Newsletter - March 2022

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.

In this edition we discuss "Ways to do money conversation with your partner" and provide you with information on "Importance of insurance ahead of retirement" and "Debt consolidation".

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

All the best,
Planet Wealth

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9 money conversations to have with your partner

If you're still in the honeymoon period, not wanting to have these conversations may make total sense (unless of course, you're about to wire some overseas lover you've never met in person your life savings).

If you have been together for a while though or are edging on making a big financial decision together, having the money talk could make a big difference to whether you go the distance.

Understandably, it may not be the easiest topic to broach, so here's a bit of a checklist as to what you might discuss, depending on what you have planned going forward.

1 Your views on cash management

Talk to your partner about your views around spending and saving. Kicking off with a light-hearted conversation, without judgement, can often be a good place to start.

You might even want to share some examples of things in the past that may have influenced your current views and behaviours.

2 Sneaky spending habits if you have any

More than one in four Aussies has lied or been lied to about money by a partner, with hidden debt and secret spending two common contributing factors[i].

With that in mind, if there are a couple of common transactions you make that you know you haven't always been forthcoming about, now may be a good time to get that out in the open.

3 Your income, expenses, assets and debts

Your financial situation is an important one to talk about because even if you're both earning a decent income (and potentially have some assets behind you), big expenses and potentially thousands of dollars of debt between you may impact any plans you have in the short and longer term.

The average credit card balance for instance is around $2,876 in Australia[ii], not taking into account other loans people may have taken out, such as car loans, student loans and through buy now pay later services.

4 Whether you've been paying your bills on time

If you've got a credit card, personal loan, mobile phone plan or utility account, there's more than likely a credit reporting agency out there that has a file with your name on it. This file, also known as a credit report, will summarise how good you've been at paying your bills and making your repayments on time.

If you have a chequered history, your report mightn't read particularly well, and this could affect your ability to borrow money for a range of things, which may include a house for the two of you. Meanwhile, if you're unsure how your report reads, you can request a copy from one of the reporting agencies (Equifax, Experian, illion or the Tasmanian Collection Service).

5 What's on your bucket list now and down the track

If one of you has plans to travel, buy property, get married or have children and the other doesn't, this could raise issues (or perhaps opportunities) for further discussion.

Depending on how important these things are to you or your partner, it may be worth nutting this out early on, or if you don't come to a solution, knowing that it's something you'd like to raise again at a later date.

6 What a joint budget and savings plan might look like

Committing to something that you both think is fair could go a really long way here. If you're not sure where to start, a good first step might be drawing up what money is coming in, what money is needed for the mandatory stuff and what may be left over for your social life and savings.

While not everything has to be shared, if one person's saving more and the other's spending more, arguments may arise, so try to come to an agreement that works for both of you.

7 Your contingency plan if one of you isn't earning an income

Approximately one in five Aussies has no emergency savings to keep them afloat when faced with unforeseen circumstances[iii], so it's probably worth talking about whether either of you have an emergency stash of cash, personal insurance, or anything that may help you get by through a tough period.

If you don't have a plan b, now might be the time to talk about how you can create one together. It might not be a nice thing to think about, but an emergency fund may also be invaluable if the relationship ends, as this could provide you with greater options than if you're dependent on someone.

8 How you'll divide costs and or repayments

You may decide to tackle this 50/50 or proportionate to each other's income. That is something you'll want to nut out before you take on a big financial commitment together, like renting a property together for example.

You might also want to take into consideration anything additional either of you bring to the table, like caregiving, domestic duties such as cooking and cleaning, or other forms of income or assets.

9 Potential risks that may arise if you merge your money

If your partner defaults on a repayment, you may be liable for the amount owing, even if your relationship ends. On top of that, ignorance isn't an excuse, so if you sign papers you don't understand, you're no less liable for any loans or guarantees you may have signed off on.

With that in mind, it's important both of you understand your responsibilities and consider whether you want to put anything you might agree to in writing.

i Finder – Debt deception: 2.7 million Australians have lied to their partners about money – Feb 2021

ii Finder – Australian credit card and debit card statistics – Dec 2021

iii Finder – Saving hard or hardly saving: Millions of households have no emergency savings – June 2021

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Why it's important to think about insurance ahead of retirement

If retirement's on your horizon, you'll be keen to make sure your plans stay on track. It makes sense to concentrate on things you can control, such as insurance.

Paying for more insurance than you need can eat away at your retirement savings, at a time when they're more important than ever. Under-insure and one day you may find you need it and have to use savings or borrow money to help you get through hard times.

Cover for a changing life

If you're considering what insurance you may need in the lead up to retirement, a good way to get started is to think about what you really need, and what you don't.

Another approach is to make sure you're holding the right insurance for the lifestyle you want in retirement.

Here's a simple checklist that may help:

1. Ask yourself how much money your family would have if you were to pass away or become disabled.
2. Compare that with how much money your family might need in the same situation, including how they'd manage paying for day-to-day costs like mortgages or rent.
3. The difference between the two can help you work out how much insurance you may need.

Consider your existing cover

Dig out your existing insurance agreements, taking special note of when they're due to expire and your continued eligibility for the policies they hold.

An important area for many Australians is insurance held in superannuation. These policies can come as part of our super account, and often have an expiry date.

Insurance in super

Insurance in super can help us out when we really need it. Like any type of insurance, it works best when you have the right level of protection for your situation. As you head towards retirement and your life changes, so might your priorities. As well as Life insurance which pays a lump sum benefit if you pass-away, you might have Total and Permanent Disablement (TPD) in your super.
TPD cover may provide you with a lump-sum payment if you suffer a disability that prevents you from ever working again.

TPD could help you pay for ongoing medical expenses, alterations to your home to make day-to-day life easier and help provide future financial stability. Total salary continuance, also known as income protection, is designed to pay a monthly benefit of up to 75% of your pre-disability regular income if you're unable to work due to injury or illness.

Typically, within super, Income Protection provides you with cover either for a two-year or five-year period or until you turn 65, depending on the terms of your plan.

What to look out for

There are pros and cons of insurance within super. Things to think about if you're approaching retirement include:

- Cover through super may end when you reach a certain age (usually 65 or 70). That's generally different to cover that's outside a super account.
- Taxes may be applied to TPD benefits depending on your age.
- Claim payments may take longer, as the money is normally paid by the insurer to the trustee of the super fund before it's paid to you or your dependants.
- It's a good idea to make sure your super balance isn't being reduced more than it needs to be, by your insurance payments. This is called insurance erosion[i].

Don't double up and stay flexible

As part of your review, it's also a good idea to check insurance you hold in super against other policies you might have outside super.

Then compare your cover, check whether you have any insurance double ups – if you have more than one super account with the same type of insurance, you may be paying for more insurance than you need. In particular, for Temporary Salary Continuance (TSC or Income Protection), you'll most likely only be able to claim up to 75% of your pre-disability income (offsets may apply), regardless of how much you're insured for or whether you hold it in two accounts.

As well as comparing the level of cover you get, consider any exclusions, such as the treatment of any pre-existing medical conditions, and waiting periods. Remember that if you do cancel your insurance, you might lose access to features and benefits and may not be able to sign back up at the same rate, or at all.

If you are applying for or reinstating your insurance, or are looking to make a claim, it's also important to disclose your situation to your insurer honestly. Otherwise, the insurer may be entitled to refuse your claim.

Any changes in life calls for flexible thinking, whatever age you are. The lead up to retirement is a great time to review your insurance and adapt to changing circumstances.

i An inactive account is a super account that has not received any contributions or rollovers for 16 months. Learn more at https://www.amp.com.au/insights/grow-my-wealth/protect-your-super-package.

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Why should I consolidate my debts?

Consolidating your debts could give you a clearer picture of what you owe and potentially save you money, but there'll still be things to look out for.

If all those small debts you once had, have somehow multiplied and grown into bigger debts, rolling them into one could help reduce what you're paying in fees and interest.

If you've heard about debt consolidation and are wondering whether it's the right option for you, we look at some of the tips and traps, so you've got a bit of info up your sleeve before you decide.

What is debt consolidation?

Debt consolidation is where you take your existing debts (credit card, personal loan, car loan, or all of the above) and consolidate them into a single loan, preferably with a lower interest rate.

Some people choose to use their home loan to consolidate their debt because it often offers a lower interest rate, but it does mean risking your home if you can't keep up with your repayments.

Other options include rolling your debts into a new or existing personal loan, or credit card balance transfer.

Different options will have various pros and cons, depending on your circumstances, which is why it's really important to do your research first.

What are the potential benefits?

- If you can consolidate into a loan with a reduced interest rate and lower fees, you could save a significant amount of money, depending on what you owe
- A consolidated loan can be easier to manage as you'll potentially only need to make one monthly repayment rather than having to juggle several
- As you'll only receive statements from one lender, you can reduce the amount of paperwork involved, which could make budgeting each month a lot easier.

What should I be aware of?

- When looking at debt consolidation solutions, make sure your provider is licenced by ASIC and that interest rates, fees and charges are lower than what you're paying currently
- Providers may knock you back if there are black marks on your credit report, which lets lenders know whether you've been paying your bills on time
- If you extend the term of your loan and don't focus on paying off the principal, be aware that you could end up paying more in interest over time
- Look into whether there are any application fees or penalties for paying off any existing debts early. After all, you want to ensure the potential savings outweigh any costs.
- Interest rates can go up and down and this could affect your ability to make repayments.

How do I do it?

1. Get up to speed with your current debts

- How much do you owe on each debt and what do they all add up to?
- How much interest are you paying on each debt?
- How long have you got to pay your debts off?
- What extra fees and charges are you paying because you have multiple debts?

2. Think about the best way to consolidate

Depending on your situation, one approach could be to roll all your existing debts and any savings you might have into your home loan, if you have one. This could potentially help reduce your short-term debt burden, because:

- most credit cards charge higher interest rates
- most personal loans charge higher interest rates
- any money sitting in transaction or savings accounts is likely to be earning lower interest rates than those being charged on your home loan.

If you're leaning toward consolidating your debt into your home loan, do keep in mind:

- your home loan balance will increase as you'll be adding your existing debt amounts to it
- any equity you may have gained in your property will therefore decrease
- you may also need to pay lender's mortgage insurance, depending on how much you increase your home loan by.

3. Focus on clearing debt

- Debt consolidation will only be effective if you're disciplined about making repayments
- While you're paying off the consolidated debt, try to avoid taking on any new debt
- Once the debt is paid off, try to maintain good debt management habits.

Speak to us about which type of debt consolidation strategy might suit your needs.

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