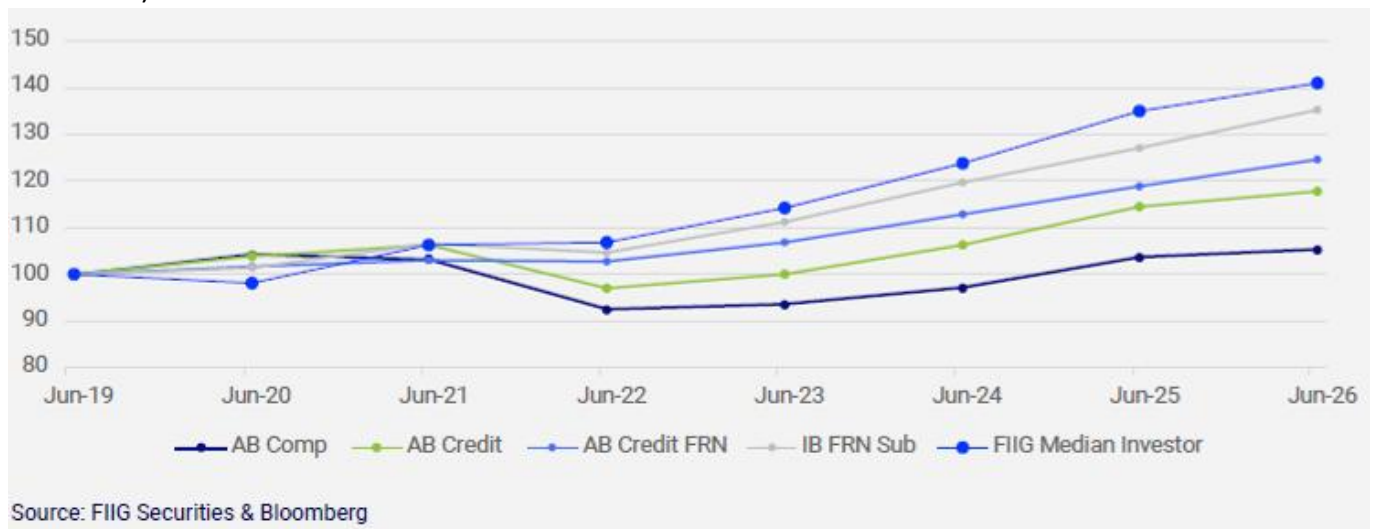
Why direct bond portfolios can produce different outcomes

Recent analysis by FIIG Securities found that the median annual returns of a defined sample of FIIG direct bond client portfolios exceeded selected bond indices and fixed-income ETFs over several historical periods. While the results do not suggest that direct bonds will always outperform, they highlight an important question for investors: what exposure are you actually buying when you invest in a bond ETF?

The index may be more conservative than investors realise.

Most passive bond ETFs are designed to replicate an index and are unlikely to materially exceed it, particularly after fees.

Figure 1: Illustrative FIIG annual median client return series compared with selected bond indices (to June 2026)



Median return methodology: The FIIG median is the middle annual portfolio internal rate of return (IRR) when eligible client returns are ranked. It is not the average return of all FIIG clients or the return of any particular investor. Eligible portfolios held at least five bonds, were valued at \$250,000 or more and had an IRR calculated for the relevant year. Each annual median is calculated independently and may reflect different clients. The seven-year FIIG series links those annual medians and does not represent an investor's actual seven-year return.

Table 1: Historical annualised returns (%) – FIIG client median-series, bond indices and selected ETFs

Investment Option	Category	Universe	Active/Passive	1yr	2yrs	3yrs	5yrs	7yrs
FIIG Median Investor	Direct Bonds	All Fixed Income	n.a.	4.3	6.7	7.2	5.8	5.0
Ausbond Composite	Index	Fixed IG Bonds	n.a.	1.5	4.1	4.0	0.4	0.7
Ausbond Credit	Index	Fixed IG Credit Bonds	n.a.	2.7	5.2	5.5	2.0	2.4
Ausbond Credit FRN	Index	FRN IG Credit Bonds	n.a.	4.9	5.1	5.3	3.9	3.2
Iboxx FRN Sub Debt	Index	FRN Sub Debt	n.a.	6.4	6.2	6.7	4.9	4.4
VAF	ETF	Fixed IG Bonds	Passive	1.3	4.1	3.9	0.3	0.6
VACF	ETF	Fixed IG Credit Bonds	Passive	2.4	5.1	5.4	1.9	2.1
HBRD	ETF	Hybrids	Active	5.3	5.8	6.5	5.0	4.7
CRED	ETF	Fixed IG Credit Bonds	Active	2.5	6.1	6.8	1.4	2.1
PAUS	ETF	Fixed IG Bonds	Active	1.9	–	–	–	–
FIXD	ETF	Fixed IG Credit Bonds	Active	2.6	5.5	6.3	–	–
SUBD	ETF	Subordinated Bonds	Active	6.1	5.8	6.4	4.6	–
IAF	ETF	Fixed IG Bonds	Passive	1.4	4.1	3.9	0.3	0.6

Source: FIIG Securities, Bloomberg. Results through 30 June 2026. The FIIG figures are derived from independently calculated annual client medians (see methodology above).

Comparison note: The FIIG client portfolios, bond indices and ETFs differ in underlying securities, credit risk, duration and liquidity. The historical returns are not adjusted for these differences and should not be regarded as directly comparable on a risk-adjusted basis. FIIG reports its client returns net of its trading and custody fees.

For the year to 30 June 2026, the official cash rate sat between 3.6% and 4.35%, the AusBond Composite Index returned 1.5% and the AusBond Credit Index returned 2.7%. By comparison, the median annual return of eligible FIIG client portfolios was 4.3% (net of fees) over the same period.

Over seven years, the difference was also notable. The illustrative FIIG series, constructed from the annual client medians, showed a 5.0% annualised return, compared with 0.7% for the AusBond Composite Index and 2.4% for the AusBond Credit Index.

One reason for this gap is the construction of the indices themselves.

Australian bond indices heavily weighted to government bonds

Australian bond indices are generally weighted according to the amount of debt an issuer has outstanding. As a result, the largest issuers receive the largest representation. In Australia, this can create a strong weighting towards government and quasi-government bonds.

These securities have an important role in financial markets. They are generally highly liquid and are widely held by banks and institutional investors for liquidity and regulatory purposes. But the qualities that make them useful for balance sheet management can also result in lower yields.

For an income-focused investor seeking higher yields, an index dominated by the market's largest and most liquid issuers may provide a different outcome from the one they expect.

Active fixed income ETFs have greater flexibility to move away from an index and seek higher returns. At different points in the market cycle, that flexibility can produce meaningful outperformance.

The difficulty is achieving it consistently. Further analysis found examples of active ETFs that perform strongly for a period before surrendering some or all of that relative gain when market conditions change.

That does not make active fixed income ETFs inherently unattractive. It demonstrates that active management alone does not remove market, duration or sector risk. Investors still need to understand how a portfolio is positioned and what is driving its returns.

Sector exposure can work until the cycle turns

Some of the strongest ETF results in FIIG's analysis came from funds focused on particular segments of the bond market. However, the analysis indicated that this outperformance was not consistent across the full period examined.

This illustrates a broader principle. Concentrated exposure to a particular sector can be rewarding when economic and market conditions are favourable. It can also leave investors more exposed when the cycle changes.

A strong recent return should therefore prompt a deeper question. Was the result generated by repeatable security selection, or by a portfolio's exposure to a sector that happened to be in favour?

Direct ownership can change the investment equation

A direct bond portfolio is not constrained by the composition of a market-weighted index. Direct bond portfolios can also be fractionalised, allowing advisers to tailor allocations more precisely to an investor's income requirements, risk tolerance, maturity preferences and liquidity needs.

That flexibility may allow investors and advisers to consider a broader opportunity set, including fixed and floating-rate bonds, short and long-duration securities, investment-grade credit and selected sub-investment-grade exposures.

It also creates the potential to avoid allocating the largest amount of capital to the largest borrowers simply because they have issued the most debt.

Direct bond portfolios may also carry greater issuer concentration, credit and liquidity risks than diversified bond ETFs, depending on the securities held. Often direct bond portfolios are not designed to replicate or beat a particular index, and individual investor outcomes will vary according to portfolio composition, risk, timing and market conditions.

For FIIG's analysis, the median client dataset included investors holding at least five bonds, with portfolios of at least \$250,000 and an internal rate of return calculated for each year. The results were used to construct an illustrative seven-year return history.

The comparison is illustrative and should not be interpreted as evidence that direct bond portfolios will consistently outperform bond indices or ETFs.

Looking beyond the wrapper

Fixed income ETFs remain a straightforward and accessible way to obtain bond market exposure. For some investors, that liquidity and simplicity will continue to be valuable.

But investors should look beyond the product wrapper and examine what sits underneath it.

Which issuers dominate the ETF's benchmark? How much of the ETF is held in government and quasi-government debt? What is the duration exposure? Is recent outperformance coming from security

selection or a favourable sector allocation? Most importantly, is the portfolio designed to meet your income objectives?

The debate should not be framed as direct bonds versus ETFs, or as one approach being inherently superior. Each offers different benefits, risks and trade-offs, and each may have a role depending on an investor's objectives, portfolio size and need for liquidity.

What matters is understanding the exposure being purchased. Investors should look beyond the product label and consider the underlying holdings, duration, credit quality, fees and sources of return. In fixed income, the most appropriate structure is ultimately the one that best aligns with the investor's income needs, risk tolerance and broader portfolio strategy.

Martin Smith is part of the Institutional Fixed Income Sales and Execution team at [AUSIEX](#). This article is for general information only. It has been provided without considering your objectives, financial situation or needs. AUSIEX Fixed Income is provided under FIIG Securities Limited's Australian Financial Services Licence (AFSL 224659) a wholly owned subsidiary of AUSIEX (ABN 71 076 515 930) (AFSL 241400).

The mortgage free retirement is fading

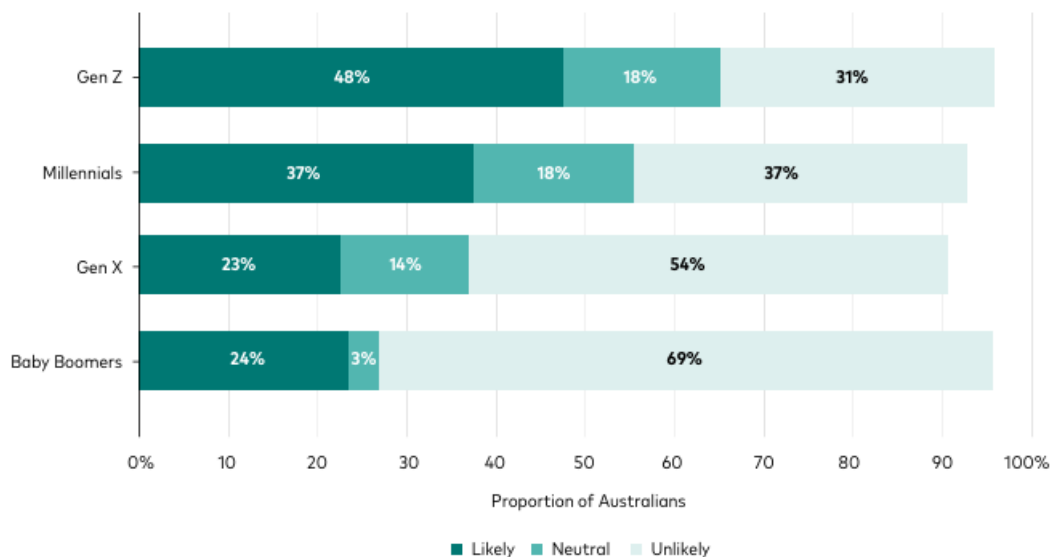
Osei Wiafe PhD

For decades, Australians have been told a simple story about retirement. Work hard, build your super, pay off the mortgage and retire debt-free.

That vision has shaped everything from financial advice and retirement calculators to the way Australians think about financial success itself. Owning a home outright by retirement has been more than an aspiration. It has been an assumption.

But our research for Vanguard's How Australia Retires 2026 report suggests the traditional expectation of a mortgage-free retirement may no longer hold for many younger Australians.

Self-assessed likelihood of retiring with a mortgage



Nearly half of Gen Z Australians and more than one-third of Millennials expect to retire with a mortgage. Even among Generation X and Baby Boomers, almost one in four believe they are likely to carry housing debt into retirement.

These findings suggest that one of the foundations underlying traditional retirement planning may be shifting.

How housing pressures are reshaping retirement

Much of Australia's retirement system evolved in an era when housing debt was typically paid off before retirement. But younger generations are navigating a very different housing market. They are buying later, borrowing more and carrying debt for longer, raising the likelihood of entering retirement without a paid-off home.

That matters because a household entering retirement with a mortgage faces very different choices and spending pressures from one that owns its home outright.

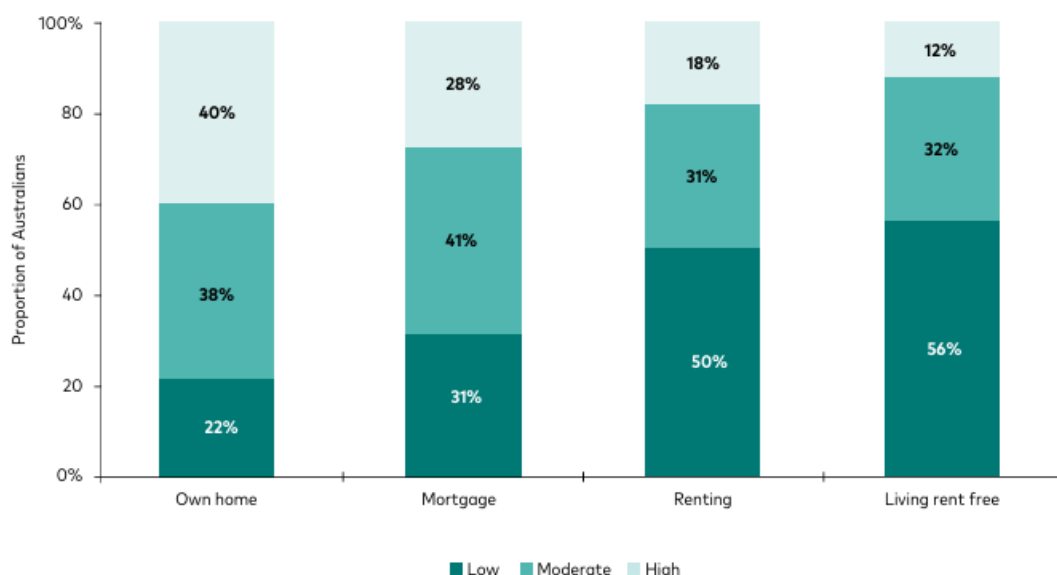
It is no surprise, then, that younger Australians generally believe they will need significantly more income in retirement than today's retirees.

Australians under the age of 45 estimated they would require more than \$90,000 a year in retirement, compared with around \$60,000 reported by Australians aged 65 and over.

Our research also found that housing status was closely linked to retirement confidence.

Australians who owned their home outright reported the highest levels of retirement confidence, while confidence was lower among those with a mortgage and considerably lower among renters.

Retirement confidence based on current housing



The trade-offs of carrying a mortgage into retirement

Among those expecting to retire with a mortgage, 45% expect to continue repayments in retirement, while 39% expect to use superannuation to pay off their mortgage in one transaction.

For those that have the choice, both approaches can be entirely reasonable, but neither is without compromise.

Using super to clear a mortgage can ease financial pressure, but it also reduces the savings available in retirement for lifestyle and other spending. Holding on to those savings means keeping more money invested but also means living with debt for longer.

These are not simple decisions. For a growing share of Australians, they will become central retirement-planning questions.

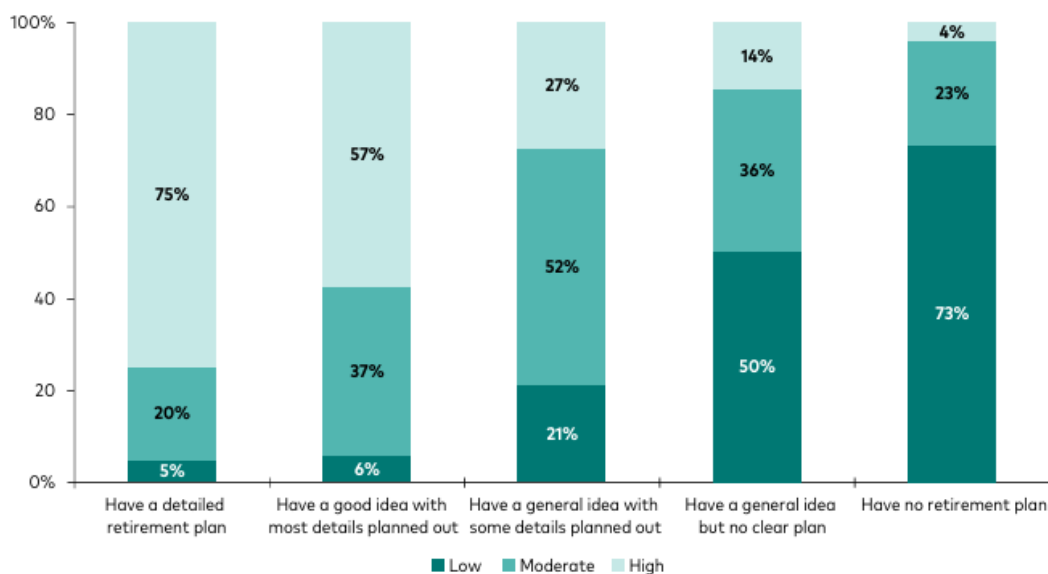
The role of planning in retirement confidence

When it comes to retirement confidence, one factor stands out clearly: planning.

Nearly half of working-age Australians have no retirement plan. Yet Australians with a clear retirement plan report much higher levels of confidence than those without one.

75% of Australians who know exactly what they need and how to achieve it report high retirement confidence compared with just 4% of those with no plan.

Retirement confidence by level of retirement planning



While no one can predict future house prices, interest rates or living costs, the research highlights that taking small, consistent actions can help people build confidence and feel better prepared for the retirement they want.

As retirement continues to evolve, our assumptions need to evolve with it. Having a plan and engaging early may matter more than ever.

Osei Wiafe, PhD is a Retirement and Superannuation Research Specialist with Vanguard's Investment Strategy Group and lead researcher on the How Australia Retires 2026 report. [Vanguard](#) is a sponsor of Firstlinks.

For more articles and papers from Vanguard, please click [here](#).

Notes: All data sourced from Vanguard's How Australia Retires 2026 report, based on a survey of a nationally representative sample of over 1,800 Australians aged 18 years and over in February 2026. [Read the report on Vanguard's website](#).

This article contains factual information of a general nature only and does not contain financial product advice. It has not been prepared taking into account your objectives, financial situation or needs and may not be applicable to your circumstances. Before making financial decisions, consider your circumstances and seek professional advice from a suitably qualified adviser.

The survey results presented in this article reflect respondents' self-reported expectations, intentions and confidence at the time of the survey. They are illustrative only and should not be taken as estimates or forecasts of individual retirement outcomes.

The key question to inspire a confident and purposeful retirement

Derek Gascoigne

When we think about retirement planning, the first component that often comes to mind is the dollars and cents – and the first question we ponder is *how much* we need to enjoy a great one.

And that's with good reason. After all, superannuation is likely to be the biggest asset we hold in retirement, and it can be vital to have sufficient savings to support the lifestyle we want to lead in our golden years which typically last 25 to 30 years.

UniSuper's 2026 *Retire with Purpose* report found that not having enough retirement savings to support the lifestyle one wants to lead was the most common retirement concern at 52%. Only 44% of pre-retirees felt financially prepared for retirement, a drop from 48% last year.

It paints a picture of waning confidence, particularly when it comes to finances. What we know is that every retirement is different. We all have unique dreams, ambitions and things that drive us – things that give us purpose – and equally circumstances and challenges.

As around 2.5 million Australians [prepare to retire over the next decade](#), per Treasury, understanding what motivates each person is central to delivering truly holistic advice that supports a full and purposeful retirement – and ultimately, that inspires greater confidence.

The financials and purpose are intertwined in many ways. We must ask: *What do you want to do in retirement?*

Retirement is a time of opportunity

Retirement is often seen as an endpoint after a lifetime of work, but the reality is it's a time to explore new opportunities. At UniSuper Advice¹, a common thread of our conversations with pre-retirees and retirees looks to answer that question and identify what matters most – often early in their advice journey.

It shapes the direction of the conversation. What are their plans, and what will give them enduring purpose in retirement? It may be travel. It may be building or renovating their dream home. Maybe it's learning a completely new skill. Or more time with family, or a bit of everything.

The answer will be clear for some, while others may require more time to consider the possibilities. Regardless, we want to help spark ideas. For many retirees and pre-retirees, the answer lies in applying the skills gained throughout their career – often through volunteering or other unpaid activities, like community leadership, mentoring or caregiving.

The *Retire with Purpose* report found that 67% of retirees surveyed wanted to apply their career knowledge in retirement, and 59% spent at least one hour in unpaid contribution activities per week. The report found retirees contribute 386.3 hours on average annually through volunteering, community leadership and unpaid care. This equates to an estimated economic contribution of \$16.5 billion, comparable to the economic output of a 321,000-person full-time workforce and greater than Tasmania's employed population.

Maintaining social connection is an important part of this too. 64% of retirees surveyed said they miss the workplace due to the social connection it enables – an increase of 4% on 2025's findings, pointing to the importance of keeping mentally active and engaged.

Retired academic Kerry, from Wollongong, New South Wales, has found what purpose in retirement looks like for her, touching key purpose drivers like connection, community leadership and physical activity.

"I spent my whole working life in academia, and I wasn't ready to just switch that off when I retired," she says.

"Now, I use these skills to mentor younger academics, and I also volunteer with my local surf club's Nippers program. I love that these different activities keep me connected to the things I care about."

Having the right financial plan in place means your savings can support your aspirations.

Purpose drives financials

Once there is a better picture of the life you want in retirement, the financial conversation becomes more meaningful. Rather than beginning with a savings target in isolation, planning can work backwards from the life you want to lead. It helps understand what it may cost, the trade-offs involved and the steps that can be taken now to turn your aspirations into reality.

The clearer that sense of purpose becomes, the easier it is to shape a financial plan around it with financial advice. Considering the timing, cost and importance of different goals can help turn broad aspirations into practical choices and provide greater confidence that your finances are working towards the retirement you want.

What we know is that financial advice can help drive proactive actions and confidence where it may otherwise be lacking. The *Retire with Purpose* report found that among pre-retirees who have received financial advice, 59% know how much they need to retire versus 36% in those who haven't received advice. Advised retirees are also more likely to apply the knowledge they've built in their working lives – 48% versus 31% in those not advised.

The idea of ‘practicing’ retirement can inform both purpose and financial confidence – and enable social connection that 64% of retirees say they’ll miss after retiring. This key pillar of a successful retirement promotes testing retirement plans and potential lifestyle changes while still working, a concept explored in the inaugural, 2025 edition of the *Retire with Purpose* report.

A confident retirement is about more than reaching a savings goal. It’s about knowing what you want your next chapter to hold. By defining what gives you purpose and building a financial plan to support it, retirement can become not simply an end to working life, but the beginning of something meaningful.

So, what do you want to do in retirement?

Derek Gasciogne leads Private Wealth for Victoria and Tasmania at UniSuper. [UniSuper](#) is a sponsor of Firstlinks. UniSuper’s 2026 Retire with Purpose report is available to read [here](#).

This is an opinion piece and the opinions expressed are not intended to act as financial or other advice. The information is of a general nature and doesn’t consider your personal circumstances. Before making decisions, you should consider UniSuper Limited’s PDS and TMD on its website and whether the information is appropriate for your circumstances otherwise seek financial advice.

¹UniSuper Advice is operated by UniSuper Management Pty Ltd ABN 91 006 961 799 (USM), which is licensed to provide financial product advice. UniSuper Limited (ABN 54 006 027 121) is the trustee of UniSuper (ABN 91 385 943 850).

Making the case for a 'good enough' portfolio

Christine Benz

I was sitting in the lobby of the Hyatt Regency in San Antonio last October; my flight wasn’t until later, and I was basking in the glow of a successful Bogleheads conference. ([Bogleheads](#) are investors who believe in minimalist index-based investing as espoused by Vanguard founder Jack Bogle.)

Conference attendees were streaming out of the hotel to catch their flights, and I was in a prime spot to gather feedback. We send out a survey that we use to improve the conference and build out the lineup of future speakers and topics, but there’s nothing like unvarnished human input.

In my moments of downtime between conversations, I tried to make sense of the comments that were coming my way. But here’s what was making me crazy: Attendees kept giving completely contradictory feedback. The same sessions and speakers that some people loved bugged others. I found myself thinking: “*What are we supposed to do with this?*”

Are you an optimiser or a satisficer?

But as I pondered all those comments on my flight home, I realised they were contradictory because our conference is trying to serve two completely different audiences.

The first group is what has historically been the Bogleheads’ bread and butter: the portfolio maximisers, or optimisers. These conference attendees were telling me they wanted more sessions about building a

laddered portfolio of Treasury Inflation-Protected Securities (TIPS), broadly equivalent to Treasury Indexed Bonds in Australia, setting allocations to categories like small-cap value and real estate. More deep dives. They love steeping themselves in the research about how best to create a financial plan and manage a portfolio, and they enjoy debating the finer points on the [Bogleheads forum](#).

The second group doesn't want to spend a lot of time on those smaller-bore issues. They're more of what psychologists call [satisficers](#), a term coined by economist Herbert Simon to be a hybrid of 'satisfy' and 'suffice'. When making choices, satisficers are looking for an *acceptable* option rather than the best possible one.

The satisficers that I heard from at the conference told me they were more interested in big-picture topics: finding 'enough' (Brian Portnoy's talk about "funded contentment" was a big hit), retirement lifestyle considerations, and leaving a legacy for their kids, for example. They've set their asset allocation, populated their portfolios with low-cost index funds, and moved on to other things.

I've been thinking that we don't spend enough time urging people to place themselves on the maximiser/satisficer continuum. At our Bogleheads conference, we ask attendees to select streams based on life stage and knowledge level. But a more important question might be: "Are you looking for perfect or will 'good enough' do?" Prompting people to answer that question and perhaps giving them a little data-supported nudge to go in the satisficer direction has the potential to save people a lot of time and money.

My journey to satisfice-ment

As you've probably guessed if you read my columns or any of my books, I'm on 'Team Satisficer', at least with respect to money matters. (If I'm picking a restaurant or plants at the garden store, now that's another story.) My bias is toward simple, low-maintenance solutions.

But it took me a while to get there. When I was a fund analyst, I spent a lot of time thinking and writing about the 'best' large-cap growth or REIT funds, or the best interval for rebalancing. And the fact is, maximisers are often incredibly smart people who ground their conclusions in data and genuinely love this stuff; they may even get paid to develop portfolios and plans for their clients.

In many aspects of investing and financial planning, these maximisers rule the debate. Listening to them, you think that you probably *should* use budgeting software, build that TIPS ladder for retirement income, and fine-tune every aspect of your retirement plan.

The catch is that maximising can take time, and not everyone is cut out for it. If I had realised that I wasn't really a maximiser earlier, for example, I wouldn't have wasted any time trying to track our household's spending to the penny in an effort to figure out our budget. I would have moved straight to the method we use today, reverse budgeting, which simply means that you set up automatic savings contributions, and any money left over is yours to spend. Do I know exactly how we're spending our money? No. Does it matter? Also no.

The same goes for portfolio allocation and investment selection. Inertia is a common theme running through [my major investment and portfolio mistakes](#): I've been slow to tackle jobs and problem areas. If only I had decided to 'settle' for indexing earlier, my portfolio would have performed better, and it would have also required less oversight. (The funny thing about indexing is that it's a strategy that both

satisficers and maximisers can agree on. The data supports the effectiveness of indexing, pleasing maximisers, and satisficers see indexing as an acceptable option that's also hands-off.)

In any case, having a reasonable savings rate and asset allocation has more than made up for any portfolio problem spots. Satisficers know that if you get the big things right, they more than offset any smaller issues.

And while I know many happy maximisers, the data support that we [satisficers are generally happier overall](#). The reason is that satisficers make what they think are reasonably well-informed choices and then move on, whereas maximisers are more likely to second-guess their decisions. Maximisers are also more likely than satisficers to engage in social comparisons.

Finally, author [Mike Piper](#) pointed out at the Bogleheads conference that it's impossible to truly maximise without a crystal ball. The 'right' answer to a lot of financial questions, including the best [asset allocation](#), the highest [safe withdrawal rate](#), or how to pay the least [taxes](#) over your lifetime, will only be apparent in hindsight. In the meantime, it's all a bit of a guess.

So, here's my advice: Before you go down the maximiser rabbit hole, take a step back and ask yourself: Am I cut out for this? Do I enjoy spending time this way? Or will 'good enough' decisions achieve a similar result with much less time and hassle? With respect to money and investing, my hunch is that Team Satisficer has growth potential.

[Christine Benz](#) is director of personal finance and retirement planning for Morningstar. She is also the author of *How to Retire: 20 Lessons for a Happy, Successful, and Wealthy Retirement*. This article does not consider the circumstances of any investor. Minor changes have been made to the [original US version](#) for an Australian audience.

Is the US market as expensive as CAPE says?

Jason Teh

*This article is the first in a new mini-series, **Eight Temptations of Market Lore**, which explores popular investing rules of thumb and the pitfalls that can accompany them.*

Before there were seven deadly sins, there were eight temptations. In the fourth century, the monk Evagrius Ponticus listed eight thoughts that lead people astray. Two centuries later, they evolved into the seven deadly sins.

Markets have their own temptations. This series covers eight popular shortcuts that investors reach for because they are easy to use. They are not naive rules. Many were developed by serious thinkers and hold real insight. But each rests on an assumption that is easy to miss, and costly when it fails.

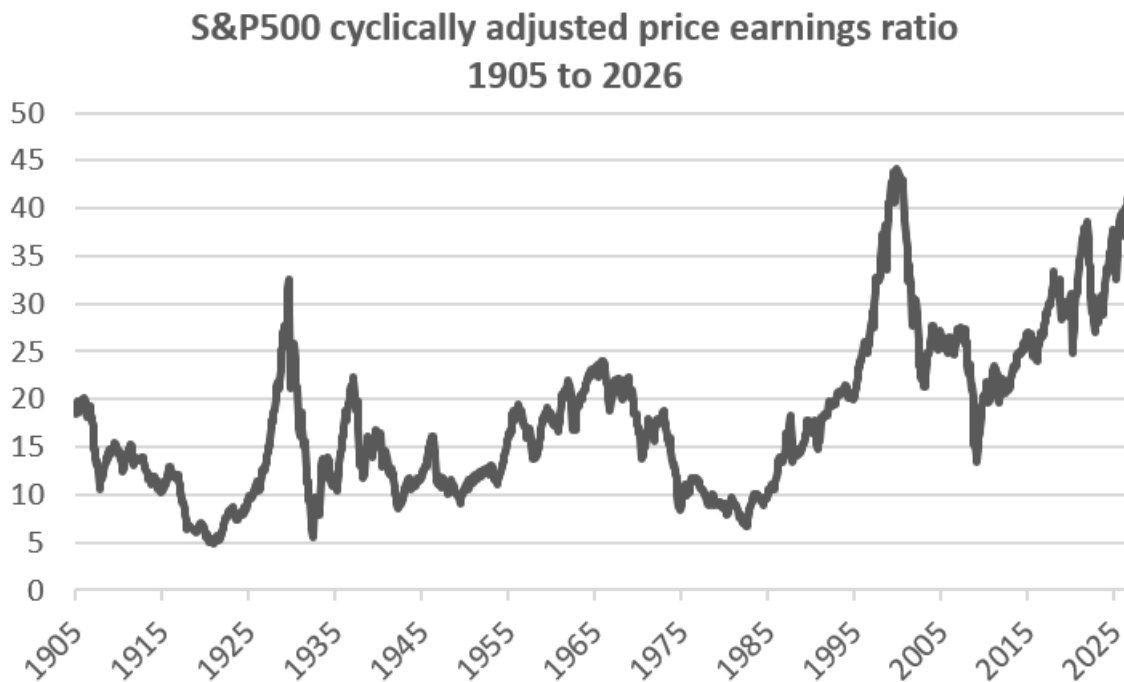
Shiller's famous CAPE ratio

Robert Shiller's book *Irrational Exuberance* made the cyclically adjusted price-to-earnings ratio, or CAPE, famous.

CAPE fixes a problem with the ordinary PE ratio. A single year of earnings can give the wrong signal about value, because profits swing with booms and busts. CAPE instead divides the share price by the average of the past ten years of inflation-adjusted earnings to cover a full business cycle. The idea came from Benjamin Graham, who in 1934 advised averaging earnings over seven to ten years.

Shiller's timing was uncanny. His book was published in March 2000, the month the Nasdaq peaked. CAPE had just hit a record of about 44, and US shares went on to suffer a lost decade. In 2013, he shared the Nobel Prize in economics. With a track record like that, it is easy to trust his measure. I have been tempted by it myself.

Today the S&P 500's CAPE sits near 41. That is higher than before the 1929 crash, and second only to the dot-com peak. On that measure, US shares look very expensive.

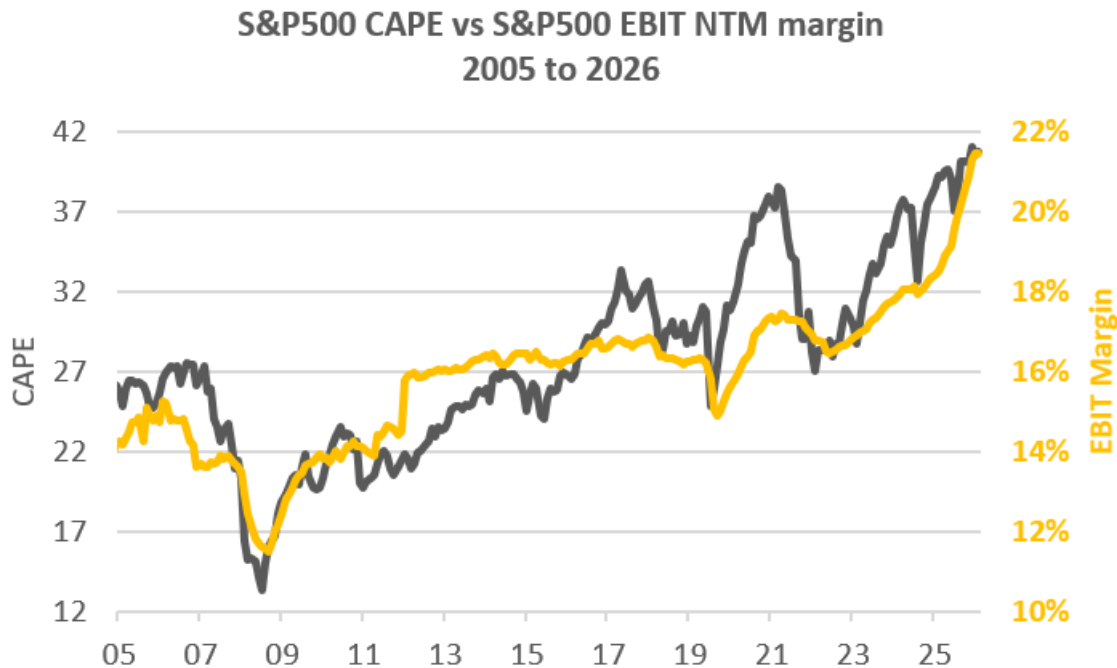


Source: Robert Shiller

But the ten-year average that solves one problem creates another. It assumes the past decade is a fair guide to normal profits. If today's earnings sit well above that average, CAPE treats the gap as a boom that will fade.

The gap can close in two ways. Margins can fall back, and CAPE is proved right. Or margins stay high until ten years of higher earnings pass through the average, and CAPE falls without prices falling. But if margins keep rising, the gap never closes, and CAPE keeps overstating how expensive shares are.

Margins have structurally shifted



Source: FactSet, Robert Shiller

Since 2005, the S&P 500's operating (EBIT) margin has risen from about 14% to just under 22%, and CAPE has moved closely with it. The two fell together in the GFC and climbed together through the 2010s. Today they sit together at their highs. Rather than returning to its long-run average, CAPE has followed profitability. In other words, the market looks expensive on CAPE partly because it has become more profitable.

For investors who followed CAPE, this shift was costly. As margins rose, the ten-year average lagged. The market looked expensive year after year, so CAPE signalled low returns for a decade that never came. Earnings kept compounding instead.

The exception was 2021. CAPE surged to about 38, while margins only recovered to their pre-COVID level of about 17%. For once, prices had run ahead of profits. It was a smaller echo of the 1999 tech boom, with heavy speculation in unprofitable companies, SPACs and meme stocks. CAPE and prices fell back in 2022, when the S&P 500 dropped about 19%.

Why have margins risen? Much of it reflects the index's changing mix. Technology and tech-related companies make up close to half of the S&P 500, against about a fifth two decades ago. These businesses earn higher margins than the typical company.

The best of them have also shown a rare ability to reinvent themselves. Microsoft moved from selling software licences to renting cloud computing. Amazon began by selling books online, then sold almost everything, before building a cloud business and an advertising arm. Netflix went from posting DVDs to streaming, then to making its own shows, and has since added advertising. Each pivot opened a large new source of growth, and is one reason high margins may prove more durable than CAPE assumes.

Conclusion

CAPE is tempting because it reduces valuation to a single number. But that number cannot tell you whether the businesses behind the earnings have changed. Twenty years ago, financial companies were one of the largest parts of the S&P 500. Today the index is led by technology businesses that earn higher margins.

So read CAPE alongside margins. The question to ask is not “Is CAPE high?” but “Is it high because profits are, or because prices are?”

[Jason Teh](#) is a financial commentator and portfolio manager. This article is general in nature and does not constitute or convey personal financial advice. It has been prepared without consideration of anyone’s financial situation, needs, or financial objectives. Before acting on the areas discussed and contained herein, you should consider whether it is appropriate for you and whether you need to seek professional advice.

Disclaimer

This message is from Morningstar Australasia Pty Ltd, ABN 95 090 665 544, AFSL 240892, Level 3, International Tower 1, 100 Barangaroo Avenue, Barangaroo NSW 2000, Australia.

Any general advice has been prepared by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892) without reference to your financial objectives, situation or needs. For more information refer to our Financial Services Guide at www.morningstar.com.au/s/fsq.pdf. You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement before making any decision to invest. Past performance does not necessarily indicate a financial product’s future performance.

For complete details of this Disclaimer, see www.firstlinks.com.au/terms-and-conditions. All readers of this Newsletter are subject to these Terms and Conditions.