futuro FINANCIAL SERVICES

Observer

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Being sensible with **Buy Now Pay Later** this silly season

Move over debit and credit cards, consumers are flocking to **Buy Now Pay Later** (BNPL) services. Afterpay, Zip Pay and several similar payment solutions allow shoppers to take home their goodies now while paying them off via a few weekly, fortnightly or monthly payments.

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A survey by Mozo reveals that 30% of Australian adults have one or more BNPL accounts and we're not afraid to use them. Afterpay, our most popular BNPL service, achieved sales of $4.3 billion across Australia and New Zealand in the 2019 financial year, nearly double its sales of the previous year. With the nation set to splurge around $25 billion on Christmas, it's a safe bet that plenty of that spend will be by BNPL.

But with 60% of those surveyed by Mozo admitting that BNPL lead them to buy things that they wouldn't have otherwise, it begs the question: how to use this payment option sensibly during the silly season?

1. Set your limits

Make sure you have a budget for your Christmas spend, and use it to help resist the temptation of impulse purchases.

2. Don't repay BNPL loans with a credit card

If you don't pay off your entire credit card bill within the interest-free period, adding your BNPL repayments to the card may see you paying a high rate of interest on your purchases. Better to use a debit card or direct debit from your bank account, and making sure there's enough money in the account to meet payments.

3. Avoid fees

Around one third of BNPL users have missed at least one payment. While late fees may seem modest, they can add up.

4. Track your spending

Don't just track your BNPL spending. Make sure you review credit and debit card purchases, too. Are you staying within budget across all your spending methods?

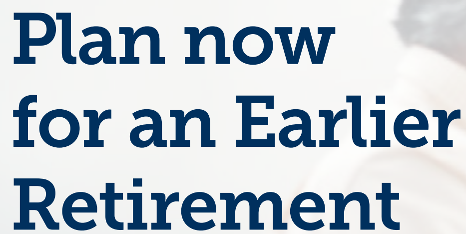
5. Avoid BNPL if you're saving for a home loan.

Lenders may look at your use of BNPL as a sign that you don't have significant savings and are living from payday to payday. The lower your debt, of all types, the easier it will be to get a mortgage.

6. Have a happy festive season

Used wisely, BNPL can help you jingle your bells and put the merry in your Christmas. Just make sure you know what you're signing up for and that you can meet all of the regular payments. Take care, and you'll be able to enjoy the start of the New Year without a financial hangover.

Wishing you and your family a Merry Christmas and Safe Holiday Season.



Plan now for an Earlier Retirement

The average age people start planning and thinking about life after work is 61, according to a new analysis of 3000 people by retirement planners The Moreton Group.

This means most are missing out on retirement riches by waiting at least a decade too long to start serious planning.

> Time is your most powerful ally when you start early.

This leaves precious few years for strategies to produce a zero-tax retirement income and make the most of compounding investment returns. For many people, 40 should be the new 60 to start thinking about retirement and its massive tax benefits available.

"People mostly put off retirement because they don't know what they want to do, and therefore push it to the back of their minds," he said.

"Then there's the scaremongering about how much superannuation you need to retire, and out-of-date predictions about what the best age to retire is, which have left many Australians thinking they have to work for longer than they actually do."

Australians who don't plan their retirement may end up working for longer than they need to.

Retirement seemed far away for people aged in their 40s but "time is a very powerful ally, and there are always small steps you can take earlier in life that can have a powerful impact".

Plan now for an Earlier Retirement? cont...

Strategies can include injecting extra cash into superannuation, which becomes tax-free for retirees aged over 60, using government incentives such as co-contributions and super splitting, and switching share and property investments into super to avoid capital gains tax later in life.

Starting at 40 gives people at least a couple of decades to supercharge a nest egg with compound interest, but added it was "human nature" to put off retirement planning.

"But the compulsory super guarantee system will be putting money away for you on automatic pilot. The fact it's compulsory and you don't have to think about it is the secret why it works, and why we have $3.4 trillion in super."

"The longer it's left, the less options people have – less time and less opportunities," he said.

Mr Watson has noticed more people in their 40s wanting to take greater control of their finances, particularly during the pandemic.

"With the advent of Covid people have had more time to think," he said.

Time is your most powerful ally when you start early.

Take action early

- **Think about what you enjoy, what would make you happy in retirement, and work backwards to set yourself up for that goal.**
- **Consider how a mixture of super and age pension payments can work together – you may not need as much as you think.**
- **Seek professional financial advice to keep you on track and open opportunities and strategies.**
- **Check what other government benefits are available, such as the Commonwealth Seniors Health Card**

Superannuation: how does it work in Australia

Superannuation is money that you save during your working life to use as income when you retire.

Like any other investment, the intent is to increase your super account balance, over the long term, while you're still working. Once you've reached retirement, your super savings are generally converted into a pension, providing a regular income for you to live on.

Understanding how superannuation works in Australia, will help you ensure your money's being managed the way you want it to.

How superannuation works in Australia

If you work in Australia in any capacity, you must be paid super by your employer. This is paid on top of your annual salary known as the Super Guarantee (SG). This includes many people who may consider themselves self-employed but are employed by their own company or trust.

Currently, your employer must contribute 10% of your salary into super. This rate will continue to increase every year until it reaches 12% in 2025.

The intention behind the gradual increase is to see a greater proportion of retirees relying less on the age pension and more on their retirement savings.

Your Future, Your Super

The Federal Government has also introduced a new set of reforms which will see your super follow you from job to job. This means when you start a new job, your employer will be required to pay super into your existing 'stapled' fund, if you don't nominate a new one.

There is also a new YourSuper comparison tool that assists you in choosing a super product to best suits your needs.

How your super is invested

Many of the principles of investing in super are the same as investing outside of super. The main difference is how your investments are taxed: you pay less tax on investment earnings inside super.

If you are a member of an industry, retail, corporate or public sector fund, your money is combined with other peoples' super to buy investments.

This enables your super to grow in two ways:

- growth in resale value called capital growth
- reinvested income such as rent or dividends.

If you don't actively choose how you want your money invested when you join a fund, you will be placed in a default investment option. These are designed to cater for a large group of people, based on specific investment criteria that the fund must deliver to. Normally, these options have around 60-80% of their funds invested in growth assets such as shares and property.

It's important to regularly assess how your super's invested and make changes if necessary. For example, taking a more conservative approach, means you'll have higher exposure to cash and fixed-income assets as they offer less risk than shares and property.