

Wellness Bulletin

July 2020

Focus on Financial Health

ARE YOUR FINANCES HEALTHY?

Prior to the Covid-19 global pandemic, studies found that 13% of working-age Australians were 'money-poor'. However, this figure was succeeded significantly by the percentage of working-age Australians who considered themselves either 'money-poor' or 'time-poor', with statistics jumping to 51%*. Unsurprisingly, the time-scarce market that saw work hours rising and pressures around both lifestyle and career commitments intensify, also saw important personal priorities, like life admin, take a back seat. Life admin includes tasks like managing your finances and looking after your future prosperity. You may now find yourself with a small window of breathing space in amongst the chaos to assess and reset not only our mental and physical health, but our financial health too.



For many of us, we simply hope the financial structures and processes we have put into play will continue to tick over without too much thought or attention throughout life; structures and processes like our savings plans, direct debits and super contributions, with our salaries topping our accounts up on a regular, trackable basis.

This is, of course, the ideal situation. However, life tends to throw us curve balls every now and again, testing our reactive skills and forcing us to pivot and adapt. These are the times we require our finances to be future-proofed, and often the moments we look back and wish we had tackled that life admin we delayed for so long. Global financial markets will, from time to time, run strategic stress tests to forecast and plan for unprecedented events, like this pandemic. However, the same approach is, unfortunately, not as widely adopted in our own personal wealth.



For example, if someone had told you six months ago that you would no longer be allowed to commute to work, see your family, go to a café or restaurant or venture to the shopping mall unless for 'essential needs', you would struggle to believe them. For many of us, the thought of losing our jobs to an invisible virus seemed laughable, let alone the need to explore the black market to obtain a roll of toilet paper. But it happened.

The negativity around the pandemic has been overwhelming. Talk of a global recession, money losing its worth and millions of small, medium and large companies going broke has left the vast-majority of us standing back with our hands up, looking at our finances and asking, "now what?!"

THERE IS A SIMPLE ANSWER: **Review. Revise. Adapt.**

Review your financial portfolio

Revise it to ensure it is working for you

Adapt to reflect the current market and climate

This is what we refer to as a **financial health check.**

PLANNING AHEAD

Start by assessing what it is your savings are doing. What are you saving for, largely, and how long have you been saving for? Here's a startling fact: if you have been saving regularly with your net worth growing steadily, and that savings amount has been in a cash bank account for five years or more, then the amount is probably worth less now than when you first started.

IF YOU ARE STRUGGLING WITH THE STRESS OF FINANCIAL PRESSURE, REACH OUT FOR EMOTIONAL SUPPORT

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When we say worth less, we reference the time value of your money, not the value of your savings. For example, \$10 worth of groceries five years ago would buy you a different basket of products to that amount today. This is because the inflation rate gravitates at around the 2% mark per annum. If your savings are growing by 1% annually (which is a brilliant rate in today's terms) then the money you are investing is being outdone by the value that time depreciates it by.

As an alternative to a bank, you might want to consider holding a form of investment that grows by at least 3% per annum**. Your financial advisor can offer further direction and insight around such investment opportunities that suit your circumstances and needs.



Secondly, address the widely-misconstrued connotation that your superannuation isn't important 'right now'. Your superannuation funds your entire retirement lifestyle, so your ability to contribute regularly is crucial. As such, the importance of saving for your retirement begins now. Your choice of superannuation provider should hold a form of disability insurance in the case of an event that would see you unable to continue contributions to it before retirement. Call your super fund and ask them the following: what are my annual fees? How much has my super amount grown, per annum, over the last five years? How much personal insurance do I have (life, disability and income protection) and does the fund pay for this in full? In terms of expectations, your annual fee should be below 1.5%, with growth exceeding 5%. If your numbers are wildly outside of these, you should consult your financial advisor.



PERSONAL INSURANCE

On the topic of personal insurance, many insurance policies in place today are grandfathered products, sold with minimal tailoring to individual client needs. If you are a healthy individual with no major previous health concerns, your personal insurances, being life, TPD, trauma and income protection should cost you around 5% of your total annual salary per year. This statistic is, of course, based on generic assumptions, and other circumstances may mean you are required to pay more, or even less. In terms of income protection, the amount you are insured for should be circa 75% of your before-tax salary.

Take the time to review your situation and gain an understanding of your current versus your ideal scenario.

My key takeout for your financial health check is 'little and often'.

Frequent assessments and small changes for long-term results. Your financial advisor should be looking out for these aspects as a foundation, so touch base with them today.

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*<https://aifs.gov.au/publications/family-matters/issue-87/whos-really-time-poor>
**Please note that returns are based on assumptions rather than guarantees, another reason why good financial advice is recommended before investing.

You can submit a finance question via Ask the Expert on your Gateway. To find an independent Financial Advisor, please visit <http://PIFA.org.au>

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