HANMOORE
FINANCIAL SOLUTIONS

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Welcome to the latest edition of our client newsletter,

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.
We hope you enjoy the read.

All the best,

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Retirement rolls around faster than you think

New research shows one in three Australians think retirement is too far away to plan for. That's a big mistake. Take it from me, the day when you're ready to hang up your work boots is likely to roll around far more quickly than you anticipate, and it pays to be prepared.

If you think time passes more quickly as you get older, you're absolutely right. It turns out there's a whole range of scientific reasons for this, but the impact on our finances can be profound especially when it comes to saving for retirement.

A study by Roy Morgan Research found, not all that surprisingly, about 70% of 20-year olds believe retirement is too far off to worry about - and they're probably right. At that age I'd be more inclined to concentrate on building personal skills and qualifications to enjoy a rewarding career rather than focusing on retirement.

When is it too late?

The big worry is that in the critical pre-retirement years between ages 50 and 54, almost one in five people still reckon retirement is too far away to bother making plans. Don't be fooled – this is a critical window of time where you can make a big difference to your retirement savings.

In our busy lives it's easy to put saving for retirement on the back burner. But the fact is, time marches on for all of us. Waiting until your mid-forties or fifties to start growing your superannuation makes it a lot harder, but not impossible, to accumulate a decent nest egg.

Conversely, the earlier you start building super savings, the more compounding returns do the heavy lifting for you, so if you are comfortably on the path to retirement, spread the word – especially with your grown up children. It's easy to get caught up in raising a family and paying down a mortgage, but with the right strategies they can continue to save for retirement even during the years where cash might be in lesser supply.

Ideas for saving

Saving for tomorrow doesn't have to mean giving up a lot today. Salary sacrifice – where part of your pre-tax wage is paid into super rather than receiving the money as cash in hand, is a tax-friendly way for many workers to save for retirement.

For some ideas on the different ways to grow your super, take a look at the government's MoneySmart website. It features a handy 'Super Contributions Optimiser' calculator with suggestions on the various ways to contribute to super based on your age and annual income.

Nevertheless, retirement planning is too important to rely solely on an online calculator. Seeking expert advice makes a lot of sense, particularly if you've left your run a bit late.

Speak with us today about the best way to grow your nest egg.

– by Paul Clitheroe AM

Paul Clitheroe AM, co-founder and Executive Director of ipac securities limited, Chairman of the Australian Government Financial Literacy Board and Chief Commentator for Money magazine.

Saving in a material world

It's not easy to be thrifty in our consumer society. We're surrounded by so much temptation that it can be difficult to avoid spending money.

So why not try taking a break from spending? If you can tighten your belt on the little things, it can help ensure you have enough for the odd splurge, that well-earned holiday, or for unforeseen expenses.

Here are some creative ways to cut your spending.

Get smarter with your spending...

Negotiate on your utility bills

It's a competitive market, with energy companies chasing your business. So don't be afraid to ask your provider for a better deal, or switch providers for a better offer. Many companies also offer 'bill smoothing' so you make even payments throughout the year and don't have to worry about a jump in your bill when the season changes.

Give up the daily latte!

For many of us, the morning coffee has become an integral part of our working routine. But why not try the coffee machine at work? After three months you could have saved more than $360.

Buy in bulk... and get to the market

More Australians are realising the benefits of buying home brands and in bulk. Stock up on daily household staples to make some real savings. And for your fruit and veg, it's worth trying the market. Buying directly from market traders can mean less mark-up. Get there half an hour before stalls close and you'll find that prices go down rapidly as traders sell off their stock.

Shop online

There's also a reason marketers pay a lot of money to put their products at the end of the aisle. It's just too easy to pop them into your trolley. So why not go online? You might not get quite so many bargains. And you might pay a little for delivery. But you'll avoid those impulse purchases. And by consuming less, you could spend less.

Leave the car at home

As the weather warms up, you could try walking or cycling to work. You'll save money, get fit and you might even get to work more quickly by avoiding the gridlock. And if your workplace is simply too far away, what about cycling to the nearest train station?

Put more into super

You can sacrifice some of your before-tax salary to boost your super and potentially make immediate tax savings. These 'concessional contributions' usually carry tax advantages. That's because these contributions are taxed at only 15% (or 30% if you earn over $300,000pa), which for many people is lower than their marginal income tax rate. You can put up to $30,000 into your super at this concessional tax rate (or $35,000 if you're 49 or over as at 30th June 2014).

Bring your super accounts together

More Australians are realising the power of one super fund. We can help you bring your super together for immediate savings if you are paying multiple sets of fees.

Consolidate your debts

Having a number of debts could potentially mean you pay higher interest rates and multiple sets of fees. So think about bringing them together into the debt with the lowest interest rate, which could be your home loan. The lower interest rate means you'll pay less interest from day one. And down the line you'll pay off your debt sooner.

Set up an offset account for your home loan

An offset account is a day-to-day savings account typically linked to a variable rate home loan. Your savings reduce the balance of your home loan for the purpose of calculating interest charges. It's a simple tool that can help you make immediate savings on interest. And over the life of your home loan you could save thousands of dollars.

Get your tax return done!

The official tax return deadline is the end of October. Although if you're using an accountant you've got even longer. But why wait until the last minute? The earlier you receive any tax return, the earlier you can start getting your money working for you. After all, it's your money.

Keep it going!

Of course, we're all different. So it's important to find your own way to save and make the sacrifices you're prepared to make to achieve the outcome you want.

Things you need to know about personal insurance

Personal insurance premiums have increased significantly over the past 18 months, running the risk that cost-conscious consumers might consider cutting back their cover. Suddenly those quick, off-the-shelf insurance products advertised on TV look enticing.

But simple is not always cheaper, the cover may be inadequate or, worse still, may not pay out when you need it most.

Underinsurance

Personal insurance is a general terms for term life, total and permanent disability (TPD), trauma and income protection insurance.

The reality is that even those people who think they are covered are likely to be underinsured. According to Rice Warner, the average Australian couple aged 40 with two children requires life insurance cover of about 10 times annual earnings to repay debts and maintain current living standards.[i]

Yet the median level of life insurance cover across the working age population is only 42 per cent of the amount needed to fully maintain the standard of living of family members. Median levels of TPD and income protection cover are even lower, at 14 per cent and 16 per cent respectively.

Life insurance lite

Life insurance is sold through three main channels: your superannuation fund, financial advisers or direct from the insurance company.

Direct life insurance generally offers pared-down ('lite') products sold without comprehensive financial advice and often with little or no underwriting. It is marketed to consumers via daytime TV and radio advertisements, direct mail or over the phone.

Consumers are often attracted by the simplicity of direct life insurance and offers of 'no blood tests, no medical tests', believing that it will be cheaper than going to an adviser. But medical checks are designed to help insurers evaluate the risk of insuring you, so if you are low risk you will be rewarded with lower premiums. This is the process known as underwriting.

The benefits of underwriting

To take out fully underwritten life insurance you must fill in a health and medical questionnaire and sometimes undergo some blood tests – at the insurer's expense. The insurer will often write to your doctor. If you are young, healthy and in a low-risk occupation you are assessed as lower risk to the insurer than someone who is overweight, a smoker and employed in the building industry, for example.

The key to buying any life insurance is to find out exactly what you are covered for, how much the insurer will pay out and how much you will pay in annual premiums for the benefit.

Say someone hurt their back 18 months ago and spent time off work but hasn't had any serious back issues since. If they applied for income protection insurance, insurers would generally exclude a payout as a result of the pre-existing back problem. However, a fully underwritten policy would allow the underwriter to write to the applicant's doctor to understand the scope of the previous problem, with a view to reviewing and possibly removing the exclusion.

Avoid low payouts

What's more, the maximum sum insured by 'lite' products is generally capped, compared with no maximum for advisor-authorised products.

Where there is no underwriting, no questions are asked. Premiums are often higher, there are generally more exclusions and at the same time the maximum sum insured is often lower. There may be accident-only cover for the first few years or no terminal illness benefit to avoid people taking out life insurance if they suspect they are seriously ill.

The best way to avoid any nasty surprises is to take out personal insurance when you are young and healthy. The premiums are 'guaranteed renewable,' meaning any changes in health that occur after the insurance is taken out won't result in denial of cover, premium increases, or exclusions.

Please don't hesitate to contact us if you would like to discuss your current or required insurance needs.

i Rice Warner, Underinsurance Research Report, 2 December 2013.