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Summer 2018

December is upon us and summer has arrived with bushfires in Queensland and flooding rains in NSW. Our best wishes go out to all those affected as well as our brave emergency services workers. And to all our clients, we wish you a safe and happy holiday season.

November was a month of surprises. Oil prices plunged 22 per cent to US\$58.73 a barrel after US President Donald Trump's decision not to sanction Saudi Arabia over the murder of Jamal Khashoggi. British Prime Minister Theresa May reached agreement with the European Union on a plan for Brexit but getting the deal through the UK parliament will be difficult.

In Australia, the Victorian Labor Party won a landslide victory and Prime Minister Scott Morrison announced an early April 2 Federal Budget before a May election. The result of all this uncertainty was ongoing market volatility. Wall Street fell with oil prices but finished on a positive note after US Federal Reserve Chair Jerome Powell seemingly indicated that US interest rates may not rise much further. The S&P500 finished the month 2 per cent higher.

Locally, the economic news was positive. The Reserve Bank lifted its growth forecast for 2018 to 3.5 per cent from 3.25 per cent. The Federal Budget edges closer to surplus, with a lower-than-expected budget deficit of \$2.35 billion in the year to October, the best in a decade. Unemployment held steady at 5 per cent in October, while petrol prices dropped 22 per cent in November to a national average of \$1.37 a litre, the biggest fall in a decade. The Australian dollar is trading around US73c, up from US70- 71c at the start of November. Australian consumers responded positively, with the ANZ/Roy Morgan Consumer Confidence rating firming slightly to 118.6 points.

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Protecting *your family*

The holidays are traditionally a time to relax and reflect on the importance of family. They are also an opportune moment to think about how you can care for and protect your family all year round.

When you are enjoying the summer break with your loved ones, it can be hard to imagine anything could ever go wrong. But life is unpredictable, which is why life insurance is so important, particularly when you have people who depend on you.

Whether you are a young couple starting out, a growing family with kids at school and a mortgage, or empty nesters with debts to clear before retirement, having the right insurance cover could make a world of difference if the unthinkable happened.

Life insurance is not one product but many, to cover a range of needs. If you are unsure which cover is right for your family, begin by asking yourself a series of 'what ifs'.

What if you get sick or injured and are unable to work?

You probably insure your car and your home, but the impact on your family is potentially much greater if you lose the ability to earn an income. Whether you are out of action for months or years, few families have enough savings to tide them over until you recover and return to work.

The solution is Income Protection insurance, also called Income Replacement or Salary Continuance cover.

This replaces up to 75 per cent of your current income if you are unable to work due to illness or injury. Depending on the policy, it can cover you for short or long periods, sometimes up to age 65, after various waiting times.

What if you suffer a major illness?

The survival rates for critical illnesses such as heart attack, cancer and stroke are improving, but recovery can take a long time and the financial and emotional toll on your family can be high.

The solution is Trauma insurance, also called Critical Illness. This pays a lump sum if you are diagnosed or suffer one of a specific list of illnesses. You could use the money to reduce your working hours, spend time recovering with your family, or to pay for treatment, rehabilitation or a carer.

What if you become permanently disabled and unable to work?

A serious injury or illness can come out of the blue, leaving you unable to provide for your family. A government Disability Pension is unlikely to fully replace your previous salary. And the National Disability Insurance Scheme, while providing care packages, does not pay regular income or a lump sum.

The solution is Total and Permanent Disability (TPD) insurance. This pays a lump sum which you can use to pay off debts, cover medical costs or invest to provide regular income to help maintain your family's lifestyle.

What if you fall critically ill or die?

It's a sad fact that any of us could be diagnosed with a terminal illness or die prematurely in an accident. If this happened to you, how would your partner and children cope emotionally and financially? The kids still need to be fed, clothed and educated, the mortgage or rent must be paid, and your partner may need time off work for extra caring duties, adding to the financial pressure. If you don't have kids or they have left home, your partner could be left with a mortgage and other debts.

The solution is Life cover, also called Term Life or Death cover. This pays a lump sum on your death or the diagnosis of a terminal illness, allowing your family to focus on supporting each other, secure in the knowledge that the bills will be paid.

All these policies can be bought separately or bundled together as often happens with Death and TPD cover.

You may already be covered for some level of insurance via your super fund, however it might not be adequate for your needs. It's important to have insurance that is tailored to your personal circumstances, that will protect your family's financial and emotional well-being come what may. We are here to help.



Fostering financially savvy young adults

From student debt to new technology and landing that first job, today's young Australians are transitioning into adulthood in a world very different from the one their parents entered. While economies and societies might change, the principles of managing one's personal finances stay the same.

Most parents try to instil good money habits in their children from an early age. Eventually they outgrow piggy banks and pocket money but the opportunities to help them navigate the world of personal finance don't end with childhood.

Here are five lessons parents might consider passing on to their offspring as they make the transition to independent, financially savvy adults.

Lesson 1: **Becoming independent requires work**

Even if you can afford to fully support your young adult children while they are still students, encouraging them to take on a part-time job can teach them valuable financial and life lessons. Not only will the income allow them to save for goals such as gap-year travels, but they will also learn how to make a job application and the soft skills required in the workplace.

If they are eligible for employer-paid superannuation, you could show them how to check their account, consolidate accounts if they have had more than one job, and discuss the magic of compound interest.

Lesson 2: **There are no free lunches**

Today's young adults have near-instant access to credit through high-tech offerings such as payday lender apps and buy now-pay later services such as Afterpay.

The self-discipline required to manage these new forms of instant credit is a big ask, especially when many of us still have problems with old-fashioned credit. A recent ASIC report found that Australians collectively had 14 million credit cards with an outstanding balance of \$45 billion. Around half a million Australians were in arrears and almost a million were dealing with persistent debt.ⁱ

If you can't convince your children to avoid the temptation posed by 'frictionless' credit, at least explain that easy money commonly involves high interest rates and charges. If your child is determined to take out a personal loan, help them review terms and conditions and encourage them to shop around.

Lesson 3: **Good, tolerable and bad debt**

Once your child is old enough to be targeted by credit providers, it's time to have the conversation about different types of debt. Talk them through how good debt is used to purchase appreciating assets such as real estate. Acceptable debt covers things such as taking out a car loan, so you have the means to get to work or study and don't need to rely on parents to chauffeur you around. Bad debt is using other people's money to splurge on travel, clothes or the latest gadget.

Lesson 4: **Investing doesn't need to be time-consuming and boring**

The same technology that has made it so easy to get into debt has also made it easier to start the investing habit.

In recent years, micro-investing platforms such as Raiz and Spaceship have made it simple and attractive for tech-savvy Millennials to start investing in equities. These platforms make delaying consumption near painless by, for instance, rounding up purchases to the nearest dollar then directing the 'spare change' into investments.

If your progeny is working and receiving super, you might also want to suggest they download their super fund's app, so they can monitor their financial progress on the go.

Lesson 5: **Setting goals to make dreams come true**

When your young adult starts working after years of student thrift, the temptation to spend is understandable. While it's important to have fun, you can point out that setting goals and sticking to a budget in the short to medium term means they can put themselves in a position to travel the world, buy a property and maybe even retire early.

Money isn't everything but teaching your young adults how to manage it well increases the odds that they will lead the life they dream of. Even better, you won't need to erode your retirement savings bailing them out of financial trouble.

ⁱ <https://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/>

Benefits of a **SUPER** long engagement

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.ⁱ 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.

As you grow in confidence and have more money to invest you may want the control and flexibility that come with running your own self-managed super fund.

Also check whether you have insurance in your super. A recent report by the Australian Securities and Investments Commission (ASIC) found that almost one quarter of fund members don't know they have insurance cover, potentially missing out on payouts they are entitled to.ⁱⁱ

Insurances may include Total and Permanent Disability (TPD) and Income Protection which you can access if you are unable to work due to illness or injury, and Death cover which goes to your beneficiaries if you die.

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.
- 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>

ⁱⁱ <https://download.asic.gov.au/media/4861682/rep591-published-7-september-2018.pdf>