Newsletter - October 2019

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 The Impact of extra Mortgage Repayments and provide you with information on Boost Savings on Compound Interest and Resist today, Relax tomorrow.

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 Insurance and Financial Planning

Planet Insurance and Financial Planning
54/195 Wellington Road,
Clayton VIC 3168
P 1300 004 254
E info@planetinsurance.com.au
W www.planetinsurance.com.au
Facebook Planet.Insurance.Australia
Twitter alisplanet

High times for low interest rates

With mortgage rates at their lowest since the days of black and white TV, this might be the right time to make a serious dent in your home loan.

Lower rates mean any money you have in the bank could be earning less interest. But if you have a variable home loan rate and your lender passes on the cut, you'll pay off more of your loan faster just by keeping your payments the same.

Upping your payments means you can really take advantage of lower rates, saving time and money on your mortgage.

Adding an extra $50 a week can chop $50,000 from a loan of $400,000 – and pay off the loan four years earlier.

When fifty bucks seems a lot

If fifty bucks sounds like a lot, even twenty can make a dent in your repayments over time, as long as interest rates stay low.

That's around one cup of coffee a day in a working week.

Because interest on home loans is calculated daily, even chipping in small amounts can make a big difference over time.

The following table shows how an extra $20 a week on a $300,000 loan takes over two years and $20,000 off. Further up the scale, an extra $100 a week slices off over three years and the best part of $100,000 over the life of the loan.

Of course, we're all different. Whether you're willing or even able to make extra repayments depends on your circumstances.

Good times, bad times

Depending on your situation and financial goals, a cut in interest rates may not be all good news.

If you have a fixed rate, your mortgage payments are unaffected by the interest rate cut.

If you're unsure whether your loan is fixed or variable, now is a good time to check. If you're on a fixed rate, you might talk to an expert to find out if there's a better deal out there, or whether switching to a variable rate might work for you.

IMPACT OF EXTRA MORTGAGE REPAYMENTS

Loan size	Loan size	Loan size
$300,000	**$500,000**	**$1,000,000**
Additional payment (per week) **$20**	Additional payment (per week) **$20**	Additional payment (per week) **$20**
Pay off your loan **2yrs & 4mnths** faster	Pay off your loan **1yr & 5mnths** faster	Pay off your loan **9mnths** faster
SAVE **$20,671** in interest over life of loan	SAVE **$21,666** in interest over life of loan	SAVE **$22,480** in interest over life of loan
or	or	or
Additional payment (per week) **$50**	Additional payment (per week) **$50**	Additional payment (per week) **$50**
Pay off your loan **5yrs & 1 mnth** faster	Pay off your loan **3yrs & 4mnths** faster	Pay off your loan **1yr & 9mnths** faster
SAVE **$44,150** in interest over life of loan	SAVE **$48,887** in interest over life of loan	SAVE **$53,203** in interest over life of loan
or	or	or
Additional payment (per week) **$100**	Additional payment (per week) **$100**	Additional payment (per week) **$100**
Pay off your loan **8yrs & 5mnths** faster	Pay off your loan **5yrs & 10mnths** faster	Pay off your loan **3yrs & 4mnths** faster
SAVE **$71,236** in interest over life of loan	SAVE **$84,242** in interest over life of loan	SAVE **$97,774** in interest over life of loan

Source: AMP Bank. Calculation assumes the customer is five years into a 30-year home loan on an average owner-occupier discounted variable rate of 4.68% as per RBA Lending Rates, May 2019. Calculation does not account for future variations in interest rates or include fees. The information should be used as a guide only. Individuals should consider their personal circumstances and consult professional financial advice where appropriate.

Other things you could do

There's more to low interest rates than your mortgage.

For instance, you might instead choose to pay down bad debts such as your credit cards. Or use the money that you save on repayments to invest elsewhere to help grow your wealth.

This could involve alternatives to cash such as buying shares or property. These carry their own pros and cons, so it's a good idea to get advice so you understand the risks involved, and whether they are right for you.

It all depends on your situation and financial goals. We can help you decide the best way to make the most of low interest rates.

First published 25 August 2019

Boost savings with compound interest

If your goal is to save for the future, or perhaps start putting away for your children's education – then unless you plan on putting your savings under your mattress, the sooner you start the better.

That's because you could be missing out on earning compound interest along the way that could make a stark difference to the overall amount you save.

The difference between simple interest and compound interest

There are two main types of interest:

Simple interest is where a one-off interest payment is made at the end of an agreed, set period of time.

For example: if you invest $10,000 in a term deposit at 5% interest per annum, and don't withdraw any money, then you'll have $12,500 at the end of 5 years. That's because the 5% annual interest rate is worked out based on the value of the initial investment and paid in full at the end.

Simple interest earnings over five years

$10,000 investment	$10,000 investment	$10,000 investment	$10,000 investment	$10,000 investment	=	$12,500 total value
$500 interest earned Year 1	$500 interest earned Year 2	$500 interest earned Year 3	$500 interest earned Year 4	$500 interest earned Year 5		$2,500 interest earned after 5 years

Compound interest is where interest is paid in regular intervals, building on top of earlier interest paid. The result is a snowball effect of interest earning interest.

For example, (using the same figures as the simple interest example above), an initial investment of $10,000, earning 5% interest per annum with compound interest paid monthly, will give you $12,834 after five years. That's because every month the interest earned was earning more interest.

Compound interest earnings over five years

$10,000 investment	$10,512 savings	$11,049 savings	$11,615 savings	$12,209 savings	=	$12,834 total value
$512 interest earned Year 1	$538 interest earned Year 2	$565 interest earned Year 3	$594 interest earned Year 4	$625 interest earned Year 5		$2,834 interest earned after 5 years

Compound interest will continue to build on itself in this way, assuming nothing changes. How quickly it grows will depend on when you start your savings plan, what the interest rate is, and whether you make contributions (or withdrawals).

Compound interest can help your savings grow faster than **simple interest.** It's when interest earned on savings is reinvested, building on top of earlier interest received. The result may lead to a snowball effect of interest earning interest.

How to work out compound interest on your savings

The easiest way to work out how much compound interest you could earn on your savings, is to use an online compound interest calculator, that can do it for you.[i]

Saving for the future

If you're interested in using compound interest to help your savings grow, then the sooner you start, the better. That's because, like any good snowball, the earlier it starts rolling, the more snow it will collect along the way.

For example, if you were keen to put aside money for your child's education, and from the day your child was born, you put $10 per week into a bank account paying 6.25% pa, then by the time they turned 25, their savings would be **$31,259.** Of that, the interest earned would be $18,372 – outweighing the overall deposits made along the way.*

If you started saving later, when your child turned 10, with a first deposit of $5,000, then by the time your child turned 25, they would have savings of **$25,611.** Of that, the interest earned would be about equal to the overall deposits made, and your savings would be about $6,000 less than if you'd started earlier, without an initial deposit.*

Tax on compound interest

It's worth remembering that like any income, compound interest earnings must be declared to the tax office, even if it's savings for a child.

Who declares the interest earned, depends on who owns or uses the funds of that account. You can find out more about the tax requirements from the Australian Tax Office.

Note: This example uses the ASIC Money Smart Calculator1 featuring an effective interest rate of 6.43%. It's important to remember that a model is not a prediction and uses assumptions. Results are only estimates, the actual amounts may be higher or lower.

i ASIC Money Smart Compound Interest Calculator - https://www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/compound-interest-calculator

First published 15 June 2019

Resist today, relax tomorrow

Can you recite the last line of *Gone with the Wind*? If not, you'll find the answer at the end of this article.

If you scrolled down straight away, you might be too keen for your own good. We've all heard that patience is a virtue, and it can even save you money.

For people figuring out how to fund the lifestyle they'd like in retirement, now's a good time to remember the benefits of delayed gratification.

That's because instant gratification is the enemy of hitting your long-term goals, the things you've worked so hard to achieve. You might find that passing up something less important now will give you something more important when you retire.

Instead of deciding which new European car will make you the envy of your neighbours, you might imagine your grandkids running around with their own replica vehicles – or even a pony.

Why we want it now

It's only human to want things straight away. Evolution has given us a desire for immediate rewards. We'll eat the food in front of us if we're not sure where the next meal's coming from. Most other animals simply act on these impulses, they don't know any other way. But we can imagine the future.

When it comes to finance, people don't always make rational decisions, which is why some areas like house purchases usually have cooling-off periods. As you get closer to retirement, it's good to think closely to make every buying decision count.

None of us knows exactly how long we'll be retired. Here are some ways you can resist the temptation to spend too much before your income changes.

Picture this

If you find it hard to respond to the urge to buy right now, it might be easier if you visualise what you want. Whether it's that trip to Broome you've promised yourself or outings with your grandkids, pick one of your big goals and stick a picture of it under your fridge magnet.

A picture of a camel train on Cable Beach will look nicer than that unpaid invoice for that impulse extra bookshelf you didn't really need.

Tell your friends

Your partner, family and friends can all help you get there. If you're planning to renovate or downsize when you give up work, you might get some great tips for reliable tradies from those who have been there and done it.

Tell your family and friends your plans and see how your objective becomes theirs, bringing you useful advice and encouragement. You don't have to reach your goals all on your own. Even the solo round-the-world sailor has a support team.

You might find it useful to talk to someone who is already retired about what they'd have done differently. Many people wish they'd put more aside to live more comfortably.

Shop around

There's never been more choice than these days of online shopping. Although this means more temptation. It's also never been easier to price check whatever you have your eye on. So, keep an eye on price comparison sites and discount codes to find the deal that's right for something you really need now.

As advertisers get more and more personal data, they're better at targeting what we want, and using techniques to persuade us to buy right now. Saving 10% off in the end-of-financial year sale still leaves 90% to pay, which might be worth several months of household bills down the line. Think of your other goals so you use the value scale that's right for you.

What a difference a day makes

Taking time to reflect often changes the choices you make. Wait 24 hours and you might find you can do without that extra pair of shoes, when next day you come across three pairs you've hardly worn.

Many consumer goods are marketed to persuade you that you need something right now. Think of those shopping channel ads where they'll throw in an extra mophead if you buy that new cleaner within the next 10 minutes. Make sure you really care about that mophead before you commit.

You can still pop the bubbly

Decide what you will keep doing. You might be able to do without your gym membership or trip to the symphony, but if you really love it, then it might be a false economy. Reaching your goals means you can still stay happy and healthy.

If you hit your plan you can reward yourself along the way. If you've cut out takeout coffee, then once a quarter you might have high tea at a smart hotel within your means. You'll look forward to it more and celebrate reaching another milestone along the way.

And the last line of Gone with the wind?

Scarlett O'Hara says, "Tomorrow is another day."

First published 13 September 2019