Spring Newsletter 2016

Spring is here, time to put your winter woollies away for another year and get into the great outdoors. If you are in need of inspiration, the recent Olympic Games and the Paralympics about to begin have something for everyone.

The Rio Olympics were not the only spectator sport in August. All eyes on global financial markets were trained on the annual meeting of central bankers at Jackson Hole, Wyoming, hoping for guidance about the direction of US interest rates. In a much anticipated speech, US Federal Reserve chair Janet Yellen said 'the case for an increase in the federal funds rate has strengthened in recent months'. She cited the solid performance of the US labour market and the outlook for economic activity and inflation.

In Australia, rates moved in the opposite direction. The Reserve Bank of Australia cut the cash rate to a record low of 1.5 per cent in August. While noting that 'prospects for growth in economic activity are positive', the RBA board believes 'there is room for stronger growth'. This view was reinforced by the company profit reporting season just ended. If BHP Billiton's large loss is excluded, an analysis by CommSec found that profits of the top 200 companies rose a solid 8.5 per cent in the year to June 30, while 92 per cent paid a dividend. After a year of cost-cutting and restructuring, the outlook for the corporate sector in 2017 is improving. With inflation running at an annual rate of 1 per cent, the RBA has room to cut rates further if needed.

Consilium Financial

Level 1, 132 Main Street,
Osborne Park WA 6017
PO Box 307,
Osborne Park WA 6917

P 08 9443 9981
E admin@consiliumfinancial.com.au
W www.consiliumfinancial.com.au

Twitter ConsiliumFP

Running for cover

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 superanuation 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/

THE FEAR FACTOR:

getting out of your comfort zone

"Life begins at the end of your comfort zone."

"Everything you've ever wanted is one step outside your comfort zone."

"Outside of the comfort zone is where the magic happens."

Sound familiar? We've all heard these phrases before – in a book, on a motivational poster, in a meme, as part of an ad. It's the ubiquitous, go-to idiom for motivating people to do things that, well, they don't really want to do. But it's used so often that it's almost lost its meaning.

So what does it really mean to 'get out of your comfort zone'?

The psychology of the comfort zone

You may be surprised to learn that your comfort zone is a real thing – something you can observe, measure and manipulate. To put it simply, your comfort zone is a psychological state in which you feel familiar, at ease, and in control of your circumstances. A state in which you feel little (if any) stress and anxiety.

Psychologists, along with other scientists and academics, have been studying the phenomenon for over a century, usually in reference to performance management. In other words, what happens to your capacity to get things done when you're pushed beyond what you're used to.

A 1907 US study claimed that the anxiety (induced from going beyond what is familiar and easy) improves performance – up to a certain point.[i] Beyond that point – in the 'danger zone' – performance shoots back down. More recently, in 1991, Dr. Judith Bardwick wrote a comprehensive tome[ii] where she defined the parameters of the comfort zone; what's 'too comfortable' and 'too stressful' for achieving anything worthwhile.

Why it's good to push yourself

There are plenty of good reasons to push yourself beyond what you're comfortable with. For example, at work, setting higher goals and tighter deadlines can make you more productive. Trying a new way of doing something – a creative way – can give you and your colleagues the confidence to overhaul methods and protocols that have a real measurable impact on both qualitative and quantitative outcomes (like profits).

Outside the workplace, taking controlled and measured risks can help prepare you for unexpected life events, such as the loss of a loved one or a serious career hurdle. Repeatedly taking on small challenges builds your coping mechanisms, resilience, self-teaching skills, and other capabilities. The key is picking something small, where you know and can accept the boundaries of the risk. For example, try taking a different route to a destination you visit often. You'll be forced to think of good alternatives, but you'll still be able to budget for travel time and prepare for what could happen if you get lost or are late.

GET OUT OF YOUR COMFORT ZONE

1. Every day, try one thing you've never done before – no matter how small.
2. Take an intro class in a new language. Language learning has proven benefits which extend to developing other skills.[iii]
3. Conquer your fear of public speaking and improve your skills by joining your local Toastmasters club
4. Try a new restaurant or takeaway spot – without checking online reviews first.
5. Volunteer with a local not-for-profit. Choose an organisation where you'll meet and work with people from a different walk of life.
6. If you usually get around by driving, try cycling/taking public transport, or vice versa.
7. When planning your next overseas holiday, choose a destination that doesn't have much 'tourist infrastructure' – no big resorts, no coach tour options etc.

Once you have stepped outside your comfort zone, you can look forward to dramatic and exciting life changes. And if your boundaries are defined by financial fears, feel free give us a call – we'll help you push closer to your wealth goals.

i 'The Dancing Mouse: A Study in Animal Behavior' *Journal of Comparative Neurology & Psychology*, 1907, No. 18.

ii *Danger in the Comfort Zone: From Boardroom to Mailroom--how to Break the Entitlement Habit That's Killing American Business* (1995 edition).

iii http://www.theatlantic.com/health/archive/2014/10/more-languages-better-brain/381193/

BUDGET YOUR WAY INTO THE BLACK

$2.2 trillion. That's how much Australian households owe right now, according to the latest ABS stats.[i] Household liabilities grew by $1.2 billion in the last quarter alone. Real household debt per person has risen steadily by around 2 per cent per year, and now sits at around $79,000 per person.[ii]

Sound scary? The good news is, there are ways you and your family can buck this trend and ensure your finances stay out of the red and in the black. The key is good old fashioned budgeting.

Why a budget is important

Budgeting is simply the most straightforward, proactive way to ensure you will always have enough money for the things you need whilst allowing you to put a little aside for the things at the top of your wish list. That's the practical side of it. A budget can also help you reduce financial stress, improve your family relationships, redefine your personal values, and provide a good example for your kids or grandkids.

How to set up a budget

The first step is to do an audit of what you're spending. You may also need to do a round-up of what you're earning, if you have several income streams. Start by gathering as much evidence as possible; utility bills, receipts, bank statements etc. Make a tally of your outgoings. Be as accurate as you can; where you don't have a record to substantiate a line item, try not to underestimate it.

Then, compare your income to your outgoings. If you spend more than you earn, you've got work to do. If you've got a surplus, that's a great start, but there's always room for improvement.

The second step is setting goals. Choosing well defined goals – beyond just 'save more' or 'get rich' – is important for your long-term budgeting success. Try setting at least a few short, mid and long term goals. For example, in the short term, you might aim to reduce your spend on clothing by $100 a month. In the long term, you could aim to build up an emergency fund equivalent to six months' household income.

Why budgets fail

If all this sounds familiar to you, chances are you've tried and not succeeded at budgeting in the past. That doesn't necessarily mean you're 'bad with numbers' or lacking discipline. There are several common reasons why budgets don't stick. Many failed budgets had no defined goals. Others were too restrictive, allowing no room for spending on things like meals out or entertainment; anyone who's tried to completely cut 'fun' spending knows how unrealistic this is. Many budgets also 'break' after a short time because they fail to account for unexpected emergency expenses, from vet bills to urgent travel.

Once you're aware of why your last budget didn't succeed, you can start to build a better one.

The right technology can help make your budget more accurate, realistic, effective, and easy to stick to. You don't even have to create a spreadsheet from scratch, or use complicated software on your PC. Carry a budgeting solution in your pocket with a handy smartphone app:

Budgeting apps to make it easier

1. **ASIC MoneySmart's TrackMyGoals and TrackMySpend apps – FREE** These government-produced apps draw on tonnes of research to help you implement proven savings and budgeting strategies.
2. **Pocketbook – FREE** Pocketbook syncs with your bank account, automatically sorts your expenses into categories, and receive automatic alerts and warnings to keep you on track.
3. **You Need a Budget – US$5/month or US$50/year** In the case of YNAB, one of the world's most popular budgeting apps, it's a case of spending money to save money. According to their stats, the average user saves US$200 in their first month using the app, and US$3,300 in their first nine months – that's over $4,300 Aussie dollars.

Still need a bit of help creating a budget, getting your expenses under control, or increasing the rate at which you save? We're here to help. Give us a call today to discuss your household budget situation.

i ABS, 5232.0 - Australian National Accounts: Finance and Wealth, Mar 2016

ii ABS, 4102.0 – Australian Social Trends, 2014 (Final): Trends in Household Debt