



QUARTERLY INSIGHT

InterPrac Financial Planning Newsletter Edition 2 2019

Mid-year update

As the cooler weather starts to set in, many of you will be feeling more relaxed, with uncertainty around the Federal Election now resolved.

Thoughts now turn to tax. With that in mind we're starting off this month with a list of tips to make the end of financial year as easy as possible. Now is also a great time to review your professional goals. To help you out here we've included a piece on the traits of successful people. Have you got the right habits to reach the top?

We then look at what it means to have a long and happy relationship with your super, before putting a

spotlight on life insurance. There are many variables involved in choosing the cover that's right for you and we help you make sense of them.

To wrap things up we analyse the growing trend of financial stress amongst Australians, before finishing with some tips on how to avoid information overload.

With that in mind, if you can't make sense of the media noise, perhaps it's time for a review. We're always here to help you make sense of changes as they apply to your financial situation while keeping your goals and circumstances front of mind.

We hope you have a wonderful winter.





Making the most of the end of the financial year

As the end of the financial year draws closer, thoughts turn to tax. So how can you streamline your tax return while ensuring you take advantage of all the claims that are possible?

In the first instance, you need to collect all your records of both your income and your expenditure throughout the year. This includes:

- All your income whether it's from your employer, your super or your pension
- All your bank statements including interest earned and charges paid
- Dividends and distributions from your investments
- Records of investment sales and purchases for capital gains/loss purposes
- Income from rental properties and associated expenses
- Foreign income
- Your private health insurance policy details.

Nowadays, there may also be income to report from your participation in the shared economy such as money earned from Uber or AirBnB.

Ideally all this documentation should be to hand. If it's not, then seriously consider using an app in the 2019-20 year to record all these transactions on a regular basis so when June 2020 comes around, you won't spend hours hunting out all the documentation. The Australian Taxation Office, for instance, has a mydeductions app specifically for individuals and sole traders.

Another way to help monitor your expenses is to establish a separate credit card or bank account for your work-related expenses so that they are easily identifiable.

What can you claim?

Once you have your documents to hand then you need to consider what you are allowed to claim as work-related expenses.

Basically there are three key criteria:

- You must have spent the money yourself without having it reimbursed
- The money must be directly related to earning income
- You must have a record to prove it.

If your expenses meet these criteria, then there are a host of expenses you may be able to claim. These include vehicle and travel expenses; clothing, laundry and dry cleaning; gifts and donations; home office expenses; self-education; bank interest and account fees; and tools and equipment.

As an investment property owner, you can claim items such as land tax, rates, body corporate charges, insurance, repairs and maintenance, agent's commission, gardening, pest control, cost associated with drawing up leases and advertising for new tenants.

If you have income protection insurance outside super, then tax time is a perfect opportunity to review your cover and maybe pay your premiums up to 13 months in advance. That way you can claim those premiums as a deduction in the current year and reduce your tax liability. Other types of life insurance are generally not tax deductible, inside or outside super.

Check your super

Superannuation is another area for attention. If you have not reached your concessional contributions cap of \$25,000 (which includes your employer's contributions and salary sacrifice amounts) then consider putting the shortfall into your super. Any personal concessional contributions you make can be claimed as a tax deduction. But don't wait until the 11th hour as your contribution may not be processed by the fund until after June 30.

Taking advantage of the government's co-contribution is also a worthwhile consideration for lower income earners. If you earn less than \$37,697 and contribute \$1000 to your super as a non-concessional payment, the government will match it with a \$500 co-contribution. That's basically a 50 per cent return on your investment. The co-contribution reduces progressively to nil once your income reaches \$52,697.

Changes for inactive super accounts'

It is also worth noting that come July 1 your super fund will cancel your life insurance policy if no contributions have been made to your account in the last 16 months. If you want to maintain insurance cover within super, you need to contact your fund or make a contribution to keep your account active. Alternatively, you could seek cover outside super.

Tax time does not need to be taxing. Careful documenting throughout the year can ensure you have a dream run to making the most of your tax return.

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Traits of successful people

Richard Branson, of Virgin fame. Red Balloon founder Naomi Simpson. Bill Gates of Microsoft. Oprah Winfrey of... well, you get the theme.

What do all of these people have in common?

It's not their fashion sense. Or their preferred model of private jet.

These self-made entrepreneurs share traits, expressed as habits and behaviours, which contribute to their success.

Psychologists and self-development gurus have been trying to pin down these traits for decades. You've probably heard of books such as 'The 7 Habits of Highly Effective People', 'How to Win Friends and Influence People', 'The Secret', and 'Rich Dad, Poor Dad'. Every commentator has their opinions on how to foster those characteristics. And therein lies the good news – these traits are learnable. By practicing on a regular basis, you can change your mindset so you think like a world-class businessperson.

Here are a few basics to get you started.

4 key traits – and how to get them

1 Visionary – Successful people have a strong ability to envision their ideal future, and plan how to get there. This gives them the ability to stay focused on their goals, and manage their resources accordingly.

Start by articulating what you want from your ideal life. This can take any form you like, from a vision board to a simple checklist. Then work out what you need to get there. Break it down from a major goal into minor ones, and then down to individual tasks needed to achieve those minor goals.

2 Resilient – Bounce back and learn from failure. Many household names weren't at the top of their game until later in life. Others had multiple failed businesses before they found a winner. Being resilient means you have a greater chance of persevering on your chosen path.

You can't control how you feel about setback or failure, but you can control how you act in response. When something negative happens to you, think about how you're feeling. Giving a label to your emotion takes the edge off. Then try to put a positive spin on it by treating it as a learning experience. Pretend you're someone else, giving advice to a close friend.

For example, if you've just lost a client at work, put labels on your feelings (rejection as a person, intellectual inferiority, etc.). Then try to work out the real reasons why the client left. If you can change your product or service to prevent further losses, do so.

3 Curious – Successful people are curious and eager to learn new things. Look at any of your role models – chances are, they never say they know it all. What they do say is what they want to read next, where they want to travel, and what gripping ideas and theories they've come across.

Most people are naturally curious. But if you don't know what you want to explore, you may need to try a variety of different things before you find a new path or interest that really sparks your curiosity. Start with a travel brochure, a restaurant review book or a catalogue to your local adult learning centre. Commit to trying at least one new thing.

4 Social – Nobody achieves remarkable things completely on their own. Wealthy, fulfilled and happy people are social in two important ways.

First, they tend to build strong, tight-knit networks. They leverage those networks to take advantage of opportunities. This applies to business and career networks, but also to other networks, such as personal connections and community groups.

Second, they cooperate and collaborate with other people. The first step to fostering this ability is working out and acknowledging when you need (or at least would benefit from) help with a task or plan. The second step is saying yes and making the most of your newfound resource.

Shy, modest, introverted, independent and proud people can all have difficulty pushing themselves to be more social. One of the simplest techniques? Fake it 'til you make it. Practise emulating the body language, habits, personal presentation and other behaviours of successful networkers that you know. Start with one thing – it doesn't have to be big – and build your repertoire over time.

Feeling overwhelmed already? Just remember, none of these traits are genetic. They can be learned.

Start now.





The benefits of a long, happy relationship with your super

Superannuation is a long-term financial relationship. It begins with our first job, grows during our working life and hopefully supports us through our old age.

Throughout your super journey you will experience the ups and downs of bull and bear markets so it's important to keep your eye on the long term.

The earlier you get to know your super and nurture it with additional contributions along the way, the more secure your later years will be.

Like all relationships, the more effort you put into understanding what makes super tick, the more you will get out of it.

Check your account

The first step is to check how much money you have in super and whether you have accounts you've forgotten about.

You can search for lost super and consolidate all your money into one fund if you have multiple accounts by registering with the ATO's online services.¹ Having a single fund will avoid paying multiple sets of fees and insurance premiums.

The next step is to check what return you are earning on your money, how it is invested and how much you are paying in fees.

The difference between the best and worst performing funds could fund several overseas trips when you retire, so it's worth checking how your fund's returns and fees compare with others. You can switch funds if you are not happy, but it's never wise to do so based on one year's disappointing return.

State your preferences

Default options are designed for the average member, but you are not necessarily average. Younger people can generally afford to take a little more risk than people who are close to retirement because they have time to recover from market downturns. So think about your tolerance for risk, taking into account your age, and see what investment options your super fund offers.

Also check on your insurance in your super. From 1 July 2019 you will not be provided with insurance cover through your super fund if your super account is termed, 'inactive' – unless you specifically choose to keep your insurance cover.

Building your nest egg

Once you understand how super works you can take your relationship to the next level by adding more of your own money. Small amounts added now can make a big difference when you retire.

YOU CAN BUILD YOUR SUPER IN SEVERAL WAYS:

- Pre-tax contributions of up to \$25,000 a year (including SG amounts), either from a salary sacrifice arrangement with your employer or as a personal tax-deductible contribution. This is likely to be of benefit if your marginal tax rate is higher than the super tax rate of 15 per cent.

From 1 July 2019, you may increase your concessional contribution cap by carrying forward your unused concessional cap space amounts if you have a total superannuation balance of less than \$500,000.

- After-tax contributions from your take-home pay. If you are a low-income earner the government may match 50c in every dollar you add to super up to a maximum of \$500 a year.
- If you are 65 and considering downsizing your home, you may be able to contribute up to \$300,000 of the proceeds into your super.

You could also share the love by adding to your partner's super. This is a good way to reduce the long-term financial impact of one partner taking time out of the workforce to care for children. You can split up to 85 per cent of your pre-tax contributions with your partner. Or you can make an after-tax contribution and, if your partner earns less than \$40,000, you may be eligible for a tax offset on the first \$3,000 you put in their super.

Before you make additional contributions, adjust your insurance, or alter your investment strategy, it's important to assess your overall financial situation, objectives and needs. Better still, make an appointment to discuss how you can build a positive long-term relationship with your super.

i <https://www.ato.gov.au/individuals/super/keeping-track-of-your-super/#Checkyoursuper>





How much life insurance is enough?

Australians enjoy access to a strong safety net, with universal healthcare and the new Disability Support Scheme. But will this be enough to protect your family's standard of living if you or your partner die or become too ill to work? The answer is almost certainly no.



Life insurance is designed to bridge the financial gap in difficult times. Yet even those of us who do have life insurance often don't have enough.

Not so super

First, the good news though. If you're a member of a super fund you probably have life insurance, total and permanent disability (TPD) insurance and possibly income protection insurance. Trauma cover can only be purchased outside super.

Super funds are able to negotiate group rates so insurance premiums are often lower. Premiums are deducted from your super account balance, not your bank account, which also helps when your budget is tight.

The not so good news is that the payout in the event of a successful claim is typically limited. According to a recent report by Rice Warner,ⁱ the typical default cover offered inside super meets only about 30 per cent of the basic life insurance needs of a family with children.

As a general rule of thumb, Rice Warner estimates that a couple with children needs life insurance cover of 10-15 times the higher earning partner's annual income to ensure the family can maintain its standard of living if the main breadwinner passes away.

Given the average full-time job in Australia pays \$78,000, that translates to a payout of \$780,000 – \$1,170,000. Yet the payout from life insurance held inside super is generally closer to \$100,000 - \$200,000.ⁱⁱ

So how much cover do I need?

Of course, individual circumstances vary. A twenty year old without dependents requires a lower level of cover than a middle-aged parent with a \$400,000 mortgage.

We can assist you to work out how much life insurance you and your family may need. Essentially, it comes down to subtracting your debts from your assets then determining how much money will be required to cover the ongoing outgoings. Think home loan payments, school fees, groceries, utilities, vehicle expenses and so on.

For example, if it's going to take a decade for your children to be self-sufficient and your current annual household outgoings amount to \$80,000, you should aim for at least \$800,000 of cover.

His and hers policies

If it's unusual in Australia for the main income earner in a family to have adequate life insurance, it's downright rare for the parent working part-time or not at all to have it. That person typically provides unpaid labour in the form of childcare, cleaning, shopping and meal preparation.

If the low or no-earning partner is no longer around or incapacitated in some way, their partner will most likely either have to take on those added responsibilities or pay someone to do so. So it's worth making sure both parents have adequate cover.

Purchasing peace of mind

It's human nature not to want to dwell on worst-case scenarios. Nonetheless, it's unfortunately all too common for people in the prime of their lives to pass away or suffer an illness or injury that prevents them from earning an income.

There's nothing you can do to guarantee that won't happen to you or your partner. But there is something you can do to make sure you or your loved ones won't experience financial distress if misfortune strikes.

So start by investigating how much and what type of life insurance your super fund currently provides. If you find that it falls short of your needs, you might consider topping it up by purchasing additional cover outside super.

If you would like some help working out how much insurance you and your family need, and what type of policies best suit your circumstances, give us a call.

i 'Addressing superannuation underinsurance', 28 April 2016, Rice Warner, www.ricewarner.com/addressing-superannuation-underinsurance/

ii 'Life insurance – inside and outside of superannuation', Canstar, 17 February 2015, www.canstar.com.au/superannuation/life-insurance/



Tackling financial stress

You've probably heard of social stress – fear of fitting in, feeling anxious about meeting new people. Or you might have experienced stage fright – the stress of public speaking, performing, or presenting in front of people. But there's another form of stress on the rise that's potentially affecting Australians much more regularly and seriously than getting butterflies before giving a speech. It's a different type of stress to... well... stress about.

According to some researchers, close to one in three Australians suffers from significant financial stress. The consequences can be a lot worse than momentary embarrassment from tripping over your words. Alarming, nearly 35% of people experiencing financial stress have used drugs or alcohol to manage their negative feelings about money.ⁱ Chronic stress – something that's experienced over a long time – can lead to physical symptoms, including sleep problems.

What is financial stress?

The definition of stress is 'mental/ emotional strain/ tension resulting from adverse or demanding circumstances'. Financial stress is when those circumstances have to do with money. As with other sources of stress, money problems can make people prone to withdrawing or lashing out at their loved ones. This in turn, detrimentally impacts family dynamics.

One regular report series by an Aussie bank discusses a few types of financial stress that affect most of the population. The main one is housing payment stress, which is expected to worsen in the future.

Then there's bill stress; sadly, about 16% of households can't always pay their power bill on time.ⁱⁱ Some families always have to work to make ends meet; they're experiencing low level but constant financial stress, which can also be damaging.

How to reduce financial stress

It's all too tempting to say that the solution to financial stress is 'more money'. In fact, many studies on financial stress talk about how participants pin the blame for their stress on other people. On partners not telling them about joint account activity, or kids needing things they can't say no to. And therein lies an important clue on tackling financial stress.



Sometimes (not always), arguments over financial matters – a cause of financial stress – are themselves caused by miscommunication. That said, talking about money is never particularly easy. Even when it's with a partner or loved one. That's why it can help to create parameters for these conversations. One common 'rule' that low-financial-

stress couples have is that they agree to discuss purchases from the joint account over a certain amount. Some also like to set 'free spending' limits for each family member (taking the form of pocket money for kids) so everyone feels like they've got a bit of both accountability and freedom. This is basically a function of household budgeting.

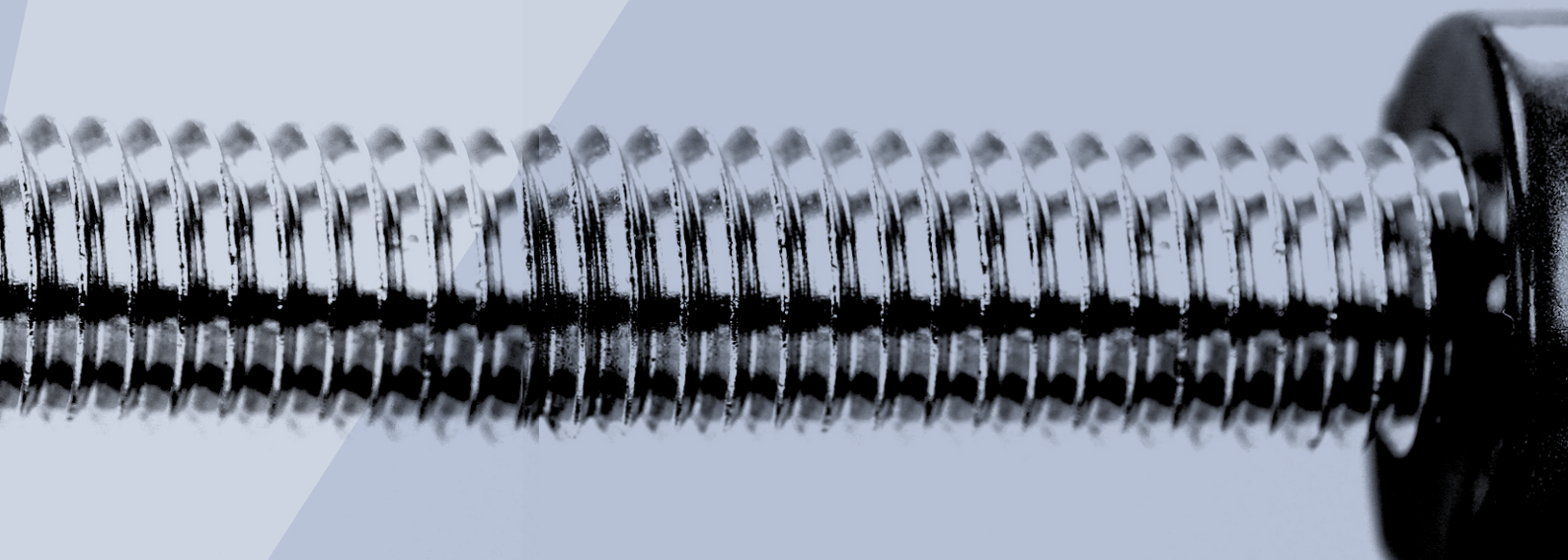
Some other simple ways you can reduce your financial stress levels as a household include:

- Revise your budget regularly. Every time your income or expenses change, it's time to review your discretionary spending.
- Thinking about large amounts of money and longer time spans can be overwhelming. If budgeting is stressful, try breaking it down to a daily or weekly calculation.
- Sometimes, anxiety can be caused by thinking about the same things over and over. Get it out of your head and write down the financial problems you're worried about.
- Can't keep up with which bills are due when? If you're not already on direct debit (but could be), consider making the switch.
- See how long you can go without buying anything non-essential. Introduce a bit of friendly competition with your partner or older children.
- Approach each financial 'problem' as something that can, in fact, be solved. That's the first step towards making an actionable plan.
- If you have several different debts, make a plan to not take on one more debt unless you've paid off at least two. We can also assist you to decide whether debt management or consolidation is appropriate for your circumstances.

If you or a loved one are experiencing financial stress, let us help. Make an appointment today to discuss how you can tackle the source of your hassles head on.

i <https://financialmindfulness.com.au/personal-financial-stress-devastating-australian-lives/>

ii https://www.mebank.com.au/getmedia/ce8faccb-4301-4cf7-afd7-871f9c45305e/13th-ME-Household-Financial-Comfort-Report_Feb-2018-FINAL.pdf





Managing the information overload

It's 2019. We're well and truly in the digital era. Statistically speakingⁱ, you probably not only have a desktop computer, but a laptop and a smart phone too.

You, along with most Aussies, are more connected than ever before. Whether that's a good thing is up for debate. For business, socialising and entertainment, the answer is maybe. Running your business or staying in touch with loved ones on the go has definite measurable benefits for your physical and mental health, as well as your bank balance.

But when it comes to financial information on the internet, the answer is less clear. Some commentators suggest that there is too much data, reporting and opinions online for the average person to process. Over a certain threshold, you simply can't use or act on every piece of information you can access.

This is financial information overload.

Is online information making us financially smarter?

In a word, no.

Behavioural finance (yes, that's a thing) academics have investigated this issue in depthⁱⁱ. Financial information overload leads us to be passive, or to simply make bad decisions. In this instance, 'passive' means taking the default option, such as a default super fund option. And a bad decision can be anything from choosing a product that offers suboptimal returns, to losing a significant amount of money.



There are a few different reasons why this happens. First, there's the sheer quantity of information available. It is literally impossible to read everything that might be applicable to your financial situation. Second, there are often too many options to choose from. There are a myriad of ways to reach your financial goals, and products upon products at your disposal.

Beware of bias in financial 'news'

When you're reading an investment report, business editorial or other content, it's important to remember that the author (or the publication) has a reason for putting that information out there. And they have a reason for the way they present that information – what they choose to include, what they choose to leave out, the style, the tone, and so on.

Media outlets put their own spin on major events for the benefit of their sales and advertising.

The way the media interprets stock market events is a good example. After stock market volatility, the media is generally awash with headlines on 'the deadly truth' and 'dire warnings' about the 'bloodbath'. It's exactly the kind of emotive language designed to make people reactive, not thoughtful and proactive.

In order to cut through the noise, you need someone whose full-time job is to keep on top of the latest developments and filter out the bias.

That's where we come in.

Let us be your information filter

Our job is to help you work towards your wealth goals and benchmarks. Part of that is helping you deal with financial information overload. Read something that's made you go 'hmmm'? Having a debate with your partner about something you've spotted online? Wondering whether a new product you've seen advertised would fit in with your portfolio? Spend less time poring over reports and releases, and more time enjoying the fruits of your labour. Get in touch to arrange an appointment today.

If you've come across an online article or report that you have questions about, we'd be happy to review and discuss it with you.

i Deloitte Media Consumer Survey 2015

ii For a good overview of financial information overload from this point of view, see JR Agnew and LR Szykman, 'Asset allocation and information overload: The influence of information display, asset choice, and investor experience' *The Journal of Behavioral Finance* 6.2 (2005): 57-70.



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