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FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

Setting up the next generations of retirees

With average life expectancies rising, early investment education and financial advice will become increasingly critical

It's not a well-known annual event in Australia, but October 31 happened to be World Savings Day.

Established almost a century ago in Europe, the main purpose of World Savings Day is to encourage people around the world to improve their financial literacy and to put money aside for their future.

It's a very good initiative, especially in the context of parents teaching their children about the role of money and the financial results that could be achieved by saving and investing over the long term.

But how does it play out in the real world? If you haven't heard of Generation Alpha, you'll probably be hearing more about them fairly soon. They're the newest generation, and many of them haven't even been born.

The oldest Gen Alphas, born in 2010, will have turned 13 this year. The ones yet to be born have until 2025 to be included, or they'll fall into the next generation, which not surprisingly will be known as Generation Beta.

Based on Australia's average annual birth rate of 300,000 children, there are already close to four million Gen Alphas. In another two years, the number will likely be closer to 4.85 million.

That's a large cohort of future Australian investors – many of whom in the not-too-distant future will be earning wages and superannuation on their long journey towards retirement.

Teaching your children

Parents with Gen Alpha children, and even children at the younger end of the previous Gen Z generation, born between 1997 and 2012, should be taking a leaf out of the World Savings Day book to teach them about money and investing.

This can include teaching them how to save and set financial goals, how to budget, and about the power of long-term compounding returns – all skills and knowledge that will serve them well as they grow into adulthood.

Giving children some starting investment money can be highly beneficial as parents can use this as an opportunity to have meaningful conversations about money management, investments, and financial planning.

That is, by imparting financial knowledge parents can empower their children to make informed decisions about their personal finances as they grow.

Increased life expectancies

Australia's population is set to increase by more than 50% over the next 40 years, according to the recently released Intergenerational Report 2023.

By the 2062-63 financial year, based on the Treasury's estimates in the report, average life expectancies will be higher than now. Life expectancies at birth are expected to rise from the 81.3 years for men and 85.2 years for women now to 87 years for men and 89.5 years for women.

By 2062-63 a quarter of the total Australian population will be aged 65 and over.

The people who Treasury is mostly talking about here are those in the Millennials generation, born between 1981 and 1996. The youngest of this cohort will have turned or be turning 27 this year, and the oldest ones are now aged 41 to 42.

Fast-forward to 2062-63 and the ages of Millennials will by then be spread between 67 and 82 – the people included in the age brackets at the upper end of the Intergenerational Report's long-range population projections.

The eldest in the younger Gen Z generation will also be approaching or already in retirement by 2062-63.

So, why is all this relevant? In simple terms, the people referred to as "the younger generation" not that long ago are progressively getting older and moving ever closer to retirement age.

When they do reach retirement age, they're likely to be living longer than those in previous generations and will probably need to rely on their accumulated savings for longer too.

Therein lies a challenge. This year's ASX Investor Study found that young Australian investors are likely to be more risk averse than their older counterparts and less likely to tolerate moderate or high variability in their investment returns.

Many have low levels of investment diversification, which may also be counter-effective against their relatively high level of risk aversion. As a consequence, their end retirement balances may not be sufficient to sustain them through their extended retirement years.

Education and advice are key

It all starts with education. Setting up the next generations of investors is a process that should begin from a young age, with parents teaching their children the basics about money and finance and potentially investing on their behalf.

That can later be extended to them getting professional advice, which will become increasingly crucial for current and future generations of Australians over time.

An iteration of this article was published in The Australian Financial Review.

Source:

https://www.vanguard.com.au/personal/learn/smart-investing/retirement/setting-up-next-generation-retirees

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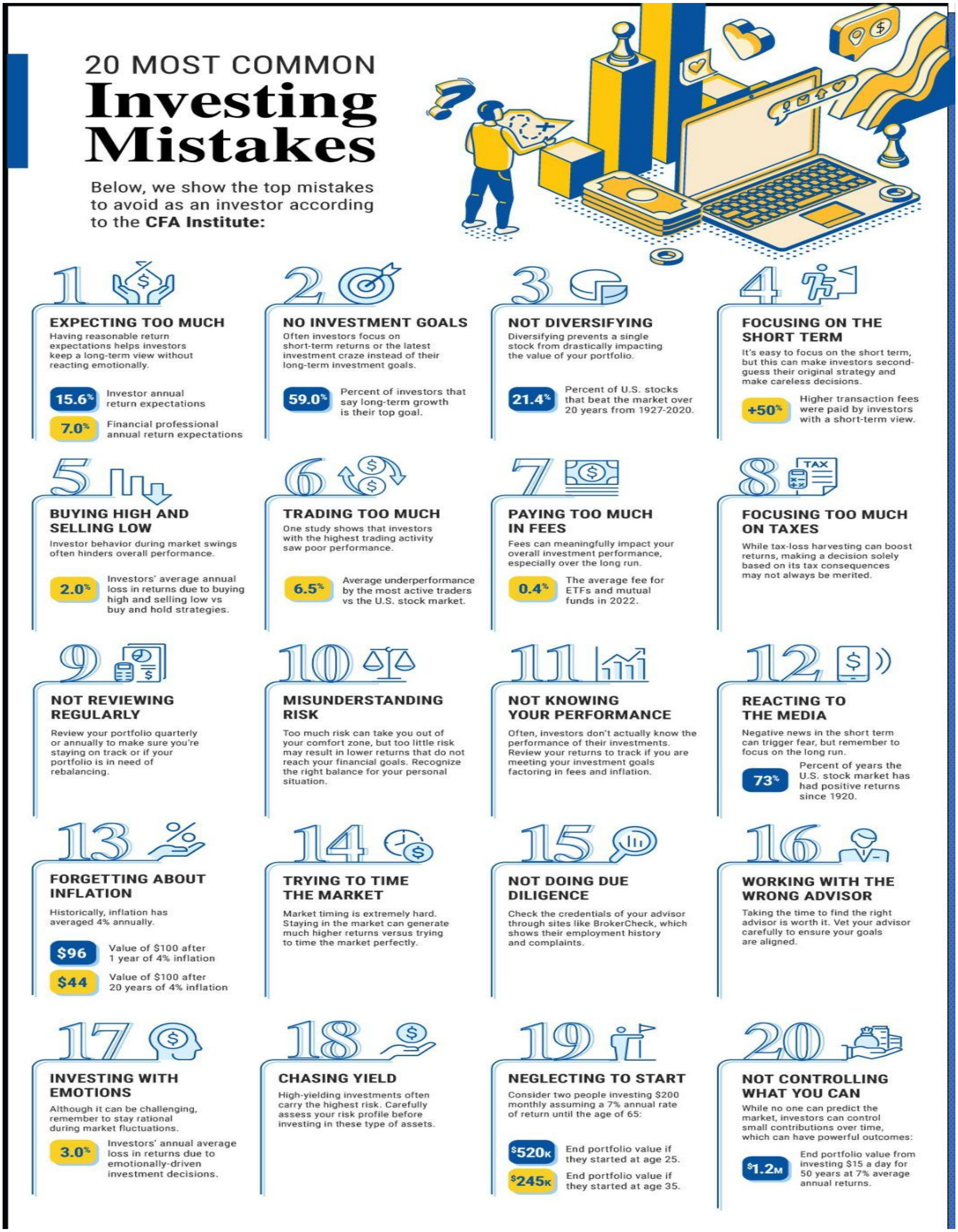

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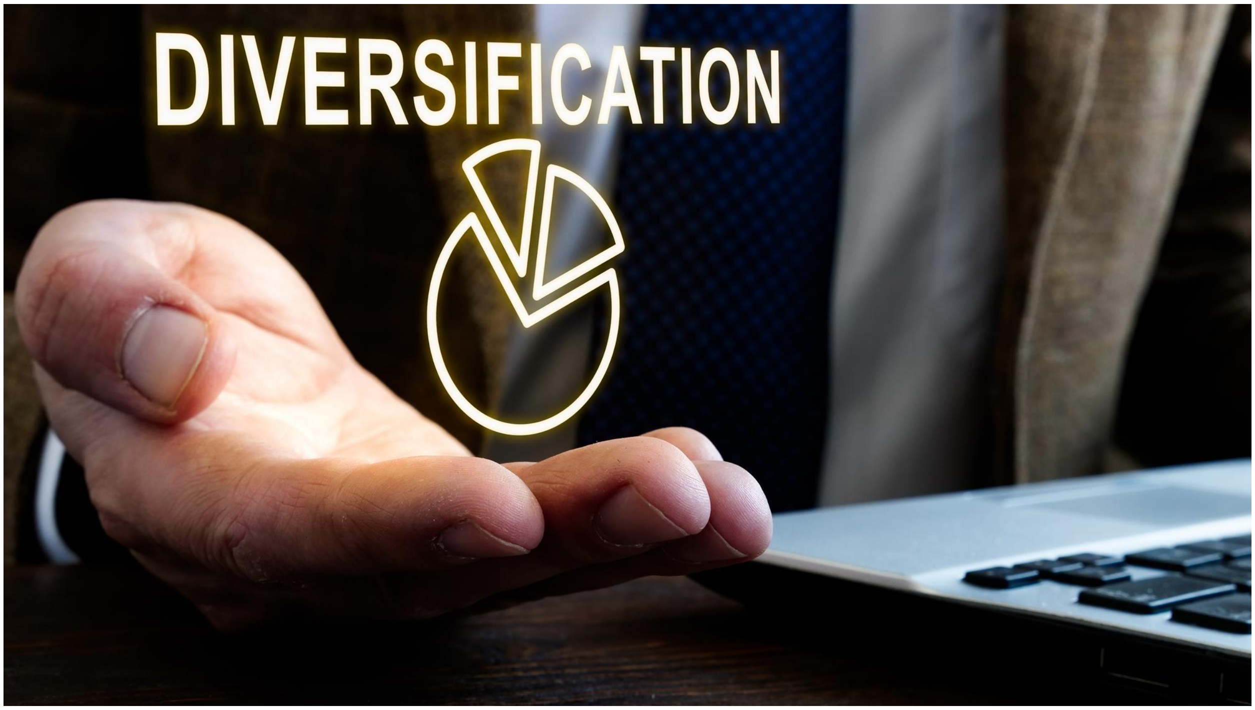

How to pass the diversification test

Why you shouldn’t put all your investment eggs in the one basket

The Spanish writer Miguel de Cervantes Saavedra isn't widely regarded as a renowned investment strategist.

But it's in his most famous literary work Don Quixote, published in 1605, that one of the quintessential investment phrases, still widely used today, first emerges.

Through the novel's central character, he advises that it's never wise to put all your eggs in one basket.

Diversification, spreading your money across a range of different assets rather than putting it all into one place, is one of the core principles of investment risk management.

That's because investment returns from different assets are never consistent.

Let's take a look at some of the asset class returns from the 2022-23 financial year. The best-performing asset class was United States listed shares, which returned 23.5% The worst-performing assets were international bonds (hedged) and international listed property, which both fell 1.5%. Australian shares gained 14.8%.

But if you compare those results with the previous year, it was a very different story. Cash was the best performer, gaining 0.1%. Australian listed property was the worst performer, falling 12.3%, while international shares (hedged) fell 11.3%.

Financial year total returns (%) for the major asset classes

YEAR	AUST. SHARES	INT'L SHARES	INT'L SHARES (HEDGED)[1]	U.S. SHARES	AUST. BONDS	INT'L BONDS (HEDGED)[2]	CASH	AUST. LISTED PROPERTY	INT'L LISTED PROPERTY[3]
1994	**15.5**	0.0	6.7	**−7.8**	−1.1	2.1	4.9	9.8	8.4
1995	6.4	14.2	**3.7**	**29.9**	11.9	13.1	7.1	7.9	7.5
1996	14.3	6.7	**27.7**	13.5	9.5	11.2	7.8	3.6	**2.4**
1997	26.8	28.6	26.0	**41.5**	16.8	12.1	**6.8**	28.5	35.7
1998	**1.0**	42.2	22.1	**57.5**	10.9	11.0	5.1	10.0	25.0
1999	14.1	8.2	**15.9**	14.9	3.3	5.5	5.0	4.3	**−6.8**
2000	16.8	**23.8**	12.6	18.2	6.2	**5.0**	5.6	12.1	14.1
2001	8.8	−6.0	**−16.0**	0.6	7.4	9.0	6.1	14.1	**38.2**
2002	−4.5	−23.5	−19.3	**−25.8**	6.2	8.0	4.7	**15.5**	7.5
2003	−1.1	**−18.5**	−6.2	−16.1	9.8	**12.2**	5.0	12.1	−5.2
2004	22.4	19.4	20.2	14.7	**2.3**	3.5	5.3	17.2	**28.7**
2005	**24.7**	0.1	9.8	**−2.8**	7.8	12.3	5.6	18.1	21.2
2006	24.2	19.9	15.0	11.5	3.4	**1.2**	5.8	18.0	**24.2**
2007	**30.3**	7.8	21.4	5.6	4.0	5.2	6.4	25.9	**3.0**
2008	−12.1	−21.3	−15.7	−23.2	4.4	**8.6**	7.3	**−36.3**	−28.6
2009	−22.1	−16.2	−26.6	−12.4	10.8	**11.5**	5.5	**−42.3**	−31.2
2010	13.8	5.2	11.5	9.5	7.9	9.3	**3.9**	20.4	**31.3**
2011	12.2	**2.7**	**22.3**	3.1	5.5	5.7	5.0	5.8	9.2
2012	**−7.0**	−0.5	−2.1	10.1	**12.4**	11.9	4.7	11.0	7.5
2013	20.7	33.1	21.3	**35.0**	**2.8**	4.4	3.3	24.2	24.3
2014	17.6	20.4	**21.9**	20.8	6.1	7.2	**2.7**	11.1	11.8
2015	5.7	25.2	8.5	**31.9**	5.6	6.3	**2.6**	20.3	23.1
2016	2.0	0.4	**−2.7**	7.3	7.0	10.8	2.2	**24.6**	20.4
2017	13.1	14.7	**18.9**	14.4	0.2	−1.0	1.8	**−6.3**	−4.8
2018	13.7	15.4	10.8	**18.7**	3.1	2.5	**1.8**	13.0	9.0
2019	11.0	11.9	6.6	16.3	9.6	7.0	**2.0**	**19.3**	13.5
2020	−7.2	5.2	3.6	**9.6**	4.2	5.3	0.8	**−21.3**	−13.4
2021	30.2	27.5	**37.1**	29.1	−0.8	**−1.4**	0.1	33.2	23.3
2022	−7.4	−6.5	−11.3	−2.4	−10.5	−8.2	**0.1**	**−12.3**	−5.5
2023	14.8	22.6	18.3	**23.5**	1.2	−1.5	2.9	8.1	**−1.5**
Ave.	**10.0%**	**8.7%**	**8.7%**	**11.6%**	**5.6%**	**6.3%**	**4.3%**	**9.0%**	**9.7%**
Best	**30.3 (3)**	**42.2 (1)**	**37.1 (6)**	**57.5 (8)**	**16.8 (1)**	**13.1 (3)**	**7.8 (1)**	**33.2 (3)**	**38.2 (4)**
Worst	**−22.1 (2)**	**−23.5 (2)**	**−26.6 (3)**	**−25.8 (3)**	**−10.5 (2)**	**−8.2 (3)**	**0.1 (6)**	**−42.3 (5)**	**−31.2 (4)**

(X) denotes the number of times each asset class was the best/worst performer during a financial year ending between 1994 and 2023.
Source: Andex Charts Pty Ltd, June 2023.

In other words, asset class returns are ever-changing. So, having your investment money in several asset pots, instead of just one, will invariably smooth out your overall returns over time.

Getting the best mix

How you allocate your investment capital is one of the most important, and often difficult, decisions.

Your asset allocation strategy should always be in tune with your investment goals and your tolerance for taking risk.

Rather than trying to do it themselves, more and more people are investing across different asset classes such as Australian and international shares, listed property, fixed interest and cash using diversified exchange traded funds (ETFs) and unlisted managed funds.

Investing across a range of different types of investments helps to smooth out volatility.

A key advantage of diversified funds is that they give you the option of having higher or lower exposures to different assets, such as shares and bonds, depending on your individual tolerance for risk.

Diversified funds are versatile products that can be used as an all-encompassing single product portfolio, or as an extremely well diversified core building block with 'satellite' exposures around the edges.

They can help you to maintain a more disciplined approach to portfolio management, avoiding regular switches into and out of other assets. This allows you to have a more consistent risk profile, no matter how markets move.

Another advantage of diversified funds is that they're relatively cost effective compared with the fees involved in buying and managing the asset allocations of multiple funds or individual investments.

Vanguard has four diversified fund options, which have been designed for investors seeking either conservative, balanced, growth or high growth asset allocations.

Each fund invests across seven to eight different funds, covering all of the major asset classes, to provide broad diversification.

If you're unsure of whether you do have the right assets mix, consult a licensed financial adviser for some professional guidance.

Source:

https://www.vanguard.com.au/personal/learn/smart-investing/investing-strategy/pass-the-diversification-test

When you need - and don’t need - insurance through super

It's fair to say that when most people think about their superannuation their focus will be on the account balance, and any insurance they do have will likely be a bit of an afterthought.

That's if they have life insurance, total and permanent disability (TPD) insurance or income protection insurance with their super at all.

Around eight million of the roughly 15 million Australians with accumulation-phase superannuation accounts have some kind of insurance through their super, a report published in March by the Australian Securities and Investments Commission (ASIC) revealed.

That leaves roughly seven million people without. Some of that cohort will be those aged under 25 or with a balance under $6000 who are no longer automatically opted-in to insurance through their super.

Others will have chosen to opt out because they're covered by insurance outside of super, while some will have decided that the cost of insurance isn't worth the cover on offer.

There are benefits to being insured though - benefits that may become more or less important as people's lives change. So with that in mind, is there a 'right' time to opt in to super-based insurance, and does that level of cover need to change over time?

Marriage, mortgages and dependants

David Evans, head of insurance at Aware Super, says that major life events that add financial obligations or dependants are typically the factors that trigger people to think about their insurance needs.

"Purchasing a first home and taking on a mortgage is a classic one, so is when people get married and start to have a dependency relationship, and also when people have children.

"So if you don't have family to call on, or other financial resources, then insurance in super can absolutely play an important role there to provide you with a safety net of cover should something unfortunate happen."

Susan Quinn, of advocacy group Super Consumers Australia, notes that working out whether to take out insurance through super is a bit of a balancing act.

Ultimately she recommends that people weigh up the cost of insurance fees - and the impact this extra cost could have on a retirement balance - against the benefits insurance can provide.

"If you do need insurance, ask yourself how much money you'll realistically need if you're sick, injured, or disabled and unable to work," she recommends.

"There's a bit of help available on the ASIC Moneysmart website where they have a life insurance calculator to help you figure out how much you might need to leave the people who rely on you financially if you pass away."

The Moneysmart life insurance calculator is free to use and can help answer whether you need cover at all, how much cover you might need and what expenses insurance would cover if you die.

Can you leave it too late?

As with any type of insurance, it's hard to anticipate when you, or your family, might actually need to rely on life insurance, TPD insurance or income protection insurance. Hopefully never.

It's a decision that each individual will need to make, but as Evans explains, there can be downsides to leaving the decision too long.

"The benefit of taking insurance out early, particularly with life insurance, is that people's health does change over time," he says.

"By not taking out that insurance at an age where you are healthy, there is then a risk that you either might be uninsurable depending upon your health situation at the time, or you might not be able to obtain that insurance on the same terms.

"So what you might find is that when you apply the insurer will provide cover, but they may provide it with what's called a premium loading, or alternatively, an exclusion meaning that they can't cover you for certain conditions."

Should you regularly review your insurance?

For those who do decide to opt back in to insurance through their superannuation - and for the millions of Australians who are already insured this way - it can be useful to check in on a regular basis to make sure that the cover is still providing what you need.

"Life insurance shouldn't be a one time thing that is set-and-forget. Whether people take out life insurance inside or outside superannuation, it's important that they do review it on a regular basis, because the truth is that our needs change due to the changing circumstances of life," says Evans.

According to Quinn, people may want to consider tweaking their level of cover as they age or as their needs change.

"If you're proactive about your insurance in super you can usually dial up or down your cover. For example, if you're starting a family you could dial it up, or you could dial it down if you're getting closer to retirement."

"Often policies are built in a way where they automatically dial up or down, or they'll keep your premiums level but start to reduce the benefits as you age. So you really need to check with your fund to see how they structure their policies and if they're meeting your individual needs."

Five super insurance tips

Of course, there's plenty more to think about when it comes to taking out or managing insurance within your superannuation. Here are five things to keep in mind.

1. Watch out for junk insurance
"When we talk about junk insurance, we mean total and permanent disability insurance that's setting a really high bar for someone to be able to make a claim," explains Quinn. To avoid it, Quinn suggests looking into how an insurer defines 'activities of daily living' which could limit whether or not you can receive cover (even if you can't work), as well as whether your specific job or occupation is excluded from cover.

2. Name your beneficiary
"With insurance through super it's really important to make sure that you have a beneficiary recorded so that the superannuation trustee understands your expectations in terms of how you'd like any benefit to be paid," Evans says.

3. Don't ditch your existing insurance too quickly
"If you do decide to switch policies, make sure you can get the cover you want elsewhere. There are exclusions and carve outs that mean you might need to undergo medical tests before you can get insurance with another provider, so it's worth holding on to your existing insurance until you know that you can make that switch," Quinn says.

4. Check your level of cover
"When they provide automatic insurance, many super funds will only provide a basic safety net of cover. So even if there is insurance, it's not necessarily going to meet the needs of all individuals. It's really important to make sure that you understand what insurance you need: both in terms of the type of insurance and also the level," says Evans.

5. Look at how your insurer deals with claims:
"The way your insurer manages claims is a really important marker of the value you're getting out of your insurance and what you might expect if you do have to make a claim down the track. You can go online to Moneysmart's life insurance claims comparison tool where you can see how often your insurer is paying out on claims and how long they're taking to process them," says Quinn.

You can start using the Moneysmart life insurance claims comparison tool here, or for more information on the types of insurance you may have included through your super fund, check out the article on making sense of your superannuation insurance cover.

Speak with your financial adviser today to review your insurance cover relevant to your personal circumstances.

Sources:

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FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

4 WAYS TO MANAGE RISK
LATER IN LIFE

01

REVIEW YOUR LEVEL OF INSURANCE

As your investments and superannuation increase in value, you may be able to reduce your cover and still provide for your beneficiaries.

02

INSURANCE IN SUPER

Life and disability insurance can be arranged through most superannuation funds. Premiums can be lower and are paid from the superannuation balance thereby reducing strain on the household budget. But be aware that the premiums will affect your super balance.

03

INCREASE WAITING PERIOD

For income protection insurance, if you have accrued adequate annual or sick leave, you might want to increase the waiting period which may reduce your premiums. Depending on circumstances, this may allow you to retain an important benefit at a more affordable price.

04

PAY IN ADVANCE

Prepaying 12 months' worth of income protection policy premiums before 30 June may allow you to bring forward a tax deduction for next year into the current year. This can potentially reduce your taxable income and the tax you pay this financial year.

Breaking the silence: The challenges of being a carer

Caring for a loved one can be deeply fulfilling but brings its fair share of challenges too – as Laura discovered.

When her mother Shelly had a stroke, she didn't require a nursing facility, but could no longer live alone.

Laura was working part-time while studying a Bachelor of Dental Surgery and dreaming of one day opening her own boutique dental practice. She assumed that moving home to care for Shelly wouldn't greatly affect her career plans, and, in fact, giving up her rental accommodation would save money.

Unfortunately however, Shelly had had to quit work so the pair only had Laura's wages to live on. Yet the bills kept coming in, and on top of everyday living costs, expenses such as medicines, transportation and modifications to the home soon added up.

Additionally, helping Shelly attend medical appointments and assisting with errands put Laura behind in her studies. Since Shelly's condition was not going to improve, Laura deferred her course; telling friends she'd return later.

A great emotional weight settled on Laura's shoulders as she automatically prioritised her mother's day-to-day needs above her own.

As expected, Shelly's condition worsened. Medical sessions often clashed with Laura's work commitments leaving her no option but to give up her job as well.

While expecting to support her mum physically and emotionally, Laura wasn't prepared for the financial hit.

Fortunately, the Australian government offers a range of financial assistance packages, such as:

- Carer payments: provided to those giving constant care to someone with a disability, illness or is aged.
- Carer allowances: offering financial assistance to carers who provide daily care and support to individuals with a disability or medical condition.
- The National Disability Insurance Scheme (NDIS) which offers various services and programs for disabled people and their carers.

Applicants must meet prescribed criteria and the amount of payment varies depending on the situation.

The Government website www.servicesaustralia.gov.au contains a wealth of information for carers, including eligibility criteria, entitlement estimation calculators and information on how to claim.

Shelly's doctor provided program leaflets and additional details, and helped Laura gather the medical paperwork and other relevant documents.

For Laura, giving up her job impacted more than just her finances. Having already lost friends after too many declined invitations, she now lost her last source of social interaction.

Resigning herself to a life of care, Laura abandoned all thought of returning to university, along with her dreams for the future.

It was around this time that Laura discovered Carer Gateway www.carergateway.gov.au and Carers Australia www.carersaustralia.com.au.

These websites provided valuable carer resources, information and assistance services. While recognising that financial relief was crucial, their emphasis was on the relevance of self-care, urging carers not to underestimate the importance of their own well-being, particularly their physical and mental health.

Laura found a community of people who understood her situation, and a network of support groups, counselling services and respite programs encouraging carers to balance their care-giving responsibilities with their own needs.

One of Laura's new friends suggested she seek legal advice around Powers of Attorney, and a financial adviser specialising in estate planning for both her own and Shelly's peace of mind.

These days Laura says she feels the world opening up as the silence around caregiving is broken. With her mother's illness, her life took an unexpected turn, yet it has expanded in other ways. Laura's future is looking brighter; she has even enrolled in an online dental assistant course.

Not exactly what she'd originally planned, it's nevertheless a pathway to her own future, and more than that, she's daring to dream again.

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Post Christmas Sales - A Survival Guide

We've all experienced it… the undeniable allure of post-Christmas sales.

No sooner has Christmas wrapped up for the year than the frenzy of Boxing Day Sales descends upon us. Every store window beckons, and our inboxes overflow with promises of unbeatable discounts.

But before you indulge in some festive leftovers and make a beeline for the air-conditioned wonderland of sales, let's take a moment to pause and ponder...

Is that shiny, discounted gadget truly a necessity?

Do those new outfits genuinely add value to your wardrobe?

Or might there be a wiser way to allocate your hard-earned money?

The Allure and Reality of Post-Christmas Sales

The holiday season often leaves our wallets feeling lighter than usual.

Australia's festive spending reached an eye-watering $74.5 billion in 2022, marking an 8.6% increase from the previous year, according to the Australian Retailers Association.

And Boxing Day? A whopping $1.23 billion was spent in just 24 hours!

These figures aren't just numbers; they paint a picture of our collective weakness for a good holiday sale.

But here's the other side of the coin: while sales can offer genuine bargains, they also come with pitfalls. The risk of accumulating more debt is a very real reality for many shoppers, especially with credit cards already stretched thin from holiday shopping.

And let's face it, impulse purchases can often lead to buyer's remorse and an overstuffed home.

The Merits of Post-Christmas Sales

While the post-Christmas sales period often comes with warnings of overspending, it's not all doom and gloom.

When approached with a well-thought-out strategy, these sales can be a great opportunity to secure essential items—be it electronics, clothing, or household goods—at a fraction of their original prices.

But how can one truly benefit without falling into the common traps? The key lies in being discerning.

- Make sure you have a clear idea on what you genuinely need versus what simply catches your eye in the moment.
- Do your homework by comparing prices, reading reviews, and setting a budget
- Be on guard against those all-too-tempting impulse buys.

With a bit of planning and restraint, the post-Christmas sales can be both enjoyable and economically rewarding.

Smart Money Moves Beyond Sales

It’s easy to forget about your bigger picture goals when there are neon signs screaming discounts of 50% OFF or more!

But remember, every dollar spent is a dollar less saved… or put towards those bigger picture goals.

Before you fall prey to the post-Christmas sales, consider these alternatives:

Save for a Rainy Day: Life is unpredictable. Having a safety net can make all the difference.

Debt Reduction: Free yourself from the burden of debt, by paying down your credit cards and/or any loans you have.

Invest: Think stocks, bonds, or other avenues to grow your wealth. (Hello Financial Freedom!)

Financial Goals: Would you rather a new outfit? Or to be one step closer to that dream holiday, new car, or first home?

Post-Christmas sales can be both a treasure trove and a minefield. The choice is yours.

This festive season don't succumb blindly to the allure of holiday sale discounts. Instead, either purchase your "need to have" items (remember, be discerning here!), or skip the sales completely and opt to put the money towards your financial goals!

Here's to spending wisely, and a financially savvy new year!

Sources:

www.retail.org.au "Unprecedented growth on Boxing Day as pre-Christmas retail spend hits record $74.5 billion", Australian Retailers Association (30 December 2022).

Should you wish to discuss any aspect of the information contained in this document, please contact your Financial Planner.

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