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We hope you enjoy our latest edition of Money Matters.

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How to safeguard your financial wellbeing when the fairy tale ends

Getting a divorce later in life can destabilise more than just your emotions. Taking steps to ensure your financial wellbeing is crucial to help lessen the blow.

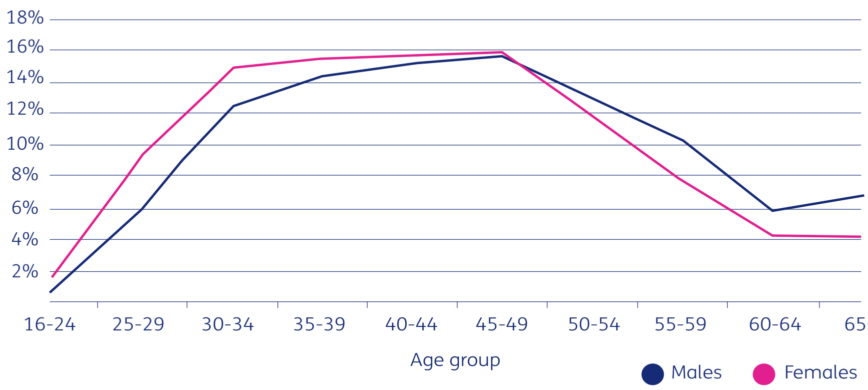
Once upon a time, marriage sought to guarantee you against massive financial upheavals later in life.

A husband and wife who had put care and work into their financial future were expected to be well placed for a comfortable retirement, living happily ever after until late into their twilight years.

But this is often not the case.

According to the Australian Bureau of Statistics, in 2017 most men who divorced cut ties at 45.5 years, while the average female severed her marital bonds around age 43[1].

Age at divorce, age group, Australia 2017



Source(s): Australian Bureau of Statistics, Age at divorce, Age group, Australia, 2017-Age at divorce, Age group, Australia, 2017.

Glenn Adams from Financial Coaching Australia says experiencing a divorce can negatively affect your financial position, retirement plans and personal sense of wellbeing.

"When you're under stress financially, it leaks out of you into your personal life. You can't help it. It's always in the back of your mind: how can I pay the bills?

"That's why people who are going through a divorce will need to consider what's actually coming up in the next five years and possibly start to look at their plan Bs and Cs."

Adams stresses that budgeting for your future as a newly single person is essential – not just to ensure you remain financially stable well into retirement but so that you can have peace of mind and experience a high degree of financial wellbeing.

"People need to put strategies in place to get them to the right place in their lives, financially and emotionally."

Adams recommends that divorcees know how much money they have coming in and going out, after both partners divide all assets.

Next, they should work out what they want their life to look like in the long-run. For example, consider:

- Do you have substantial ongoing costs such as children's school fees?
- Is travelling important to you?
- How long do you plan to work for?
- What does work-life balance mean to you?
- What leisure activities will you want to spend your money on?

"Knowing exactly where you are heading in the future will give you a lot of surety. It may not be a pretty story if the direction you're following is not ideal, but at least you know and you can make changes."

Don't believe the social media hype

One huge tip that Adams gives divorcees looking to achieve a greater sense of emotional and financial wellbeing is to stay off social media.

"People often compare themselves to other people in similar situations on social media," Adams says. "Someone will say 'well, Jimmy or Beth has more than me. They are divorced but they seem to be going okay on Facebook'."

Adams reminds divorcees that competing with other people's luxurious lifestyles on social media is a costly hobby that you may not have factored into your budget.

"On the outside, other people's lives may look good on social media but what they are going through internally may be just as traumatic as what you're going through."

So do your best to avoid comparing your status updates to others. By ignoring the expensive race to keep up with the Joneses, you'll enhance your emotional wellbeing and protect your personal finances along the way.

Book an appointment with your financial adviser when major life events occur to ensure your investment portfolio remains on track to meet your new goals.

1 Australian Bureau of Statistics, 3310.0 - Marriages and Divorces, Australia, 2017 "Main Features - Summary of findings." www.abs.gov.au/ausstats/abs@.nsf/mf/3310.0.

Who owns your insurance policy?

Not everyone owns and pays for their life insurance policies. A range of other structures can offer certain benefits such as estate planning and protecting small businesses.

Life insurance is a crucial way to protect individuals and families against the devastating fallout of a death or total and permanent disability. However, the person whose life is insured is not always in control of the policy designed to protect them and their loved ones.

Other options to consider include:

- Joint ownership: Owned jointly by the life insured and their spouse or partner.
- Cross ownership: Owned by the insured's spouse or partner.
- Superannuation fund: Owned by the super fund's trustee.
- Trust or corporate entity: Owned by a corporate entity.

The main question to consider is what is the purpose of the life insurance policy? For example, a policy may be designed to pay off existing debt, provide a future income for your spouse, or form part of broader estate planning.

"You may have a policy that's paid for by a child that's for a parent but it's effectively an estate planning or estate equalisation mechanism," according to Advice Wise financial planner Matthew Fenning. "We recently had a client where it was basically an agreement out of divorce where all the money goes to the husband but the ex-wife pays the policy."

This type of structure can be popular where second or third families are involved following an initial divorce.

"A common reason for structuring cover this way is to stop a fight over what is already an upsetting period."

However, a key question to consider is how to get the life insurance money to the desired recipients in an easy and tax-effective manner, which governs whether the policy is held in their own name or the name of another entity.

For example, life insurance can be crucial for someone who runs a small business. The life insurance policy may be held by a company or a trust, which allows the remaining business owners to buy out the next of kin if they wish to sell. In this case, the remaining business owners can continue running the company.

Why reputation matters when it comes to insurers

While the structure of a life insurance policy is crucial to consider, so is the reputation of the insurer itself – not all are equal despite broad similarities across policies. The best structure is of little benefit if an insurer is unlikely to pay out at claims time.

A new tool released by the corporate regulator ASIC now allows consumers to compare how life insurance companies have handled claims and claims related disputes in the past[1].

It shows widely varying results. For example, some major insurers had claims acceptance rates well below the industry average for death cover for policies bought directly through an insurer. The worst individual insurers posted figures of just 72.8% and 85.5%[1].

There are many factors to consider when it comes to life insurance but setting the right foundation can give crucial peace of mind.

Need an insurance check-up? Your financial adviser can help ensure you are getting the best deal and can be confident during the claims process.

1 Life insurance claims comparison tool | ASIC's MoneySmart. www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/life-insurance-claims-comparison-tool for the period 1 January 2018 to 31 December 2018.

Investing in a low interest rate environment

Interest rates in Australia have fallen to record lows in 2019 and the Reserve Bank of Australia has suggested that interest rates are likely to remain low for an extended period.

A low interest rate environment presents a significant challenge for investors, particularly for those seeking income. For example, if an investor's portfolio has a target of 70% growth assets and 30% income assets, the returns on the 30% portion of the portfolio will be lower in the future than was previously the case.

So what can investors do in this low interest rate environment? Firstly, to earn higher returns, investors may need to be prepared to move out along the risk spectrum in search of higher yields. This could mean reallocating some funds from cash to diversified fixed interest in the income portion of a portfolio, or reducing a portfolio's overall allocation to income assets in favour of growth assets such as shares. This is one of the reasons why growth assets can actually perform well in low growth and low interest rate environments.

However, low interest rates can also signal that the future is likely to be characterised by sustained economic weakness justifying lower rates. In this situation returns to growth assets may also be lower because risk levels are higher and earnings growth is lower. Therefore, it is also important for investors to stay disciplined in a low interest rate environment. This means investing where valuations are reasonable, avoiding expensive markets, having some risk management strategies available in portfolios and being opportunistic by keeping some cash at hand to buy into dips, if and when they occur. In these uncertain and challenging investment times, your adviser can guide you to the right strategy for your individual circumstances.

Your financial adviser can help you structure an investment portfolio that meets your goals.

Five ways to budget for the festive season

Christmas is traditionally a joyous time of year, but the combined costs of celebrating and buying gifts can quickly turn the festive season into an expensive memory.

Christmas doesn't have to be extravagant – experiences such as spending time with family are often more memorable than material items. Planning ahead can also help ease the burden, as can talking about expectations with family and friends.

Here are five saving and budgeting strategies that you might like to consider to help you make sure you don't end up paying for Christmas into the New Year.

1. Use a spending tracker

Cash has been an accepted means of payment for centuries but it's quickly being replaced by cards, mobile devices and digital payments schemes. In fact, the share of consumer payments made in cash has plummeted from 69% in 2007 to 37% in 2016, according to the Reserve Bank of Australia[1].

While they're convenient, digital payments make it harder to keep track of money in the moment. It's easier to not think of the impact a $100 purchase may have on your budget when all you need to do is tap a card.

Online spending trackers and apps offer a digital alternative to manually updating a spreadsheet to monitor your money.

They automate the process by connecting multiple accounts and cards to capture your total expenditure. This makes it simple to identify any areas where expenditure is getting out of control or where easy savings can be made. Some apps allow you to set a budget or thresholds that trigger spending warnings.

Common third-party apps include Pocketbook, MoneyBrilliant, and Spendee while financial advisers tend to use myprosperity or Moneysoft. Some financial institutions also offer mobile apps or online tools that categorise expenditure and provides immediate spending alerts, which can work for people who use one bank.

2. Set up a separate savings account

Placing money in a separate account can help boost motivation as you watch your savings climb. It also makes it harder to inadvertently blow the budget if your Christmas savings are mixed with other cash in one account or to give in to temptation and buy something else.

Many banks now allow you to set up a separate fee-free account to save, which you can label "Christmas savings" or similar. It's also easy to set up an enforced direct debit savings plan to save small amounts over time.

For example, it's easier for most people to find $83 a month than an extra $1,000 to spend at Christmas. Putting it into a high interest account helps it grow even more, because interest is compounded over the year.

'Round up' saving options are a newer service that are becoming more popular. They enable you to round up each purchase to the nearest $1 or $5 (which you're less likely to notice) and put that cash into a savings account.

3. Watch the credit cards

Credit cards are an easy way to pay – and an even easier way to accrue debt.

Several studies have found consumers have a greater 'willingness to pay' when using credit cards instead of cash, including a 2001 US study where participants bid almost twice as much for tickets to a sold out Boston Celtics game as those using cash.

The corporate regulator, ASIC, recently estimated that 18.5% of consumers are struggling with credit card debt after a reviewing more than 21 million credit card accounts[2].

In June 2017, almost 550,000 Australians had fallen into arrears, while 930,000 suffered persistent debt and 435,000 people were repeatedly repaying small amounts. Unfortunately, while official interest rates have been cut to historic lows, credit cards still often charge significantly higher rates.

It's crucial to identify and then pay off costly credit card debt as fast as possible. Monitor your spending with online tracking tools and set up a direct debit to ensure that your card repayments are always made on time.

4. Be cautious about using 'buy-now, pay-later' schemes

Buy-now, pay-later schemes such as Afterpay and Zip are booming in popularity. They offer consumers interest-free finance to pay for purchases over time and many younger shoppers are choosing to use these platforms instead of credit cards.

However, there are traps to be wary of. These schemes charge retailers (rather than customers) a percentage of the transaction value. The reason retailers do so is because consumers using buy-now, pay-later schemes spend more.

Adam Bianco, a director of shoe store Tony Bianco, has previously said that customers using Afterpay placed average orders almost 60% higher than those using other payment options[3]. Other retailers have reported Afterpay customers place average order around 18-24% higher.

Some buy-now, pay-later schemes also charge various fees such as monthly account-keeping fees or late fees if repayments aren't made on time.

Afterpay capped its late fees from July 1, 2018 however, late fees still form a substantial component of its revenue – the company charged customers almost $18.2 million in late fees over the first half of 2018-19[4].

5. Beware of using seamless transport and food apps

Mobile phone apps and online shopping make life convenient, but the hidden price is often high. It's easy to spend too much on basics such as food and transport when apps such as Deliveroo and Uber make the transaction seamless.

It's all done without ever handling or counting cash, tapping a card on a payment terminal, or entering card details online. Yet real money is debited and for some, costly spending habits are quickly formed.

Awareness about the way these apps work is the first step before deciding on a strategy. Some people can cut down their use or pick cheaper options. Better meal planning provides a similar range of food at far cheaper prices during the weekly grocery store shop while public transport or car-pooling offer a slightly longer journey but at a fraction of the cost.

For other people, deleting the apps altogether is a sure-fire way to beat willpower.

Anticipation is part of how much we enjoy an overall experience. With some planning and self-restraint now, you and your loved ones can have an even merrier Christmas.

Your financial adviser can help set up a budgeting and investment plan to help you reach your lifestyle goals.

1 "Cash | RDP 2017-04: How Australians Pay: Evidence from the 2016 Consumer Payments Survey." Reserve Bank of Australia, 23 Aug. 2019, www.rba.gov.au/publications/rdp/2017/2017-04/cash.html.

2 "ASIC's review of credit cards reveals more than one in six consumers struggling with credit card debt" ASIC, asic.gov.au/about-asic/news-centre/find-a-media-release/2018-releases/18-201mr-asic-s-review-of-credit-cards-reveals-more-than-one-in-six-consumers-struggling-with-credit-card-debt.

3 Afterpay 2017 AGM Presentation. Afterpay Touch - Announcements, Results and Reports. Results Presentation H1 FY19. www.afterpaytouch.com/re-sults-reports.

4 Results Presentation H1 FY19. Afterpay Touch - Announcements, Results and Reports. www.afterpaytouch.com/results-reports.

Investment markets shrug off uncertainty

Investment markets received a welcome boost from recent interest rate cuts, but caution is warranted as the US and China trade stoush escalates.

Investment markets have held up well despite slowing economic growth as the US-China trade war shows no signs of being resolved in the short-term.

Every major asset class climbed into positive territory over the three-month period ended 30 September with S&P/ASX 200 Total Return Index gaining 4.2% and the MSCI World (Ex Australia) climbing 8% in Australian dollar terms.

The strong result was helped by the US Federal Reserve's decision to stimulate the economy by cutting rates in July and end quantitative tightening two months earlier than expected. The potential economic fallout from the US and China's ongoing trade battle has also been a key factor influencing central banks around the world.

In late-August, China announced retaliatory tariffs on about $US75 billion of United States goods as the US began imposing 15% tariffs on a $US125 billion list of Chinese consumer goods such as footwear and flat-screen TVs.

Trade tensions prompted a sell-off in the S&P 500 in late-July and early-August but renewed optimism and strong US economic data in early-September prompted the market to quickly regain most of those losses.

The European Central Bank also flagged new stimulus measures in response to weakening European economic growth, while the terms of Britain's exit from the European Union have yet to be resolved under new Prime Minister Boris Johnson.

Closer to home, the Reserve Bank of Australia cut official interest rates twice in June and July to a new record low of 1% with economic growth slowed by weak consumer spending. Australia's GDP expanded by just 0.5% in seasonally-adjusted terms over the June quarter, marking the worst annual growth recorded since the global financial crisis fallout in late-2009.

While wages growth has remained weak, strong net exports, infrastructure spending, and a growing population helped underpin growth. Recent personal tax cuts, combined with interest rates cuts, may also stoke consumer spending while east coast residential property prices have continued to strengthen after a long decline.

National dwelling values increased by 0.8% in August, led by the Sydney market which gained 1.6%, according to property analyst CoreLogic.

While there are positive and negative factors at play, geo-political uncertainty and its impact on economic "growth means investment market volatility is likely to continue. As always, it's important to stick to a long-term strategy in times of uncertainty rather than reacting to short-term news.

Your financial adviser can help explain current market events and ensure your investment portfolio remains on track to meet your goals.

JSA GROUP

Head Office
Level 5, 250 Pacific Highway, Charlestown NSW 2290

Branch Offices
Suite 3, 4 Honeysuckle Drive, Newcastle NSW 2300
49 Main Road, Boolaroo NSW 2284
Suite 610, 2-8 Brookhollow Ave, Norwest NSW 2153

T: 02 4908 0999
F: 02 4908 0900
E: reception@jsagroup.com.au
W: www.jsagroup.com.au

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