COAST to COUNTRY
FINANCIAL PLANNING

# January 2021

Happy New Year! As 2021 gets underway, we hope you and your families enjoy a safe, happy and prosperous year ahead. While we are not out of the woods yet, there is cause for optimism.

December was a busy month on the economic calendar. Global equity markets surged on optimism about the imminent rollout of several promising coronavirus vaccines and the prospect of another US stimulus package. And in a pre-Christmas miracle, the UK signed a last minute, post-Brexit trade agreement with the European Union.

In Australia, the government's Mid-Year Economic and Fiscal Outlook (MYEFO) projected a $197.7 billion budget deficit this financial year, down from the $213.7 billion forecast in the October Budget, as our economy recovers quicker than expected from the COVID-19 recession. Growth rebounded 3% in the September quarter, on continued support from low interest rates and government stimulus. Unemployment fell from 7% in October to 6.8% in November, which no doubt helped push consumer sentiment to a decade high in December.

Consumer confidence was also evident in the market for new detached homes, with sales up 15.2% in November, a decade high. High demand lifted residential property values 3% on average in 2020, with Melbourne the only market with falling prices. Regional prices (up 6.9%) outshone capital cities (up 2%). We also splurged on cars, with new car sales up 12.4% in the year to November and used cars sales up almost 30% in 2020. The Aussie dollar stood at US77c on New Year's Eve, up 10% over the year.

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# LESSONS from 2020 to secure a bright future

It was a year most of us would like to forget. And yet, some of the toughest lessons of 2020 had a silver lining.

We weathered bushfires, floods, a pandemic that's not over yet and a recession that is. Through it all we emerged a stronger community. Many of us also learned some useful financial lessons that we can put to work in 2021 and beyond to help create a more secure future.

So what were the money lessons of 2020?

Along with frequent hand sanitizing and social distancing, one of the big take-homes of 2020 was a renewed appreciation of the benefit of saving for a rainy day.

## Check your safety net

Faced with the shock and uncertainty of the economic shutdown, and the first recession in almost 30 years, we initially snapped shut our wallets. When the government's stimulus payments began landing in bank accounts, followed up with tax cuts, those who could squirreled some away.

In the June quarter 2020, the ratio of household savings to income jumped to 22 per cent, compared with a mere 4 per cent in the same period the year before.[i]

This was highlighted in a recent survey asking people what they intended to do with the personal income tax cuts that were brought forward in last year's Budget. While saving was the most popular goal for 57 per cent of respondents, this rose to 66 per cent for people aged 18-34.[ii]

Not only had younger people never experienced a recession, but they were also more likely to be affected by job losses and insecure work.

As general rule of thumb, it's a good idea to have the equivalent of around three months' income in cash so you can ride out life's curve balls. You could put your savings in a bank savings account or, if you have a mortgage, in a redraw or offset account linked to your loan.

## Diversify and stay the course

While cash in the bank is a relief if you receive an unexpected bill or your income fluctuates from month to month, it won't build long-term financial security.

Once you have a saved enough for short-term emergencies, you need to channel some of your savings into investments to fund your future goals and retirement income needs.

Another positive lesson from 2020 was the power of a diversified investment portfolio to ride out short-term market shocks. Actually, that's two lessons.

While having a mix of investments helps cushion the blow when one asset class or investment goes through a rough patch, it's equally important to stay the course. The performance of diversified superannuation funds last year is a good example of these two principles in action.

For example, Australian and international shares plunged 27 per cent and 20 per cent respectively in the three months to March last year as the economic impact of the pandemic became clear. But losses for members of diversified super funds were limited to 11.7%. By the end of June returns were down just 0.5% on average and have bounced back strongly since then.[iii] People who sold in March would have missed the recovery that followed.

## Insure against loss

While savings and a diversified investment portfolio provide a degree of financial security, there may be times when more financial support is needed.

One sobering lesson from the pandemic, fires and floods was that life is fragile and material comforts such as your family home can't be taken for granted. That's where insurance comes in.

Sadly, many of those who lost their homes and other belongings during the summer bushfires and floods were not insured, or inadequately insured.

While homes are precious, there is nothing more precious than life itself. Having an appropriate level of life insurance and total and permanent disability (TPD) insurance will provide financial support for you and/or your family to continue your lifestyle if you were to become critically ill, injured or pass away.

*As a new year beckons and you make a list of your goals and wishes, take some time to reflect on the lessons of the past. If you would like to discuss ways to build financial security in 2021, contact us now.*

i https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/latest-release#key-statistics

ii https://www3.colonialfirststate.com.au/content/dam/colonial-first-state/docs/about-us/media-releases/20201124-media-release-tax-cuts-final.pdf

iii Returns for median superannuation Growth fund, Chant West.

# Goal setting made *easy* with the H.A.R.D. approach

Goal setting is one thing – achieving your goals is something else entirely. So what makes the difference between a goal that is achieved and one that falls by the wayside?

Research has shown that people who achieve their goals are more likely to do so because they create a vision of their future and are emotionally connected to their goals.[i]

## Goal setting for the new year

This time of the year is often when we come up with goals, but despite positive intentions, we can easily lose sight of them.

There are different approaches to goal setting. SMART goals are often recommended as they're more considered and measurable, as you follow specific steps in establishing your goal. However, they're not fail-safe though – a leadership study found that people who set SMART goals are less likely to love their jobs, and only 14% of respondents believed their goals would help them achieve "great things."[ii] The study found that many of us don't strive for difficult goals, which is where HARD goals can help.

## H.A.R.D goals

HARD goals connect your vision to your emotions and values, which then really push and challenge you to achieve great things. They comprise of four elements: **Heartfelt, Animated, Required** and **Difficult**.

### Heartfelt

There's no use setting a goal you have no connection with. For example, climbing the corporate ladder or buying a home, common goals for many of us, don't resonate with everyone – if they don't, you're unlikely to strive to achieve them.

Instead, hone in on what truly matters to you and how you want to feel. If you have visions of a relaxed retirement, financial freedom at the end of your working life will motivate you. Or perhaps that entrepreneurial spirit wants to be set free to start your own venture. Whatever it is, ensure your goals align with your vision and focus on the outcome.

### Animated

Whether you're naturally a visual thinker or not, by animating your goal you are picturing exactly what it will look like. By visualising your goal, you're making it real and building a deeper emotional connection to it.

If you want to grow your business, visualise customers walking in the door or travelling to a new destination to set up a new office. If you want to change careers, see yourself in that field, talking to your new co-workers and learning the skills you will need. This image will provide ongoing motivation and drive to achieve your outcome.

### Required

This element reduces the risk of procrastination, as you'll be clearer around why you need to meet this goal. For instance, you might set a goal around doing further training, setting specific courses to complete in the year, in order to progress your career.

You can explore what is required to achieve your goal by considering if it would happen should you not meet it. For example, if you plan on running a marathon, clearly a running schedule and fitness regime is necessary in order to meet your ultimate goal.

### Difficult

Just as the name suggests, HARD goals aren't meant to be easy – and you'll get greater satisfaction meeting difficult goals. Identify what it is you want to do but are hesitant about in case you fail, or perhaps even if you succeed!

While you don't want to create goals so difficult they'll be impossible to reach, you want them to be a challenge and of great importance to you. Perhaps it will be learning a new language, when you're not much of a linguist, in order to apply for that job overseas, or to work your way to the top position in your company by taking on more responsibilities.

At the basis of all goals is a desire for change. Picture the future you want and then work steadily towards it.

*As many goals are financial, get in touch if you need support with your finances or for advice on how to make these goals possible.*

i https://www.researchgate.net/publication/232822271_Emotions_and_goals_Assessing_relations_between_values_and_emotions

ii https://www.leadershipiq.com/blogs/leadershipiq/35353793-are-smart-goals-dumb

# Life cover:
## More essential than ever

Living through COVID-19 has brought many challenges and shifting priorities as we deal with the financial impacts of the pandemic, and that includes the issue of life insurance.

On the one hand, the pandemic has highlighted the importance of life cover. On the other, those who may have lost a job or lost income are questioning its necessity.

Many Australians continue to view life insurance as a discretionary item. This is in stark contrast to car or home insurance which are seen as necessities. It seems we are willing to insure our property but not the thing that matters most – our life and our ability to earn an income.

### Conflicting priorities

A survey by KPMG found that only 35 per cent of Australians thought life insurance was essential and just 30 per cent believed they needed income protection.[i] But when it comes to car insurance, 79 per cent viewed cover as essential and yet, during COVID-19, car usage reduced as many were working from home and restricting their movements.

As the COVID-19 health crisis has reinforced our vulnerability in terms of health and the fragility of life, the need for life and income protection insurance has probably never been greater.

What would happen if you became too sick to return to work or if you passed away? Who would pay the mortgage, living costs, health insurance and utility bills for you or the family you left behind? For those with outstanding debt and dependants, life insurance will always be an important consideration.

It should also be remembered that the current health crisis does not rule out people getting sick with other illnesses, some linked to COVID-19 and some not. Mental health is one these health issues and is becoming increasingly prevalent.

### Claims on the rise

In the June quarter, the life insurance industry reported a net after-tax loss of $179 million on its individual income protection products, driven largely by claims for mental health issues in the wake of COVID-19.[ii] Mental health claims are expected to grow even further as it is thought most people take more than a year to report such issues.

With claims on the uptick, this has meant the insurance industry is either looking to increase premiums or already has. This, in turn, may discourage people from keeping their cover.

Indeed, the KPMG survey said that 38 per cent of policy holders were looking to cancel their income protection insurance in the next 12 months, and 25 per cent were planning to drop life cover.

On the plus side, many Australians have some level of life and income protection insurance in their super. However, if you were to lose your job, then paying premiums on your insurance in super would come out of your fund balance, reducing your retirement savings over time.

Also, your insurance might well cease when you lose your job unless you opt to take out a private policy. You generally have 60 days to take up this option.

### Redundancy payments

If your income protection insurance is outside super, then be mindful that not all policies include redundancy claims. And those that do may have restrictions. For instance, there is usually a wait period of up to 28 days before any payments will be made.

If you are thinking of taking out a policy now to cover you in case of redundancy given the current economic environment, then you will probably have to go through a six-month no-claim period before you can benefit. During that six-month period, there must be no indication from your employer that redundancy may be on the cards.

Many insurance companies recognise the financial and personal difficulties many people currently face and some have offered to reduce or even suspend premiums without any loss of continuity to your policy.

One alternative may be to look at reducing the cover you have so that your premiums reduce. But it's important to be mindful of your needs and ensure you have adequate cover.

### The road ahead

The insurance industry, like many others, is being forced to look at a different way of doing business in a post-COVID-19 world, with simpler policies and flat premiums all being discussed.

In the meantime, making quick decisions on whether you still need insurance, or your current level of insurance, may prove a mistake. If you are thinking about altering your cover, give us a call first to discuss your insurance needs.

i https://assets.kpmg/content/dam/kpmg/au/pdf/2020/covid-19-call-to-action-insurance-wealth-sector.pdf

ii https://www.fsc.org.au/news/income-protection