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ACCOUNTING | BUSINESS DEVELOPMENT | FINANCIAL PLANNING

QUARTERLY INSIGHT

InterPrac Financial Planning Newsletter Edition 4 2021

Summer update

December – that means Christmas and the New Year are just around the corner and the battle for the ashes has started. Looking back over the sporting year, the Melbourne Demons won the AFL Flag after waiting a long 57 years, the Penrith Panthers triumphed in the NRL Grand Final and Verry Elleegant took out the Melbourne Cup. We hope you had some success in predicting the winners.

As for Covid, it's fair to say that we all endured a tough year for many reasons. Let's hope 2022 is lockdown-free and we can get on with living with whatever challenges may emerge.

On the finance front, the RBA kept interest rates unchanged after lowering them to an all-time low of 0.1% in November 2020. In the long term, econometric models are projecting that the interest Rate will trend around 0.10% in 2022 and 0.25% in 2023.

In this newsletter we are reinforcing the message of not cancelling insurances without speaking to an adviser, as a reduction or restructure may be better than no insurance. Also, selling the family home is not the only way to release extra income for your retirement and we explain how a Reverse Mortgage can be of benefit to you.

As gift-giving is a big part of Christmas, we would encourage you to reach out in support of those who have done it tough this year.

Hopefully you will have success in trying out our recipe of the Classic Christmas pudding.

Enjoy the read and as always, if you have any questions or need additional information, contact us. We are here to help.

We would like to wish you and your family a happy Festive Season and hope that the New Year brings you a lot of happiness and success.

The importance of seeking your adviser's input when considering cancelling your insurance

"I am sorry, but your cover lapsed" is not something that you want to hear when you have recently suffered a critical illness or injury, but it happens too often unfortunately.

A client called recently to find out how to claim her husband's income protection and trauma insurances as he had suffered a severe medical condition and would be unable to return to work in the near future, if at all. She was shocked to find that the insurance cover had ceased 5 months earlier! Superannuation and savings were insufficient to meet their requirements, so at a time when the focus should be on spending time with her husband and his recovery and support, the wife now needs to sell the house to cover medical expenses and family expenses as Centrelink is not sufficient. A devastating situation, which could have been avoided.

The premium had risen over time and the client, in his early 50's, was concerned about the cost. His adviser had called and emailed him to make a time to discuss options, but the client had been 'too busy at work and meaning to look into'. As the annual premium was not paid, the cover lapsed.

There are of course many reasons people cancel insurances, with the main ones being;

- They believe they no longer need it
- It is getting too expensive
- They were intending to renew but just never got around to.

While these can of course be perfectly valid reasons why you may cancel or lapse your insurance cover, there are some very important reasons why you should discuss these decisions with your adviser before ceasing your insurance cover.

This is especially important as there have been unprecedented changes in the life risk insurance marketplace in recent times. These changes have in many cases rendered existing insurance policies considerably more advantages to you, the insured, than any policy you could obtain now.

You may find you have thrown away a Rolls Royce only to discover if you need to reinstate your cover in the future you can only buy a Hyundai (not that there is anything wrong with a Hyundai, but would you rely on or want to swap a Rolls Royce for one?).

A quick summary about some of the draw backs of not discussing major changes, especially cancellations with your adviser;

- If your concern is cost, your adviser may be able to considerably reduce your premium with changes to the amounts of cover, waiting and benefit periods and ancillary benefits. This may allow you to retain your quality cover into the future
- If you cancel cover, you may find that it will be more expensive (and with fewer benefits) to reinstate the cover even if only a short time later
- If you cancel and reapply you will need to provide health details again, and if your health has changed you may need to pay higher premiums or even be declined.

In closing, stuff happens and an adviser may not always be able to fix the problem, or you may genuinely no longer need your insurance, but it is very important to give your adviser a call and they can assess your needs and make sure you don't make a mistake that you will regret later.

Written by Libertas Adviser Danny Ellis and State Manager Sharon Walker

Understanding what a reverse mortgage is

We often talk to clients about selling the family home and downsizing to release capital and to provide extra income in retirement.

Retirement income on the house

Asset rich and income poor is the dilemma faced by many retirees.

One strategy some of these retirees consider boosting income in retirement when salary ceases is to tap into one of the biggest assets of all – your home.

With property prices booming, many retirees are finding that the home they have lived in for decades is worth a small fortune, but for various reasons they don't wish to sell or downsize.

What many may not realise is that you can have your cake and eat it too.

Or, in the case of a reverse mortgage convert part of the value of your home into an income stream while you remain living there.

The ability to borrow against the equity in your home without having to repay until you move out or sell comes in various guises, but the result is largely the same – an enhanced lifestyle in retirement.

The risk is the debt increases , but the offset is you have funding to travel more, pay for home improvement or simply maintain the standard of living you are used to when working.

There are four key types of products on offer that may be explored :

- Reverse mortgage
- Home reversion
- Equity release agreement
- The government's Pension Loans Scheme (PLS).[i]

None of these strategies should be adopted without careful consideration as they may have an impact on your family, your beneficiaries and - with the exception of the PLS – your Age Pension if you receive one.

As a result, we recommend you speak to us first to discuss whether accessing some of your home equity would be appropriate for you.

This is how these products work:

1. Reverse mortgage

A reverse mortgage lets you borrow money against the value of your home and take it as an income stream, a line of credit, a lump sum or a combination.

The amount you borrow is often determined by age. At 60 you can generally borrow 15-20 per cent of the value of your home. This percentage increases by 1 per cent a year.[ii]

The interest accrues and is paid when you sell, either on entering an aged care facility or from your estate when you die. The interest rate is usually higher than the standard mortgage rate, but you don't have to make repayments along the way.

Since 2012, reverse mortgages must come with a negative equity guarantee. This ensures you can never end up owing more than your home is worth.

2. Home reversion

Here you sell a percentage of the future value of your property at a reduced rate. It is not a loan, so there is no interest payable. However, there are immediate costs such as a property valuation and an upfront fee. And there is also the cost of losing the full benefit of your home's increase in value over time. The more your home's value increases, the more the provider will receive.

3. Equity release scheme

This third option lets you sell a percentage of the value of your home in return for a lump sum or an income stream. You pay fees which are periodically deducted from the remaining equity in your home, so your share diminishes over time.[iii]

4. Pension Loans Scheme

The Federal Government's loan scheme is offered through Services Australia and the Department of Veterans Affairs.

You can access a voluntary non-taxable fortnightly loan up to 150 per cent of the maximum Age Pension rate to bolster your retirement income with the loan secured against your home. You don't need to be on the Age Pension to qualify but even if you are, this government loan does not impact your pension entitlements.[iv]

Your mortgage increases by the payment amount plus interest which currently stands at 4.5 per cent a year. As with the other schemes, you don't need to repay the loan until you move out or sell. And if your circumstances change, you can adjust the loan accordingly such as pausing payments.

All four options are variations on a theme of providing a better lifestyle in retirement.

If you want to find out if any of these options might play a role in your retirement income strategy, don't hesitate to call us to discuss.

CASE STUDY

Self-funded retirees Frank (75) and Mary (73) were struggling to maintain their lifestyle after no longer qualifying for the Age Pension. By borrowing $400 a fortnight against their $390,000 home from the government's Pension Loans Scheme, they would still own 72 per cent of their property after 10 years and 41 per cent after 20 years. In the meantime, they can enjoy a few extra luxuries in life while remaining in their home.[v]

i https://moneysmart.gov.au/retirement-income/reverse-mortgage-and-home-equity-release

ii https://www.ratecity.com.au/home-loans/articles/maximum-amount-borrow-reverse-mortgage

iii https://moneysmart.gov.au/retirement-income/reverse-mortgage-and-home-equity-release

iv https://www.pensionboost.com.au/faqs

v https://www.pensionboost.com.au/pension-loan-scheme

Investing on facts not FOMO

Prices for property, cryptocurrencies and shares have all hit records recently. While great news for investors, there's always a risk that some people will jump into the market because they are afraid of missing out on easy money.

FOMO, or the fear of missing out, has always been around on financial markets, but social media and reality television have taken it to a whole new level.

In the lead-up to the 1929 Wall Street Crash, the saying was that when the shoeshine boy or taxi drivers started giving you share tips, it was a sure sign the market was running ahead of itself. Rather than a signal to buy, it was probably time to bail out or bide your time.[i]

These days, social media has become the new shoeshine boy.

A long history

This fear of missing out goes back even further to the mid-1600s Dutch tulip market bubble. At its height, the cost of the rarest tulip bulb was the equivalent of six times the average wage. People rushed to buy tulips on credit for fear of missing out. Inevitably, the tulip bubble burst, devastating investors and the Dutch economy.[ii]

A much more recent example of a market getting overheated was the dotcom boom at the turn of the century when people paid top dollar for shares in companies with no history of profits.

Two decades later, and there are concerns that FOMO may be a factor in the rise of property, shares and cryptocurrencies.

Over the past year, Australian house prices have jumped 22 per cent on average and more in some parts of the country.[iii] People are scared that if they don't get in now, then they will never get a foot on the property ladder.

Global share price to earnings (PE) ratios are also at high levels. Some argue that high prices are justified by low interest rates while others worry that some companies may be valued on an overly optimistic view of future earnings.

Cryptocurrencies are complex

But it's the focus on cryptocurrencies that has some market veterans concerned, not least because these are complex new instruments that are not well understood.

At the end of the day, you should always understand where you are putting your money and how it fits your investment objectives and risk profile. If a big drop in price would keep you awake at night, then crypto may not be for you.

In its typically understated style, the Reserve Bank has warned that "the current speculative demand for cryptocurrencies and their surge in value is likely to reverse".[v]

Meme stocks are also an area of concern. These are companies made popular with retail investors through social media sites like Reddit. Examples include AMC and Gamestop.[vi]

They are what used to be called pump-and-dump stocks, popularised in the movie The Wolf of Wall St. The only investors to really benefit are those who got in at the beginning and sold in time to realise their gains; not the ones who bought at the peak of the frenzy.[vii]

Think long term

Investments should always reflect your long-term objectives. Jumping from one investment to another just because somebody says it's a good thing can be dangerous.

In the words of Warren Buffett, it pays to be counterintuitive with the market. Rather than follow the crowd "be fearful when others are greedy and greedy when others are fearful".[viii]

But humans being human, tend to do the opposite and pay the price. It's an age-old maxim that in the long run, growth assets like shares and property tend to outperform other asset classes. You won't enjoy those long-term gains if you are buying and selling in reaction to short-term market moves.

That's not to say you should set and forget your investments. For instance, when the market is booming, it may present an opportunity to realise some of your gains, sell any duds, and reinvest the proceeds when bargains emerge.

If you are considering an investment but unsure about its worth or where it might sit within your overall portfolio, give us a call.

i https://archive.fortune.com/magazines/fortune/fortune_archive/1996/04/15/211503/index.htm

ii https://www.investopedia.com/terms/d/dutch_tulip_bulb_market_bubble.asp

iii https://www.corelogic.com.au/sites/default/files/2021-10/211101_CoreLogic_Oct_homevalueindex_Nov1_2021_FINAL.pdf

iv https://www.forbes.com/sites/bradmcmillan/2021/09/20/how-can-we-tell-if-the-market-is-overvalued/?sh=41115a716755

v https://www.smh.com.au/politics/federal/fads-and-fomo-rba-predicts-the-surge-in-cryptocurrencies-will-end-20211118-p59a28.html

vi https://www.theguardian.com/business/2021/jan/27/gamestop-stock-market-retail-wall-street

vii https://www.investopedia.com/terms/p/pumpanddump.asp

viii https://www.goodreads.com/quotes/29255-be-fearful-when-others-are-greedy-and-greedy-when-others

The gift of giving this Christmas

Christmas is a time when we come together to celebrate with our family and friends. And, for those who haven't been able to see friends and family due to border closures, it will be an even more joyous occasion this year.

Gift-giving is typically a big part of celebrating Christmas and provides a great opportunity to reach out to support those who have done it tough this year.

Charity is not just about money

There are so many ways you can give back to the community. It's not always about making a monetary contribution – giving your time is just as valuable. Volunteering at the local soup kitchen on Christmas Day or helping at your local Foodbank or food rescue service like OzHarvest can be just as valuable. Donating clothes, blankets or any other household items that will help those less fortunate or vulnerable is always welcome, especially at shelters for both men and women.

In recent years, gift bags or hampers are becoming increasingly popular too. It's as simple as buying non-perishable food items or toiletries from the supermarket and creating a food hamper or gift bag.

Every Christmas, Kmart has the Wishing Tree Appeal whereby you can purchase a gift for a child and leave it under the tree in the store.

If you're unable to donate cash or volunteer your time, a blood donation at the Australian Red Cross is another option. They are always in desperate need of donors. And when you donate, you'll not only get to enjoy a little snack afterward, but you'll receive a text message a few days later telling you exactly where your donation went.

Donating regularly

During the pandemic, there was a significant decrease in the number of donations made to charities across the country, and unfortunately, the amount of money we donated declined as well. People were unsure about job security, whilst others had chosen to donate specifically to the Bushfire Appeal early in 2020.[i]

Now we are coming out the other side of the pandemic economically, reports show donations are rebounding and are on the rise again. Those who donate, do so regularly and they usually have specific charities that they donate to. This may be due to personal circumstances or to support something they are passionate about.

If you're considering donating to a charity this Christmas, you may want to do a little research first to find out exactly how your money is being distributed. How much goes directly to those in need and how much is being spent on admin and running costs. This is an important factor for many and may impact your decision in terms of which charity you choose to support.

The positive effects of donating or volunteering

Donating - whether it's our time or money - will always make us feel good, but it shouldn't be the key driver. Think about the impact your donation or time will have on those who are on the receiving end.

Donating will not only have a positive effect on the recipient, but it can also be beneficial to your children. You can teach them from a young age that giving back to the community can be very rewarding for many reasons.

Maximising your donation

There are so many charities to choose from in Australia, but it's also worth considering international organisations as well.

You may prefer to donate locally, but if you decide to choose an international charity, your dollar will more than likely go a lot further. Especially in developing countries, where they may need clean water, medical supplies, or even infrastructure to build schools for young children.

Remember, if you donate $2 or more, you may also be able to make a claim on your donation at tax time.

So, whether you're volunteering at a homeless shelter or soup kitchen or giving a monetary donation – helping others who are less fortunate could be the best gift of all this Christmas.

To find out more about volunteering or donating in your local city go to – Christmas In Australia https://christmasinaustralia.com.au/christmas-volunteering-opportunities/

i JBWere and NAB Charitable Giving Index

Classic Christmas pudding

By Orlando Murrin

A homemade Christmas pudding is easy to make, then it just needs time in the steamer to turn it into a glorious, rich, fruity dessert. A festive classic.

- Prep:20 mins
- Cook:8 hrs
- Plus 1 hour cooking on the day
- Makes two 1.2 litre puds (each serves 8)

Ingredients

For the pudding

- 50g blanched almonds
- 2 large Bramley cooking apples
- 200g box candied peel (in large pieces) or all citron if you can find it
- 1 whole nutmeg (you'll use three quarters of it)
- 1kg raisins
- 140g plain flour
- 100g soft fresh white breadcrumbs
- 100g light muscovado sugar, crumbled if it looks lumpy
- 3 large eggs
- 2 tbsp brandy or cognac, plus extra to light the pudding
- 250g packet butter, taken straight from the fridge

For the brandy and ginger butter

- 175g unsalted butter, softened
- grated zest of half an orange
- 5 tbsp icing sugar
- 4 tbsp brandy or cognac
- 2 pieces of stem ginger, finely chopped

Method

- STEP 1 Get everything for the pudding prepared. Chop the almonds coarsely. Peel, core and chop the cooking apples. Sharpen your knife and chop the candied peel. (You can chop the almonds and apples in a food processor, but the peel must be done by hand.) Grate three quarters of the nutmeg (sounds a lot but it's correct).
- STEP 2 Mix the almonds, apples, candied peel, nutmeg, raisins, flour, breadcrumbs, light muscovado sugar, eggs and 2 tbsp brandy or cognac in a large bowl.
- STEP 3 Holding the butter in its wrapper, grate a quarter of it into the bowl, then stir everything together. Repeat until all the butter is grated, then stir for 3-4 mins – the mixture is ready when it subsides slightly after each stir. Ask the family to stir too, and get everyone to make a wish.
- STEP 4 Generously butter two 1.2 litre bowls and put a circle of baking parchment in the bottom of each. Pack in the pudding mixture. Cover with a double layer of baking parchment, pleating it to allow for expansion, then tie with string (keep the paper in place with a rubber band while tying). Trim off any excess paper.
- STEP 5 Now stand each bowl on a large sheet of foil and bring the edges up over the top, then put another sheet of foil over the top and bring it down underneath to make a double package (this makes the puddings watertight). Tie with more string, and make a handle for easy lifting in and out of the pan. Watch our video to see how to tie up a pudding correctly.
- STEP 6 Boil or oven steam the puddings for 8 hrs, topping up with water as necessary. Remove from the pans and leave to cool overnight. When cold, discard the messy wrappings and re-wrap in new baking parchment, foil and string. Store in a cool, dry place until Christmas.
- STEP 7 To make the brandy butter, cream the butter with the orange zest and icing sugar. Gradually beat in the brandy or cognac and chopped stem ginger. Put in a small bowl, fork the top attractively and put in the fridge to set. The butter will keep for a week in the fridge, or it can be frozen for up to six weeks.
- STEP 8 On Christmas Day, boil or oven steam for 1 hr. Unwrap and turn out. To flame, warm 3-4 tbsp brandy in a small pan, pour it over the pudding and set light to it.

11 Financial New Year's Resolutions for 2022

1. Budget, budget, budget.

Your entire year's financial success likely rests on having a decent budget, one important financial resolution for 2022 should be putting together a financial plan. Part of this process is doing a financial analysis of your income, expenses, and investments.

If you are discouraged by the idea of being buried in data, you can always contact your financial adviser and seek their assistance.

There are plenty of personal finance websites and apps that can help with budgeting, like Moneysmart. Alternative, you can go old school with a pad of paper and pen. You can't argue with a resolution like budgeting.

https://moneysmart.gov.au/budgeting/budget-planner

2. Save something every month

One thing that should definitely go in your budget is how much you plan to put away in an emergency fund or savings account – or both. Another resolution should be saving every month regardless of the amount.

If you're struggling with how to save money, you can always try to set aside spare change on each debit card or account into a separate savings account. You will be surprised how quickly all that spare change can add up.

3. Superannuation

Superannuation is like any long-distance journey; you want to make sure you know where you are headed and how to reach it. That includes finding a vehicle that's fit for purpose. Otherwise, you could end up short of funds to enjoy your destination – in this case, retirement.

Think about what was the last time you spoke to your financial adviser about your superannuation? It should be on everyone's annual to-do list to check how your super fund performed against their peers, and whether you have maximised your concessional contribution limits.

4. Evaluate your eating-out budget

It is not unusual for a couple to eat out three to four times a week when both are working. Whether this is takeout or dining in, this could easily add up to $200 to $300 a week or more.

It's even worse for your budget, if you have kids and are eating or ordering out three to four times a week.

If the 'eating out' budget was cut in half to $100 to $150 a week, and you placed the money in a savings account at the bank, or even in a savings jar at home, by the end of 2022 you will have saved $5,200 to $7,800 a year for other needs, goals, or dreams.

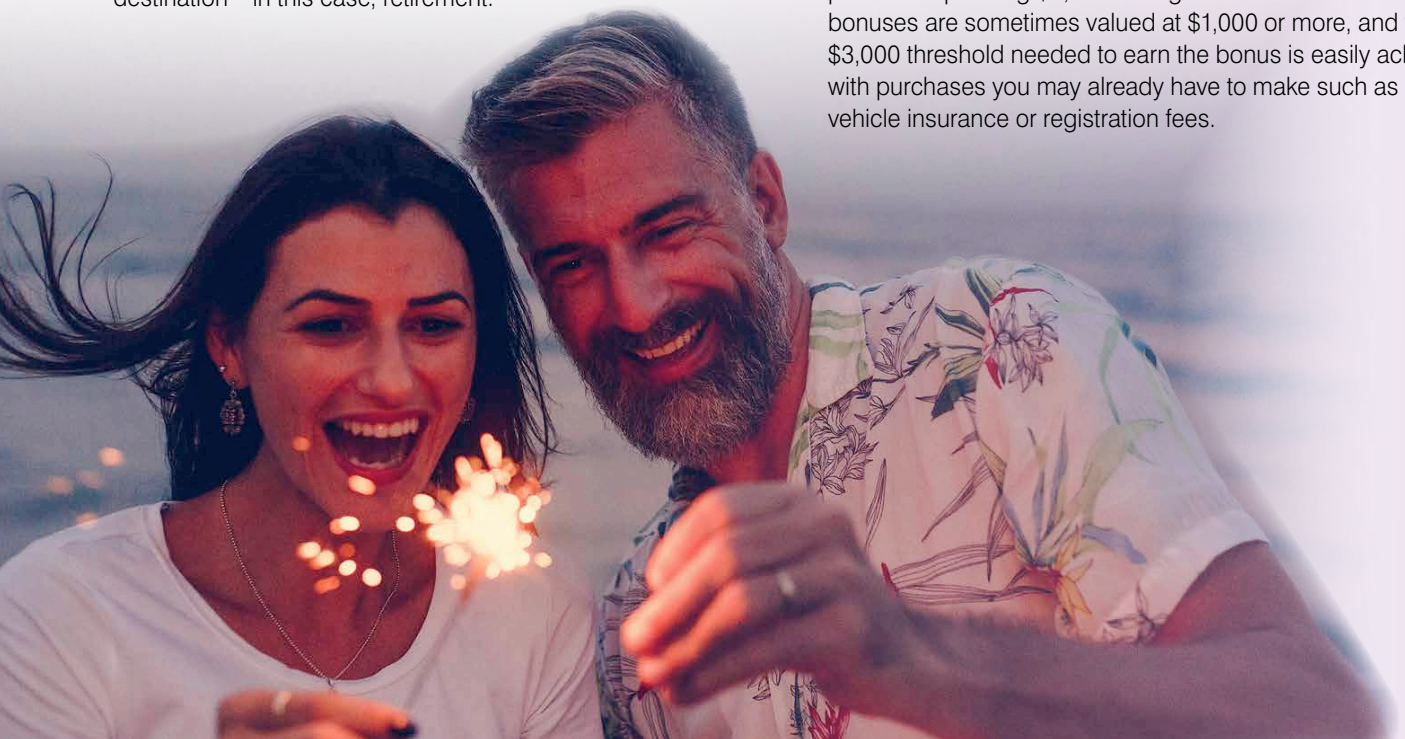
For those that are time poor and cannot be bothered to plan/shop for ingredients, the meal planning services like HelloFresh can significantly cut down the time commitments and introduce more varieties to the dinner table at a reasonable cost.

5. Maximise credit card rewards

This is a fun financial resolution for credit card holders, maximise your credit card cash back or points rewards.

Hopefully you already pay off any credit card debt monthly and pay no interest charges, if that's the case, it may not be a bad idea to apply for a new rewards credit card if you do not have a good one already.

There are numerous reward credit cards offering generous enrolment bonuses, such as 100,000 Qantas Frequent Flyer points for spending $3,000 during the first three months. The bonuses are sometimes valued at $1,000 or more, and the $3,000 threshold needed to earn the bonus is easily achieved with purchases you may already have to make such as vehicle insurance or registration fees.



6. Review your subscriptions

Take a look at every service you subscribe to and see if there are any you could eliminate. It happens all the time – you sign up for a free 30-day trial and forget to cancel when the trial ends. You tell yourself you'll cancel the subscription before the next automatic deduction and life happens and you forget yet again.

These days, it isn't only entertainment streaming subscriptions to keep track of, but others from magazines to meal plans. You will be surprised how much money you have been paying for things that you no longer need.

7. Pay down debt

Especially if you're in your 30s or older with a large amount of debt, coming up with a plan to reduce what you owe is really important, even if you have to make some financial sacrifices to do it.

Debts are not created equal; you should make it a priority to pay down those ones that attracts higher interest rate like credit card debts or personal loans. You may also want to consider consolidating all your outstanding debt which is a lot easier to manage and track.

Remember, in order to enjoy your financial freedom, it is important that you have control over how much money you owe, no matter what the purpose of the debt is. Even if you cannot reduce your debt to zero in 2022, try to minimise the balance.

8. Analyse your insurance

This may feel like a chore, but it's a smart financial chore to do. You may want to reconsider your insurance choices at the beginning of each year, especially 2022.

Ask yourself questions like, do you or your family have appropriate private health insurance, and are you paying too much for extras cover for things you never would claim? Did you know if your household combined income is above certain threshold, it is actually cheaper to get private health insurance instead of paying for the additional tax if you don't?

Aside from evaluating your health insurance choices before the April price hike, take a good look at your house, contents, or car insurance. Have you had those policies from the same insurer forever? Maybe you're paying too much. You may also want to buy some additional insurance like life, income protection or TPD. These questions may seem far away, but it is always better being prepared.

Alternatively, you can always contact your financial adviser and review your insurance cover.

9. Make a will

Having a will is important, especially if you have a lot of assets.

If you don't have a will, make 2022 the year to have it written. You can get your will written by a solicitor (for a fee) or by a Public Trustee. A Public Trustee may not charge if you are a pensioner or aged over 60, or nominate them to carry out the instructions in your will, i.e. to be your executor.

If you use an online will kit, get it checked by a solicitor or Public Trustee. They can make sure it's been done properly. If your will isn't done properly, it will be invalid. Please also make sure you put your will in a safe place and tell someone close to you where it is.

If you already have a will, you may still want to review it, especially if your situation has changed in recent years. For example, if you:

- got married
- divorced or separated
- had children or grandchildren
- had a significant financial change
- lost your spouse (or someone else who is named in your will) through death

10. If you plan to refinance, do it soon

If refinancing is on your agenda, this shouldn't be left until 2023.

If you have a house and have not refinanced yet, what are you waiting for? For years, interest rates have been the lowest in history, but there are signs – specifically increasing inflation – that interest rates are likely to rise in the near term. The opportunity to lock in today's historically low rates for most people's largest monthly payment and largest asset may be coming to an end.

11. Review your financial plan

If you are reading this article, we are your financial adviser.

Although it is the last point in this article, there will be times when your circumstances change, and we are not aware, and this could create a need for an out of cycle appointment.

Other than time critical meetings, when there is a particular need, we highly recommended that you meet at least once a year.

In planning for our next meeting , and before our appointment, it is a good idea to jot down any of the following points of discussion.

- any changes to your goals, situation, or finances (including changes to your income, expenses, or assets).
- whether the level of risk you're comfortable with has changed.
- whether your current personal insurance cover is right.
- how you're tracking against your goals.
- whether any changes to laws or financial products could affect you; or
- whether you need any adjustments to your plan.

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