



PLANET WEALTH

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Newsletter - February 2021

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 “ Tips for parents who became the bank of mum and dad” and provide you with information on “ How to 2020 - proof your finances” and “ The right times for financial advice”.

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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Tips for parents who became the bank of mum and dad

Aussie parents have coughed up more than \$26 million to help their adult kids since COVID-19 hit our shores – and one in five is at financial risk from doing so.

Parents helping their adult kids financially isn't an unfamiliar concept in this country, but figures reveal mums and dads have forked out approximately \$26.8 million since the outbreak of COVID-19 in Australiaⁱ.

Below we look at what's going on across the nation and how you can make sure your own wellbeing doesn't fall by the wayside, particularly if you're the one in five at financial risk by providing such assistanceⁱⁱ.

What's happening around Australia?

About 30% of Aussie parents have been providing financial support to their adult kids, as job losses and wage reductions hit many young Aussies hardⁱⁱⁱ.

According to findings from financial comparison group Mozo, the most popular forms of assistance included help with^{iv}:

- day-to-day expenses, such as utility bills and groceries – 48%
- car expenses – 29%
- purchases for the home – 24%
- medical expenses – 19%
- electronics – 18%.

Meanwhile, the majority of parents didn't expect to be paid back, despite the fact that one in five was at financial risk by offering such support, with 67% having to take money from their savings to help their adult kids and 37% having to cut back on expenses^v.

A survey by another financial comparison group Finder found that 17% of parents were also letting their adult kids live at home rent free, while one in 10 was providing free childcare for their grandchildren^{vi}.

Have you thought about your retirement?

You might be a number of years away yet, but retirement is worth a thought when considering the costs of your adult children living at home, or out of home and still needing your support.

After all, life expectancy is increasing in Australia, which means you'll probably need to account for a longer retirement than your parents. If you retire at 60 and live beyond age 85 for instance, you may be looking at funding a retirement that could span more than 25 years.

If you're wondering how much money you might need, the Association of Superannuation Funds of Australia (ASFA) benchmarks the annual budget needed to fund different retirement lifestyles, based on an assumption people own their home outright and are relatively healthy^{vii}.

September 2020 figures show individuals and couples, around age 65, looking to retire today would need an annual budget of \$43,901 and \$62,083 respectively to fund a comfortable lifestyle, or \$27,987 and \$40,440 respectively to live a modest lifestyle^{viii}.

If you're banking on the government's Age Pension supporting you, keep in mind to be eligible for a full or part Age Pension you must satisfy an income test and an assets test, as well as other requirements^{ix}.

Ways you could help your kids be financially independent

While many parents provide financial support to their children, providing adult kids with

regular cash handouts (particularly if you're giving them more than may be necessary) could lead to poor financial choices and them living beyond their means because they've become too reliant on the bank of mum and dad.

To assist your kids, here are some things to think about.

- Teach them how to budget and save, about the consequences of unsustainable debt and what benefits an emergency fund might have.
- Challenge them to find a better deal with a different (phone, internet or credit card) provider and give them some incentive to do it. These are real life lessons that will hopefully stick.
- Explain how a loan works. Going through your loan statements with your kids is a great opportunity for some financial education. Plus, you can show them how much extra they could end up forking out if they don't take note of the interest rates they sign up to.
- If your kids are involved in time intensive study and are finding it difficult to commit to part-time work, it's also an idea to look into government allowances they may be entitled to, noting Coronavirus stimulus payments have also been extended into 2021 if they're finding it difficult to secure work.

It can be a tricky balancing act, providing financial support for your children while also keeping an eye on your retirement plans and we are here to help.

i - v Mozo: 30% of parents financially supporting their children during COVID-19

vi Finder: Bank of Mum and Dad: 44% of parents subsidise the lives of their adult kids

vii - viii ASFA Retirement Standard

ix Australian Government – How much you can get
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How to 2020-proof your finances

Being in control of your finances makes you feel good, but the twists and turns of 2020 have meant this isn't always possible. We look at some of the year's top challenges for personal finance and how to manage them as we move into 2021.

Mental, physical and financial wellbeing are interconnected – and in 2020, we're feeling it more than ever. Research conducted by AMP has found that severe and moderate levels of financial stress are impacting 1.8 million Australian workers. In total, 50% of all Australian workers reported some level of stress about their financesⁱ.

With the 2020 COVID-19 pandemic producing economic shockwaves most could never have predicted, avoiding this stress isn't always easy.

Find out what steps you can take to start 2021 with your finances – and your wellbeing – in check.

If you've... had your cashflow impacted

Many Australians lost their job or had work hours reduced in 2020, through no fault of their own. While government stimulus measures such as the JobKeeper supplement gave a boost to millions of household budgets, the amount will be tapering off again in early January before wrapping up at the end of Marchⁱⁱ. Changes like these may have a significant impact on your personal cash flow.

If this financial situation sounds familiar, the first step is to revisit your budget – key your numbers into this calculator for a snapshot of your expected new income and your expenses. Next, review your spending habits and determine where you can save money and bring expenses in line with your current or projected cash flow. Following the 50/20/30 rule could be a practical place to start.

If you've... taken a hit to your super balance

The COVID-19 Early Release Scheme – designed to assist Australians facing financial hardship by giving them early access to their superannuation funds – has provided immediate relief for more than 3 million peopleⁱⁱⁱ.

If you made an early super withdrawal, you may like to consider how you could rebuild this money when you're financially secure, whether that's through additional personal contributions, spousal contributions, government assistance or super consolidation.

This is particularly important for women, with research showing that pre-COVID-19, Australian women retired with an average of 25% less super than men. In 2020, this gap grew to 29%, meaning women typically enter retirement with almost one-third less money than men.

Even if you haven't accessed your super early, this year's global financial fluctuations may still have affected your retirement savings balance.

Whether your superannuation account has been depleted by early access or falling sharemarket prices (or both), if you're close to retirement, you may need to defer your plans to leave the workforce. Alternatively, look at strategies to transition out of full-time work so you can ease into retirement with sufficient finances to live the life you want.

If you've... gotten into or increased debt

Around three quarters of Australian households have some kind of debt, whether credit cards, home loans or student loans. In fact, the average household owes \$168,600^{iv}.

This year, there have been additional reasons to consider taking on more debt: 42% of Australian employees say their finances have been negatively impacted by the pandemic through business and employment disruption^v.

However, if your accounts have been overdrawn or you run late on repayments, it could impact your credit score, and then your ability to get a future loan. You might

consider these simple strategies to manage your debt – from consolidating debts to evaluating which debt to pay off first.

If you've... been caught short

Australians are banking money at a record rate, with research showing household savings as a share of gross disposable income reached a high of 7.9% this year, compared to 2.7% in the prior year^{vi}. But while this is the average, it's certainly not true for all households.

Data collected by the Australian Bureau of Statistics in August 2020 showed that 14% of Australian households fear they will not be able to pay their bills on time under current economic conditions^{vii}, and that 64% of the Australians receiving the JobKeeper payment were receiving less income than their usual pay. These concerns spotlight the need that now, more than ever, is the time to have savings tucked away for a rainy day.

Unexpected car trouble, those extra school fees you hadn't budgeted for, an unexpected medical or vet bill – emergency savings can cover many unforeseen costs and may save you from falling into debt when you can least afford it.

Creating an emergency fund doesn't necessarily mean depriving yourself of everyday enjoyment – it simply requires a realistic assessment of your income and spending habits, with plans in place to reach your goals. Learn why you need an emergency fund and how to build one fast.

Whatever 2021 throws your way, it's important to have an expert in your corner to provide guidance and a helping hand. We are here for you.

i AMP Newsroom (2020): 1.8 million Australian workers suffering prolonged financial stress, costing \$31 billion in lost productivity

ii The Treasury: Economic Response to the Coronavirus

iii Australian Prudential Regulation Authority (November 2020): COVID-19 Early Release Scheme – Issue 28

iv Australian Bureau of Statistics (2018): Household Debt and Over-Indebtedness in Australia

v AMP Newsroom (2020): 1.8 million Australian workers suffering prolonged financial stress, costing \$31 billion in lost productivity

vi IBISWorld (September 2020): Households Stash Cash as COVID-19 Bites

vii Australian Bureau of Statistics (August 2020): Household Impacts of COVID-19 Survey.

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The right times for financial advice

COVID-19 has created uncertainty everywhere and impacted not just our health but our wealth too. From millennials to retirees, we've had to review our finances and adapt to the changing environment.

We've seen volatile share markets, slashed dividends on bank stocks, record-low interest rates and sectors like airlines, tourism and traditional retail struggling to survive. On the other hand, online shopping and e-commerce have surged, and more people are saving now than before the pandemicⁱ.

During this uncertainty, many people have found their financial adviser to be a critical source of guidance and a valuable sounding board. In many cases, the adviser-client relationship has been a long-term connection. It's built over many years and based on trust and confidence that the adviser has the client's best interest at the centre of every decision.

Demand for advice doubles

The financial advice industry is full of examples of clients reaching out to their advisers in recent months, leveraging these long-term relationships at a time of worry and crisis.

Recent research from the Investment Trends 2020 Financial Advice Report showed three in four financial advice clients had been in contact with their adviser to discuss the impact of the COVID-19 pandemic.

Advisers are also fielding an unprecedented number of calls from potential clients who are confused by the current markets and understand they need help.

The instability of recent times has undermined the confidence of those who are retired or are about to retire, with many wondering if they'll be left with enough superannuation savings for a comfortable retirement. But those who have a relationship with an adviser can rely on the fact their adviser knows them well, understands their unique circumstances and life goals, and can deliver advice tailored to them.

Advice for different life stages

Financial advice can be helpful at a range of life stages, not just when thinking about retirement. Some common things advisers can help navigate financially are:

- saving for and preparing to buy your first home
- getting married or starting a family
- budgeting and money management
- growing wealth
- estate planning
- planning for retirement
- retirement and aged care.

We can help with practical financial advice in all these scenarios. But more importantly, we can help you focus on your individual financial priorities and goals and create a plan to achieve them. It's been a challenging year but solid financial advice can assist you to make the best possible decisions, and take action that is appropriate to your circumstances.

Life's journey has many twists and turns and points at which priorities change. We are with you every step of the way.

ⁱ <https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product>