INSIDE

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FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

Insurance – don't go it alone

There is no doubt that the very thought of claiming on your own insurance policy is depressing, but extensive research tells us that you may be unable to work for an extended period during your life due to sickness or an accident. The problem is that nobody has any idea when that might happen. Please try to fight the urge to stop reading now and 'worry about it later' because there is an important message here.

It's a confronting topic that makes us think about our own mortality. However, a financial adviser can help you through the process. The worst can happen to anybody. If it does happen to you, you want to make sure that:

i) you took due care (supported by advice and help from someone in the know) when preparing your initial application, and

ii) that you actually have the cover in place. The first question after, "are you ok?" is often, "do you have insurance?" If you think your answer would be "I think so" or "no", please stop now and consider how your

family would cope in this situation, or more to the point, how would you cope financially if something happened to a beloved family member?

Where do you start if you don't have cover?

Find a licensed financial adviser who specialises in Personal Risk Insurance. The application process is so important to relieve stress in the event of a claim. It has to be done right; and the conditions and definitions (the boring stuff) must be spot on.

Don't be satisfied with approval of cover that requires very little in the way of medicals or blood tests. You may think you have cover but it's a nightmare to be told at claim time your application is rejected because you 'broke the rules' since you forgot (often genuinely) to tell the insurer something small but now seemingly crucial.

A professional adviser will ensure you have insurability from the very moment the cover is granted. Yes, you will have to pay for that advice, but it's invaluable. The last thing anyone wants when they have suffered a serious injury or have been diagnosed with a life-threatening illness is a delay. Or worse still, have any doubt the claim will be paid.

This is where the role of an adviser throughout is so important. Your adviser usually knows someone 'higher up' and 'in-house' who could assist through the process. That means, it's not only your adviser who is onto the insurance company but their internal contacts, often part of a large Head Office, which the insurer does not want to get offside. This alone is a huge advantage over buying insurance online, because who will be there to back you up?

So please don't put it off another moment – and this is the 'pulling-on-heartstrings part' – do it for those you love and who love you.

Prepare for the unexpected

Recently retired couple, David and Erica, were fit and active, and planning a sea-change when David suffered a stroke, leaving him unable to walk or speak.

David had been a strong, strapping man, who now needed around-the-clock care. His doctor recommended either an aged care facility or a home-carer that provided appropriate services.

Over the course of their 25 year marriage, the couple had discussed many things, but not this.

Erica didn't know what David's wishes would have been, and as he was now unable to communicate them, she was forced to make a decision she was unprepared for.

None of us wants to confront our own mortality, but uncomfortable discussions shouldn't be avoided.

Neither David nor Erica expected their situation to change as it did, so hadn't broached the what if, questions, like:

What if I become terminally ill?

What if I'm placed on life support?

What if I become incapacitated?

Now, Erica had to face these questions alone.

Naturally, her first concern was David's welfare, but overlaying that was her fear that she'd have to sell her home to be able to afford suitable care. A friend told her that aged care costs were tied to her assets, so Erica should give some of her property and valuables away to reduce fees.

Erica was devastated!

David's doctor referred Erica to an aged care specialist, Shirley.

Erica hadn't heard of aged care specialists, but Shirley immediately put her mind at ease, explaining that selling the family home and reducing assets, were major misconceptions around aged care.

Once the financial pressure was lifted, Erica was able to breathe easier, and review the options available for David's circumstances.

The government offers a range of aged care services and subsidies, and Shirley provided information about the different packages that would suit David, and helped Erica understand how they worked, the application process, and how they could be scaled-up as David's condition worsened over time.

Sadly, aged care is often something that is never considered until it's needed. However, doing your research ahead of time, and choosing for yourself, can be empowering; you're taking control of your life and unburdening your loved ones from making decisions during a stressful time.

After suitable arrangements had been made for David, Shirley suggested that Erica turn her attention to her own future needs.

For example, Erica might one day utilise a government funded home care arrangement designed to support her ongoing independence in the family home. They range from basic day-to-day services like housework, food preparation and gardening, to hygiene and nursing services.

Shirley went on to suggest that Erica also consider:

- appointing medical and financial Powers of Attorney,
- ensuring her Will was up to date,
- contacting a professional estate planner.

Shirley also recommended that Erica speak with her financial adviser since David's condition had altered their plans for a sea-change.

Throughout our working lives we set goals for retirement and develop strategies for funding them, but our forward planning tends to end there.

It doesn't take much, and there are professionals available to assist, so when ticking off your retirement planning checkboxes, tick one more, and have a say in your own aged care.

Source: www.myagedcare.gov.au Home care packages (Last revised January 2023)

Superannuation for the suddenly single

Found yourself separated and suddenly single later in life? Life often has different plans for us than we may have imagined.

Life after divorce (or separation) might bring with it a whole range of new things, including the need to rediscover yourself, dipping your toe back in the dating pool (*hellooo Tinder*) and revisiting your plans for the future, in particular, your financial plans.

An essential financial aspect to consider here is your superannuation and retirement plans to make sure you are on track and not at risk of struggling in your later years.

According to the Association of Superannuation Funds of Australia (AFSA), a single person requires a lump sum of $545,000 to live a comfortable retirement, and this is on top of owning your own home.

If this sum sounds a little daunting, don't freak out. There are steps you can take now to boost your super and ensure your divorce doesn't derail your financial future.

Get the basics right

If you haven't already gotten your superannuation in order, this should be the first step on your action plan.

This should include:

- Understand the basics of how superannuation works.
- Making sure your superannuation balance is consolidated into a single account, where possible.

- Reviewing your superannuation account to make sure your fees are reasonable, and investments are suitable for your needs and risk tolerance.

Adding extra to super

Topping up your superannuation is a great way to boost your retirement, particularly for those in the higher income tax brackets.

Salary sacrificing allows you to direct a portion of your salary to superannuation pre-tax, so that you will only pay the superannuation tax rate of 15% instead of your marginal tax rate.

The sooner you can start adding extra to super, the better, no matter how small the amount, thanks to the power of compound interest.

Re-evaluating your Career Path

When was the last time you re-evaluated your career path? If your career went on the backburner behind your relationship, parenthood, or just general life, it might be time to stoke up that career fire again.

Advancing your career can provide opportunities to increase your income and benefits, which also increases your employer contributions and ability to make additional superannuation contributions.

Investing for the long term

Not all superannuation investments were created equally…

Some investments are quite conservative, investing in cash, term deposits and other defensive investment types. These investments are lower in risk, which also means they generally offer lower returns.

Some investments are quite aggressive, investing in shares, property, and other growth investment types. These investments are higher in risk, which also means they generally offer higher returns.

If retirement is still quite a number of years away, now is the time when you can be aggressive with your investments – taking on a higher level of risk to gain higher potential for investment growth and returns, as you have a longer investment timeframe to ride out market fluctuations.

Make sure you are protected

You now need to look out for number one, so it's essential to have a risk protection insurance plan in place to ensure you are covered in the event of death, disability, critical illness and/or the inability to work.

This cover might include:

- Life Insurance
- Total and Permanent Disability (TPD) Insurance
- Trauma or Critical Illness Insurance
- Income Protection Insurance

Life after divorce or separation takes some adjusting to and revisiting your plans for the future as a single can be daunting.

If you've found yourself starting over and are unsure where to start, reach out to a Financial Adviser who can help assess where you are now, set financial goals for your new future, and put a plan in place to help you secure your financial future!

Sources: https://moneysmart.gov.au/ "AFSA Retirement Standard" (accessed 06/01/2023)

Should I pay down my mortgage or invest?

It's always a good idea to regularly check in on your financial position, whether there's been a significant change in your financial situation or not. And for those who find themselves with spare funds, it often raises the question, "Should I pay down my home loan or invest these funds elsewhere?".

For most, there is nothing like the comfort of reducing their mortgage. Knowing they are building ever more equity in their own home and moving just that little bit closer to owning their own home outright.

Moreover, there is no risk associated with repaying your home loan in the way there is risk attached to investing funds beyond your home and somehow, it just seems that much easier to commit to paying more off your home loan, than strictly setting aside an amount each month to invest.
In addition, there is a significant tax benefit. The money you save by reducing your mortgage, and lowering your overall interest rate bill, is not taxed, while any earnings or capital gains received from investments will most likely be taxed at your marginal tax rate.

Against that, while interest rates are at relatively low levels, there is a good argument that if you can generate returns from investments in excess of this rate, then the smart money is on making investments beyond your home. Especially if you contribute these extra savings to your superannuation fund and then invest the funds within superannuation. This is because the associated tax rate for assets held within super is a benign 15 per cent, which for most people is below their marginal tax rate.

In addition, you might be able to reduce the tax you are paying on your weekly earnings. Again, depending on your situation, you can contribute up to $27,500 a year to super and potentially claim a tax deduction for these contributions or up to $110,000 a year using after tax income or savings.

Investing funds outside of your home also means you are diversifying your asset pool. Rather than having all your funds tied up in one property, you can choose to invest any additional funds in a range of opportunities such as fixed interest investments, commercial property, domestic shares or international shares.

But just how do the numbers stack up? Just what sort of returns can you get from investments compared to repaying your own home loan?

Let's assume you take out a $500,000 home loan over 30 years at say 3.5 per cent.

The Government's Moneysmart online mortgage calculator suggests monthly repayments would be $2,245 and the total interest charged would be $308,280.

If you repaid an extra $500 a month to reduce this loan, you would reduce the term to 21 years and nine months and the total interest bill would be just $214,168 – saving you some $94,112 in interest payments.

Alternatively, if you invested $500 a month in an investment generating 7.5% per cent, at the end of 30 years, the Government's Moneysmart compound interest calculator suggests this investment would be worth $678,433. That's $584,321 more than the interest you've saved.

The numbers suggest overwhelmingly that you are better off investing outside your own home if you are confident that you can commit to this investment strategy, and if you are assured, you can obtain at least 7.5 per cent after tax year after year for 30 years.

For most people though, the best strategy is a mix of repaying your home loan early, contributing extra funds to super and building up an investment portfolio. A Financial Planner is the best person to help you decide just what the best mix is for you.

Sources: MoneySmart, https://moneysmart.gov.au/home-loans/mortgage-calculator
Mortgage Calculator (accessed 29/12/2022)
MoneySmart, https://moneysmart.gov.au/budgeting/compound-interest-calculator
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