Newsletter - September 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 Spending money in a Cashless World and provide you with information on How to save money for Emergency and Dealing with being asset rich and cash poor.

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,
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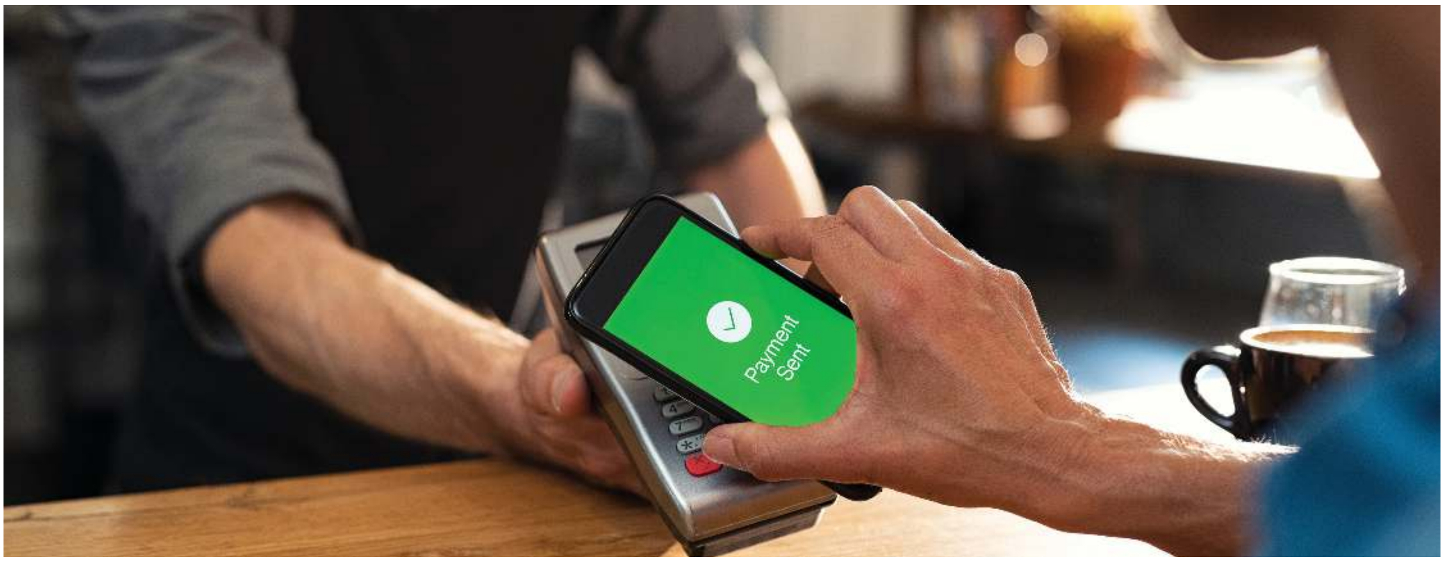

Spending money in a cashless world

How the move to electronic payments could be making it easier to spend…and what to do about it.

It's Thursday morning and almost the end of the working week. You're walking to the train station and you realise you've forgotten to top up your public transport card. No matter…a few clicks later and you've transferred $50 over.

At the station you grab a takeaway flat white before the train arrives…tap and go, too easy. At lunchtime you jump online and scroll through your newsfeed. Wow, there's a pretty good one-day special from your local department store. You end up buying a new pair of pants, a replacement for your old wok and a couple of books.

After work you've got a few drinks organised with colleagues before heading home. When it's your round you tap to pay with your smartphone. That night there's nothing on TV. A few clicks from the comfort of your couch later and you're settled in to watch a new movie you've downloaded.

Over the day you've spent close to $400 without touching a coin or banknote. It's so effortless online, and the ease of tapping your card or phone at the supermarket or café beats the hassle of carrying coins and notes hands down. Plus with every transaction recorded it makes it easier to track your spending, budgeting and investments. What's not to like?

Winners and losers

Cash payments in Australia are declining rapidly. Cash accounted for just 10% of all payments in 2017 and by 2022 this will fall to 2%. For all intents and purposes, Australia will be a virtually cashless society.[i]

It's a trend that certainly has government backing. From an official perspective the notes and coins we were happily using for centuries have a lot to answer for. Banknotes and coins cost money to produce, they help to facilitate criminal transactions and they make it easier to avoid paying tax.

So the move to a cashless society dominated by electronic transactions, contactless payments and tap-and-go smartphones can only be a good thing for everyone, right?

Not necessarily. Like any technological development, there are winners and losers. In a cashless society the poor and elderly can find it difficult to access funds and pay for essential services.

Recent research in the UK highlights how much cash is still relied upon by older and poorer citizens. While only 4% of adults rely on cash, that includes some of the most vulnerable members of society. When you look at people who rely on cash day in day out, 39% are aged 65 or over and 62% have an income of less than 9,000 pounds (around $16,170).[ii]

How cashless impacts your spending

In the dash to cash we could be in danger of leaving more vulnerable sections of society behind. And the concerns about a cashless society don't end there.

- What implications are there for privacy when every transaction can be logged and monitored?
- What protections are there against hacking and cybercrime in our electronic world?
- What backup plan is in place if the technology fails during an outage?

But one of the major concerns about going cashless is how easy it makes it to spend money online or with the touch of a card or smartphone.

And you don't even have to pay for the goods upfront, with AfterPay letting you order online and receive your goods before deciding whether you want them.

Managing our spending has got a whole lot more complex without the tangible reminder of dollar notes and coins in our wallets and purses.

And what about the next generation? It can be difficult to teach kids about money when they see us paying for goods so effortlessly without handing over any cash. Are they equating swiping a card with paying a physical dollar?

5 tips to control your spending in an electronic world

1. Try **going out without your credit card** to remove temptation—you can still pay for essentials, but you'll need to use notes and coins.

2. Think about **moving from a credit card to a debit card** so that you're not spending money you don't have—even if it is tap and go.

3. Teach your kids about money by giving them a list of things to buy with a specific amount of cash—if they run out, they'll need to adjust their budget rather than access easy credit.

4. Embrace the online advantages of monitoring your spending by **using a budgeting app** like AMP's Budget Planner Calculator.

5. Ringfence some of your income from temptation by **setting up an automatic transfer** to a higher interest savings account.

The digital revolution is no different to past innovations in its capacity for good and bad. While your smartphone certainly makes it easier to rack up a pretty big bill without too much trouble, it also makes it easier to track your spending and set up a budget.

As the move to a cashless society changes our money habits, our challenge is to harness the power of the new technology to make a positive difference to the way we spend and the way we save.

i Finder.com.au, The humble cheque to be extinct by 2019, 1 February 2018.

ii RSA Action and Research Centre, Cashing out: The hidden costs and consequences of moving to a cashless society, January 2019

How do you save for that rainy day?

It's not just our farmers who keep their eyes on the horizon for rain.

Recent research found almost twice as many Australians think saving for an emergency or a rainy day is more important than putting cash away for a holiday.

Indeed, saving for a rainy day is our number one savings priority.

According to AMP Bank, those aged between 35 and 44 years old are most likely to contribute regularly to an emergency fund. Unsurprisingly, the young are focused more on today. A significant number of 18 to 24-year-olds cited holidays as their number one savings goal. Almost one in five is saving for luxury items or fashion, compared with one in twenty of Australians overall.

Women take security most seriously, with 82% making a provision compared with 62% of men.

What type of saver are you?

Our approach to rainy day savings falls into four broad types.

Find out which fits you best, and what you could do next.

Distracted saver

As the distracted type, you're easily swayed into getting something you want right now. Though you know you probably should do something about it, sometime, you prefer to leave later till later.

This could be the moment to think about the 'B' word. A budget can help you get back to basics and work out what's going where and when.

Once you can see where your money is really going, and where you tend to go over the top on designer labels or trendy restaurants, you'll have the power to change.

The good news is it might take only a few small lifestyle adjustments to get you on track and in charge.

Natural saver

Planning for the future is in your blood. You'll go out of your way to put something away for a rainy day.

You're on the right track, so use your natural tendencies to shop around for the right deal. Be savvy with your savings and look out for accounts that deliver competitive interest rates.

It's a good idea to keep up to date with what you're currently being offered. AMP Bank found that savers who know their interest rate end up saving more than twice as much each month than those who don't.

Pendulum saver

You switch between the approaches above.

Although you understand the logic of saving, you tend to go too hard. Tightening your belt too hard, you end up splurging all that good work in a blow-out. You end up feeling guilty, cutting back hard and the cycle begins again.

Go easier on yourself and consider a more regular approach to reduce pendulum swing.

You might take stock of your finances regularly to see where you could be getting a better deal, for no extra outlay. Set some savings goals and commit to putting aside a certain amount each month, no matter how small it may seem. Slow and steady can still reap benefits.

With a more consistent approach, you'll be able to move away from boom and bust.

Driven saver

Just dare you to hit a target and you're there.

You don't need any persuasion to keep you on track. Whichever account you're using for your safety net, you're already committed to the idea.

Take advantage of your iron will by setting new savings goals and see if you can beat last year, or last month. Remember that your mindset can help you with your other financial goals, such as investments and super.

Whether you're a poncho person or prefer that golf umbrella, saving for that rainy day seems as natural as checking the weather forecast. You may not need it right now, but you're happier knowing that you're prepared.

Dealing with being asset rich and cash poor

Reverse mortgages could be one way to help with living expenses, but they may also erode any equity you have in your home over time.

Given longer life expectancies, the rising cost of living and the property boom, more and more retirees find themselves asset rich and cash poor.

One option is to downsize to a cheaper home, but this often has major disadvantages. If they are receiving a part age pension now, converting an exempt asset – the family home – to an assessable asset such as cash or shares could mean a severely reduced pension or even total loss of the pension. To make matters worse, the cost of moving from one home to another is probably close to $100,000, which is a large loss of capital unless the move is essential.

As a result, many retirees take the reasonable view that they are better off to battle along in their present home which, if history is any guide, should continue to give them a reasonable tax-free capital gain.

A reverse mortgage is probably the next thing that comes to mind, but these are becoming difficult to get as banks tighten their lending criteria due to the adverse publicity they have received from the royal commission. In any event, taking out a reverse mortgage involves making some significant decisions. If you take a fixed rate there may be hefty exit fees down the track; if you take a variable rate you could suddenly find yourself in strife if property prices fall when interest rates rise again.

Enter the Pension Loans Scheme: a type of reverse mortgage offered by the federal government. It has been around for years, but was hardly used. However, the terms were improved in the last federal budget and it should now take off in popularity.

The new rules took effect from July 1, 2019. From that date a couple on the full age pension could receive an additional $684.10 a fortnight ($17,786.60 a year) between them by way of this loan. It would be paid fortnightly, like the pension, and the interest rate would be a very reasonable 5.25%. The loan can be repaid on demand without penalty, but it would be reasonable to expect that repayment will come from the eventual sale of the family home.

The amount a part age pensioner will be able to borrow will be the difference between the amount of the age pension they receive and 150% of the maximum rate of age pension. For example, if a couple received an age pension of $800 a fortnight between them, they would be eligible to draw an additional $1,252 a fortnight ($32,552 a year) under the proposed system.

The Pension Loans Scheme will be available to non-pensioners too. A self-funded retiree couple will be able to draw 150% of the maximum rate of pension, or up to $2,052 a fortnight, combined.

Even though borrowing money under this scheme may solve a short-term cash problem, remember that the essence of a reverse mortgage is that no interest or principal repayments are made on the loan, so it increases faster and faster. The government is aware of this, and as part of the set-up will require a valuation from a licensed valuer on the house which will be used as security for the loan. There will be no cost to the applicant for this.

Furthermore, the amount of the cumulative loan debt that can be accrued will be limited based on a number of factors, including the pensioner's age and their equity in the secured asset. This maximum cumulative loan amount available will be recalculated every 12 months.

That's a welcome move. Think about a self-funded couple who borrowed the maximum loan of $53,352 a year via fortnightly draw-downs. In just 10 years the debt would be nearly $700,000 and in 15 years a staggering $1.2 million. A reverse mortgage is like a strong drug – good in small doses in the right circumstances.

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