futuro FINANCIAL SERVICES

Observer

SPRING 2021

Simple money mistakes – and how to fix them!

The world is constantly dangling temptations before our eyes, and it's never been easier to buy stuff, even if we don't have the money.

FUTURO FINANCIAL SERVICES PTY LTD
ABN 30 085 870 015
AFSL No. 238478

HEAD OFFICE:
Level 6
200 Creek Street
BRISBANE QLD 4000

EMAIL:
info@futuro.com.au

PHONE:
(07) 3018 0400

WA OFFICE:
(08) 9388 9009

www.futuro.com.au

Simple money mistakes – and how to fix them cont...

The upshot is that we are all susceptible to making some basic financial errors. Individually, these mistakes can be small. Added together, they can really hold us back from financial success.

Adding up the little things

Take one simple example. It's easy to spend $15 on lunch from a café. But make your own and you could easily save over $10 per day. Multiply that by your working days and you could be saving over $2,000 a year!

How about the great clothing trap? Every year Australian's throw away huge amounts of clothing that has never been worn, or only worn a few times. Then there's food. The average household throws away over $1,000 worth each year.

Add in other impulse purchases and it's easy to fritter away many thousands of dollars on unnecessary or impulse purchases each year.

Big savings

Other common (and often bigger) money mistakes arise from our poor use of debt:

- If you don't pay off your credit card balance in full during the interest-free period, you could be digging yourself a debt hole that can be very hard to get out of.
- If your impulse buys rely on the use of 'buy now pay later' services, it's a sign that you probably can't afford them.
- Borrowing to buy things that immediately fall in value, such as a new car, is another quick way to blow some big dollars.
- Even when buying an appreciating asset, such as a home, purchasing above your needs can leave you struggling to meet repayments, adversely impacting your financial position.

Finding a purpose

For many people, just being aware of these money mistakes is enough for them to avoid the traps. For others, the instant gratification of the purchase or the pleasure in zipping down the road in a flash new car can make it really hard to adopt new habits. But what if there was a clear, long-term reward for suppressing the desire for instant gratification? This is a personal choice, but could be a big overseas trip, upgrading your home or simply achieving financial independence.

Setting some clear goals can make it much easier to forgo that focaccia and flat white in favour of a home made (and just as delicious) sandwich. How many DIY lunches equal a week on a Greek island? Tick them off on a chart so you can visually track your progress.

Or each time you suppress the urge to buy something you desire but really don't need, give yourself a mental pat on the back. You've just brought forward the day when you can buy that new house or work becomes optional. Again, charting your progress can help you see what you're achieving and help you maintain your motivation.

So have a think about your financial habits, and see how many fit into the basic categories of financial mistakes – spending too much, not saving enough, and making poor use of debt. Then work out the goals that are important enough for you to ditch the bad habits and develop good ones. You might be surprised by just how much some simple changes can contribute to your financial success.

Do you have the right protection for your loan?

Buying a property is one of the biggest investments many people will make in their lives. When it comes to securing a mortgage, many buyers may be so focused on the immediate steps ahead that they don't consider having the right protections in place first.

What are the different insurances that can protect a home loan?

Three key types of insurance will protect your mortgage:

- **Lenders mortgage insurance;**
- **Mortgage protection insurance;**
- **Income protection insurance.**

Understanding the different insurances available for your mortgage for further protection is an important part of protecting yourself and your loan if you're unable to meet repayments.

Lenders mortgage insurance (LMI) is a one-off premium payable if you want to buy a home, but your deposit is less than 20 per cent of the property's value. LMI protects the lender in the event you're unable to repay your loan. The premium is added to your total home loan amount, which means you'll pay more interest over the loan term. While the extra interest is one of the main drawbacks of LMI, it helps people enter the property market sooner.

Mortgage protection insurance protects you if you're unable to make loan repayments due to serious illness, injury or death. Each policy is different depending on the insurance provider, but generally provide trauma, death and terminal illness and special injury benefits. These benefits are typically paid in a lump sum.

Income protection insurance can pay up to 85 per cent of your gross income if you're unable to work due to partial or total disability. The definition of disability and the level of cover provided depends on the insurance policy.

Do you have the right protection for your loan? cont...

What happens if you don't get insurance for your mortgage?

If you don't invest in protecting yourself and your home loan, you could end up in a costly financial situation. So, while the premiums for key insurances may seem like they add up, it far outweighs the risk of being unable to meet your financial obligations or support any dependents if you can't repay your mortgage. Let's take a look at an example.

Sam is 34 and a non-smoker. His home loan is $450,000. Unfortunately, Sam recently had a major fall at work, resulting in a head injury and several broken bones. He is unable to work for several months. With his mortgage protection insurance, he could access his specified injury benefit and receive a lump sum of $8,500. Sam's income protection insurance will pay 75 per cent of his salary for six months while he recovers. With these insurances in place, Sam could continue paying his mortgage and meet his living expenses while recovering from his injuries. Without these insurances, he may have had to sell his property and live off his savings.

How do you know which mortgage insurance to get?

Many mortgage holders have insurances attached to their superannuation or health insurance providers, so be sure to double-check the cover you already have before applying for any additional extra cover.

If you'd like to speak with someone independent of your mortgage application process, the Australian Government offers an assistance service. Contact the National Debt Helpline on 1800 007 007 to speak with a financial counsellor about protecting your mortgage. Additional services are available for small business owners, farmers or people in regional areas.

Alternatively, speak to your financial adviser to be sure you protect your loan and your financial security.

Estate planning for your business

It's not uncommon for business owners to take short, irregular holidays because they don't have the support to keep their business running without them for a longer break.

Aside from taking time off for leisure, have you considered what would happen if you were forced to take six months off work due to a serious illness or injury?

Would the business survive and how would the bills be paid? Or if you were to die, can you be sure that your business partners would give your family a fair deal?

For these reasons, it's important for all business owners to put in place a properly prepared **succession plan**. It's just like a Will for the business, but there is often a wider range of scenarios and considerations involved.

As with a personal Will, what should be included in a good business succession plan can vary from one situation to the next. Here are some key areas that should always be considered:

- **Business structure** – in the event of death or retirement, the ownership and control of the business may need to be transferred to the owner's family or to the surviving business partners. How easily this would occur will often depend on how the business operates, such as through a trust, or a company, or without a separate entity at all.
- **Succession agreements** – if something happened to one of the business partners, would that partner's spouse or children be capable of taking over the control of that share of the business? If the answer is no, then a succession agreement can assist the remaining business partners to carry on operating the business whilst allowing for adequate compensation for the former partner's family.
- **Managing risk** – just like personal insurance, business insurance can provide a variety of types of protection such as temporarily meeting the normal costs of running the business (business expenses cover) or paying for a short-term replacement manager (eg. trauma or disability cover). A life insurance policy linked to the succession agreement that provides the deceased partner's family with suitable compensation for the transfer of business ownership to the surviving partners can also be a good idea.
- **Powers of Attorney** – many small businesses can't do much without the authority of the key decision-maker, so a Power of Attorney is integral to the succession planning process. It helps the business to physically operate if the owner is incapacitated through illness or injury.

There is a range of professionals who may need to be involved in setting up a succession plan, including your financial adviser, lawyer and accountant. Even if you already have a plan in place, make sure you regularly review the agreements and your insurance policies to keep them up to date and reflecting the current value of the business.

Like a Will, don't leave this to when it's too late.