Your Life Now

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Spring 2017 Update

Welcome to the Spring edition of the quarterly client newsletter from Your Life Now Financial Services. Your Life Now is a financial planning practice providing professional advice on superannuation, retirement planning, insurance and home loans.

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.

In this edition, we discuss 3 topics of interest to many Australians; property, travel and retirement.
1. The property article reminds us that there are risks to investing in property and therefore it's important to consider a range of factors before borrowing to buy.
2. Many Australians love to travel and the second article reminds us of the importance of travel insurance.
3. The final article explains that retiring the way you want is often influenced greatly by how early you start planning.

If you would like a PDF copy of this newsletter, please go to the "Articles" tab on the homepage of my website at yourlifenow.com.au. If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.

Best regards,
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If you've always thought property prices only go up…

It may be time to reconsider some myths about property investment.

With so much emphasis on property in the media, it can be difficult to sort fact from fiction. But before investing in any type of asset—including property—it pays to consider the pros and cons, and any commonly held misconceptions.

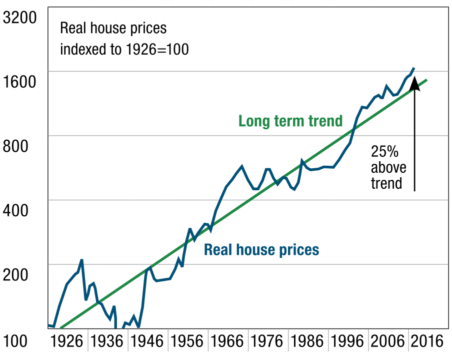
Here we bust 3 property myths.

Myth 1: Prices always go up

Believing that property always goes up is understandable—especially given prices have dramatically increased in our major cities in recent years.

But like most investments, the property market demonstrates cyclical patterns. That means, at times property performance can be stagnant and show little or no growth. And like many investment cycles, a boom can be followed by a bust.[i]

Australian house prices relative to their long term trend



Source: AMP Capital

Myth 2: All property is the same

When we think about property, we tend to think about it as one market. We generally take a macroscopic view. We hear about the performance of Australian property and may think that buying a property anywhere will turn out to be a good investment. But this approach can lead to decisions that fail to yield the results we expect.

Within the property market are countless micro-markets. And property prices can depend on the different economies they have links to—as we've seen in Australian mining towns where prices reached record highs in recent years only to be followed by a sharp decline.

Similarly, we hear general reports in the media that property prices are rising and this general sentiment can set unrealistic expectations. For example, specific price expectations in the CBD should be markedly different from those in a particular region or suburb. But we may tend to think that all prices in all areas will always rise. And this is where the danger lies.

Myth 3: Property's a sure thing

The combination of low mortgage rates and rising home values means debt levels have increased dramatically. In fact, the top 10% of leveraged Australian households have an average debt to disposable income ratio of 600%.[ii]

If you cannot afford to repay a home loan due to changes in personal circumstances, such as losing your job, your entire financial future can be put at risk. Any slumps in house prices could result in many people being unable to cover outstanding loan amounts if forced to sell.

Take a long-term view

It's important to think about property as a long term investment, even when buying a home to live in—and to borrow within your means so you're not financially stretched. Explore your capacity to repay a loan with our borrowing power calculator.[iii]

And if you take on a home loan, consider buying insurance to help protect you in case your circumstances change and you're unable to meet your loan repayments.

When it comes to investing, it's important not to put all your eggs in one basket. That way you may be able to protect your money by spreading risk over different markets.

Speak with us to find out more about the types of investments that may suit you.

i http://advice.realestateview.com.au/buying/beginner-guide-to-investing/4/

ii http://media.amp.com.au/phoenix.zhtml?c=219073&p=irol-newsarticle&ID=2122127

iii https://www.amp.com.au/data/calculators/borrowing-capacity-calculator1

One in three Aussies travel without protection

It's that time of the year when our thoughts turn to summer holidays, but amid the excitement of choosing a destination, don't forget to arrange travel cover. In the last three years, one in three Australians have headed off internationally without the protection of travel insurance.

If you run into trouble overseas it can be far more than just inconvenient. Lost baggage, stolen smartphones and delayed flights can leave you with unexpected bills. But if you become unwell or injured, the cost can be high enough to bring on altitude sickness.

The cost of overseas medical expenses

Medical treatment in the US for instance can cost several hundred dollars per day. Being repatriated back to Australia for treatment from popular destinations like Indonesia can leave you, or your family, with a bill of around $94,000.

You're on your own

The scary thing is that a recent report by the Department of Foreign Affairs and Trade (DFAT) found as many as one in two Aussie travelers believe the Australian government will pick up the tab for their overseas medical expenses. In fact, nothing could be further from the truth.

If you run into trouble while travelling, even in an emergency, you could find you're on your own when it comes to footing the bill. DFAT's SmartTraveller website makes it very clear that if you don't have travel insurance in place, the Australian government won't pay for your medical treatment overseas or medical evacuation to Australia.

So a sensible rule of thumb is that if you can't afford travel insurance, you can't afford to travel.

Ensure you have adequate cover

Fortunately, travel insurance is very reasonably priced. As you'd expect basic policies are cheaper than comprehensive products but there can be a world of difference in the protection they offer.

A basic product may only cover you for medical bills and some public liability. A comprehensive policy will typically have a range of add-ons like car rental excess cover (so if you have a bingle in a hire car it shouldn't cost you a cent), as well as cover for delayed flights, loss of luggage and theft of cash.

Shop around for cover

It always makes sense to shop around for travel cover, and the internet makes this easy. Your health fund or super fund may also be a source of low cost travel insurance. However, do read the fine print. Terms and conditions, along with premiums and what you're covered for, vary widely.

Don't delay

The main thing is to organise travel cover as soon as you've paid for flights or accommodation. Don't wait until you're about to head off as a lot can happen in the interim that could see you cancelling the trip. Along with being stranded at home this summer, that could also mean being left out of pocket.

Peace of mind

If you're heading off for an extended period, it can also be worth speaking to us about organising non-enduring power of attorney. This way, you have peace of mind knowing that someone back home is continuing to take care of your financial wellbeing even while you're away.

– 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.

How to retire, your way

How you'd like to spend your retirement is as unique as you. From the big life changing goals, to the smaller, more personal ones that give your life meaning.

There's no defined age you must retire by, and it isn't just about your finances. Your state of mind, where you live, how you spend your time as well as your goals, all play a big part.

Living well in retirement

Australia has one of the highest life expectancies in the world, and it's likely to increase well into the 90s over the next 40 years.[i] Meaning we could be looking at around 30 years in retirement.

So whatever your retirement goals are (like travelling, having a sea change, caring for family or working part-time), it's important to be prepared financially.

The cost of living in retirement

Assuming you own your own home, recent research shows that to retire comfortably, couples will need about $640,000 as a lump sum to retire on.[ii]

Yet, a recent survey by Roy Morgan shows many Australians aged 50-64 may not have the amount they need to retire comfortably at 65, and in fact many may still be in debt.[iii]

It can be easy to feel overwhelmed by these figures, but your finances may actually be in better shape than you think.

What you can do yourself, right now

There are a number of things you can do yourself now, that can really make a difference to your future retirement – both financially and mentally. That includes thinking about how you'd like to manage your income and lifestyle to reflect your changing needs. Here are some ways to get started:

1. Get clear on your retirement goals and how you want your life to look

Too many options can make planning difficult, so it's good to get a clear idea about the lifestyle you want and the top things on your list, including:

- knowing how you want to spend your time
- if you have a partner, comparing lists, so you're on the same page
- working out where you want to live

2. Work on simplifying your finances

It's a great idea to get your finances organised sooner rather than later. Some of the things you can work on now include:

- tracking your spending
- working out where you can make savings
- getting your super sorted
- taking advantage of any government incentives you may be entitled to

Other tips and information are also available on www.amp.com.au/retireright and www.moneysmart.gov.au.

3. Think about your numbers

Have a realistic look at how you can achieve your goals, and live the lifestyle you'd like within your budget. You may need to reassess some things in favour of others, or be stricter on the smaller things (like eating out) so you can enjoy bigger things in retirement (like a holiday).

4. Put a plan in place to help achieve your retirement goals

Once you're clear on your goals, a plan will help you step out how you'll get there. It can make all the difference.

5. Talk to us

Most of us need some help to create a plan for our retirement goals. And making the most of your super, investments, government entitlements and incentives can be hard to do on your own.

We can help you:

- Work out how much you'll need to live on
- Work out how you could create an income in retirement
- Understand possible future expenses
- Examine your superannuation savings, planning for now and in retirement
- Understand your living options, including aged care and what it could mean for your finances
- Find ways to keep doing the things you love, and new things you'd like to do
- Understand the rules around age pension eligibility.

After all, understanding all your options, and having a clear plan for your future, really can help you step into your idea of retirement with confidence.

i Australian Government Treasury Department., 2015 Intergenerational report. https://treasury.gov.au/publication/2015-intergenerational-report/chapter-1-how-will-australia-change-over-the-next-40-years/

ii ASFA, Retirement Standard Summary, December 2016. The lump sums required for a comfortable retirement assume that the retiree/s will draw down all their capital, and receive a part Age Pension. All figures in today's dollars using 2.75% AWE as a deflator and an assumed investment earning rate of 6%. They are based on the means test for the Age Pension in effect from 1 January 2017.

iii Roy Morgan Research, State of the Nation Australia spotlight on finance risk, August 2016.