Future Financial Planning

WELCOME TO OUR AUTUMN EDITION OF FFP NEWS

Welcome to Future Financial Planning News - Autumn Edition.

After what seemed to be a short period of COVID normal and then an unexpected snap lockdown, it appears that we are again hopefully heading in the right direction with the ever changing Coronavirus situation.

Inside this edition we consider the possiblity of protecting your greatest asset - your income, making the most of record low interest rates and the uncertanties of retirement.

We also remind all clients of the importance of keeping us updated with your most up to date contact details.

Please also note our office will be closed on **Monday, 8th March 2021** for the Labour Day public holiday and as we head towards the Easter period our office will be closed on the following days:

Friday, 2nd April 2021 for Good Friday public holiday; and
Monday, 5th April 2021 for Easter Monday public holiday.
Normal office hours will resume on Tuesday, 6th April 2021.

We hope you all have an enjoyable Easter break and we look forward to continuing to assist you with your financial goals throughout 2021.

Kind regards,

Rhys, Michelle and Michelle

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Protect your greatest asset - your income

What is your greatest asset? Your home and it's contents? Your car? Your life? Many people insure these assets, yet, all too often they don't adequately protect what is potentially their greatest asset - their ability to earn an income.

Take a moment to consider what could happen to your lifestyle if you were unable to work for an extended period due to illness or injury. Your expenses could quickly run down your savings. You may even need to sell your investments to make ends meet.

By taking out income protection insurance you can protect your greatest asset and avoid putting your family's lifestyle at risk.

If you suffer an illness or injury and are unable to work, income protection insurance can pay you a monthly benefit (usually 75% of your pre-tax income) to replace lost earnings. You can generally claim these premiums as a tax deduction.

You can choose a range of benefit payment periods, with maximum cover usually up to age 65. You can also choose a range of waiting periods normally between 14 days and 2 years.

For more information, give us a quick call and we will be happy to provide you with further details.

Making the most of record-low interest rates

In it's first board meeting of 2021, the Reserve Bank of Australia (RBA) decided to keep the cash rate at a record low of 0.1%. Find out why rates are so low and what it may mean for you and your financial goals.

Why does the RBA keep rates low?
Lower interest rates and rate cuts are a way for the RBA to help stimulate the economy. The idea is, when the official cash rate is low, banks may follow suit and lower interest rates on the loans they provide.

When rates are lower, you pay less interest on your debt, freeing up money for you to spend elsewhere. You may also be more likely to borrow money. This increased spending has a ripple effect through the economy, giving it a boost.

It's important to note that when the RBA cuts the official rate, or keeps it low, there's no guarantee that the banks will do the same. For example, in recent times, some banks have only passed on part of the rate cut.

How the RBA is supporting the economy during COVID-19
In a statement from the RBA[1], they advised they will not increase the cash rate until inflation is within the target range of 2-3%. For this to occur, wages growth will have to be higher than it is currently, requiring significant gains in employment and a return to a tight labour market. The RBA isn't expecting these conditions to be met in Australia until at least 2024.

What could low interest rates mean for me?
So, it looks like low interest rates may be around for a while. This could be good news or bad news, depending on your financial goals. Here's what low interest rates could mean for four common financial goals:

Paying off debt - If you have a variable rate loan, a rate cut can work in your favour, provided your lender passes on the cut. This could be a good opportunity to start clearing debt. One strategy to consider is to keep your loan repayments the same despite the rate cut, so that you pay off more of your loan, faster. Or, you may consider using the money you save on repayments to invest elsewhere to help grow your wealth.

It generally makes sense to pay off bad debt first (ie debt used to pay for day-to-day expenses like credit card debt, rather than debt used to pay for an income-generating asset like an investment property). It's also usually a good idea to start paying off the debt with the highest interest rate first.

If you have a fixed-rate loan, it may be a good time to crunch the numbers to see if refinancing is worthwhile, so you can take advantage of the lower rates on offer. When you're working this out, make sure you factor in, not only the amount you could save on repayments, but also the break costs associated with the current loan, as well as any set-up fees associated with the new loan.

It's important to consider your circumstances and goals before deciding what's right for you, so financial advice may help.

Buying a property - If you're in the market to buy a property, a reduction in interest will probably be welcome news. That's because lower rates will influence how much you can borrow and how much you can afford to repay on your loan.

While it may be tempting to borrow more, keep in mind that interest rates will eventually increase and so will repayments. It's a good idea to check whether you can afford the home loan if rates were to go up.

Increasing your savings - A low-rate environment is generally less favourable for savers with cash in the bank and may prompt some investors to consider whether their money could be working harder for them elsewhere.

With little interest to be earned by keeping money in the bank, alternative options such as income-generating shares that pay attractive dividends may be worth a look.

Before making any changes, it's important to understand the risks involved. Shares, for example, are much riskier than keeping money in the bank. But they may offer the potential for much higher returns than a cash deposit.

Other options which may help your money to wrok harder for you include managed funds or property. Again, these investments carry more risk and can tie-up your cash for a longer period of time. Also be sure to understand any fees involved.

A financial adviser can help you find suitable options for your circumstances.

Growing your super - This is a timely reminder to check what portion of your super is invested in cash. Consider whether the amount of super you have in cash is still appropriate given the level of risk you're comfortable with and the time you have left until you retire.

Ultimately it comes down to what's important to you, what stage you're at in life and how much risk you're willing to take on for potentially higher returns. If retirement is still a while away, you may consider taking on riskier, higher growth investment options like shares or property that have the potential to help grow your super balance over time. However, if you're retiring soon, you may not be as willing to take on too much risk, as preserving your super balance may be a higher priority. Your super fund can provide you with information on the options available to you, and help you understand the associated risks.

Regular reviews of your super investments can help you to make sure you're still on track to a comfortable retirement, and chatting to a financial adviser can also help, so call us today for any assistance.

[1] RBA Website - Supporting the Economy and Financial System in Response to COVID-19 (https://www.rba.gov.au/covid-19/)

Many Aussies in the dark about retirement

Whether retirement is a long way into the distance, or just peeking over the horizon, recent research[1] shows half of us aren't sure we'll have enough money to retire when we want, or even how much money we'll actually need.

There's always been a lot of unknowns when it comes to retirement but throw a global pandemic into the mix, and we're feeling more uncertainty than ever before. Things we once thought of as quite certain seemingly changed overnight.

And while that's all led to a whopping 76%[2] of us believing it's more important than ever to plan for a secure financial future, we still don't know what that means when it comes to retirement.

One in three not confident of a comfortable retirement

That's a lot of Australians feeling insecure about how we'll manage when we stop working. According to the Association of Superannuation Funds of Australia (ASFA) Retirement Standard[3], for a comfortable retirement, a single person needs about $545,000 and a couple $640,000 saved in super. This is assuming you own your house outright. Those numbers might seem pretty scary, but knowledge is power. It's better to be informed when you still have time on your side than stay in the dark and be left with fewer options.

Plan to bridge the gap

The first step is figuring out how much you need. Once you know the figure you're aiming for, how much you currently have, and how many years you are away from finishing work, you can put a plan in place to help you reach your retirement savings goals.

Ways you might consider doing this include:

- Topping up super with additional contributions (be aware of contribution caps)
- Replacing any super that's been accessed through the COVID early release of super scheme
- Paying down personal debt like loans or credit cards
- Making additional home loan repayments so you own your home sooner
- Consolidating your super accounts so you aren't paying multiple fees (check you don't lose important insurance benefits or won't be charged an exit fee first)

If you are not sure what steps are right for you, we can help you figure it out.

Plan to protect retirement savings

COVID has made us pay closer attention to how our retirement savings are invested and some people may have seen their super balances drop. If you've got 15 or more years before you retire, chances are, your balance will likely have time to recover with the usual long-term market movements. But there's no guarantee, and it doesn't mean you can just sit back and relax.

It's worthwhile checking what type of superannuation investment product your retirement savings are invested in. Diversified or balanced options can help offer some protection against volatile market swings because they're made up of assets other than shares, like buildings and other infrastructure (although these are still susceptible to fluctuations).

One of the most important things to do is avoid making hasty decisions. Do your research, and if possible speak to your financial adviser if you're wondering whether it's the right time to switch investment options or move your super from one fund to another. There may be a risk of locking in losses or unfavourable tax components that could have a significant impact on the kind of retirement you'd like.

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Don't bank on working for longer

Given what we've seen with COVID and the economy, it's hardly suprising 30% of people said they were worried about sequencing risk - a market crash or downturn which significantly reduces the value of super savings.

And if that happened, over 50% of us say we'll work for longer to build our retirement savings back up.

However, that might not be a failsafe backup plan. ABS data shows that of the people who retired in 2018-19[4] .

- 21% had to stop working due to sickness, injury or disability
- 11% retired because they were made redundant or couldn't find work

Add to that the average retirement age was just 55.4 years, working for longer to top up your super isn't an option for eveyone.

Those surveyed said they're planning on budgeting $72,836 per year in retirement for a comfortable lifestyle. But if savings took a big hit at the wrong time, 42% of us would be willing to consider adjusting our standard of living expectations. While that might sound easy enough to do, retirement is supposed to be about thriving, not surviving.

Educating yourself and taking control of your financial future can help alleviate concerns about retirement. Having a plan and feeling financially prepared can give you peace of mind. If you need help creating a plan, call us today.

[1,2] amp.com.au/content/dam/amp/digitalhub/common/Documents/Super/Brochures/AMP%20Financial_Wellness_Nov_2020.pdf

[3] https://www.superannutation.asn.au/resources/retirement-standard

[4] https://www.abs.gov.au/statistics/labour/employment-and-unemployment/retirement-and-retirement-intentions-australia/latest-release

Are your contact details up to date?

NOW is a more important time as any to ensure that your contact details are up to date.

Keeping our client's contact details up to date is a continual process.

We like to make sure that you are receiving all relevant correspondence such as, superannuation statements, legislation changes and updates, our quarterly newsletter and annual insurance premium notices.

Moving house or changing email addresses without notifying us, can result in important information such as above, not making it to your mailbox.

So if your contact details have recently changed or a change occurs in the future, please call our Office on **03 5622 3005** or email **michellek@futurefinancial.net.au** and let us know.

We can then update your details within our Office, with AMP and/or any other organisation relevant to your business with our Office, on your behalf.