Prepare for Life

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ARE AUSTRALIANS HAVING A PERSONAL DEBT CRISIS?

By Peter Kelly - Superannuation, SMSF and Retirement Planning Specialist, Centrepoint Alliance

Credit seems to be everywhere.

Visit the local shopping centre and we will be enticed by interest-free terms on a new lounge, bed, TV, or white goods. More and more shops are offering access to 'Afterpay', and of course, credit cards are accepted everywhere.

On top of that, motor vehicle dealerships are offering very favourable finance allowing us to hop into the latest car, SUV, or more likely - the dual cab ute costing $50,000 or more.

But is this a good, or a bad thing?

Australians have amongst the highest personal debt in the world. Around $2 trillion spread over mortgages for owner-occupied dwellings (56.3%), investment debt, including property (36.5%), consumer credit, car loans and the like (3.1%), student loans (2.1%), and credit cards (1.9%).

Let's put some perspective around the numbers.

According to the ABC (July 2018), Australians have $45 billion in credit card debt.

A $2,000 credit card debt will take 17 years to repay if only making the minimum monthly payments!

One in six Australians is struggling to dig their way out of the debt trap. As at June 2017, ASIC found that almost 550,000 Australian credit card holders are in arrears, an additional 930,000 have persistent debt, and 435,000 are repaying only small amounts.

Have we got something wrong in the mix?

If we are interested in casting off the shackles of debt for once and for all, there is a way. It will require discipline, and, for a time, life will be tough. It will mean going without.

But in the end, there will be a sense of relief and freedom as the debts are cleared and money can be saved for more exciting pursuits, or for accelerating home mortgage payments.

The internet offers lots of good information for getting out of debt and living a debt-free life. YouTube has heaps of coverage on the topic. Debt-free living is a new subculture.

In the meantime, let me share some steps for getting out of debt:

- If you are a couple, you both need to commit.
- Cut up all the credit cards.
- Agree to only buy things using cash or a debit card.
- List all your debts, including the outstanding balance and minimum monthly payments. Don't forget debts to family members.
- Put in place a strict budget with only minimal discretionary spending.
- Make minimum payments on each debt and apply all additional income to one debt - start with the one with the lowest balance.
- Once one debt is cleared, start on the next one - and so on until all debts are repaid.

There are many variations to the theme, however, the starting point is admitting there is a problem that needs to be addressed and agreeing to take serious steps to get out and stay out of debt.

If you need help, seek advice from a financial planner or call the National Debt Helpline on 1800 007 007.

> *"If you do not have great money management capabilities, ensure you only use cash or a debit card. This will ensure you don't overspend or accumulate debt on a credit card."*

TEN YEARS, TWENTY HEADLINES

By Jim Parker, Vice President, Dimensional Funds Advisor.

Have you read the news today? Chances are there's something happening in the world with the potential to keep you awake at night. But while it's one thing to follow the news, it's another to act on it in a way that can backfire on you as an investor.

Journalists define news as to what's novel, startling, eye-catching, unusual or conversation-starting. Media companies use the news to maximise attention and help their clients, the advertisers, to sell their products and services to you.

While news coverage also unquestionably plays a civic function, much of what is given prominence in the media day-to-day is consciously workshopped by editors to trigger an emotional reaction and build engagement.

For long-term investors, this presents a challenge. How do you differentiate between genuinely important, far-reaching and reliable information on the one hand, and cynically chosen clickbait and inconsequential beat-ups on the other? Put another way, how do you tell the difference between signal and noise?

One approach is to look at past headlines in a historical context and ask yourself how you would have fared if you had acted on those in your own portfolio.

The following 20 headlines are drawn at random from a Google search from the past ten years, starting with the global financial crisis in 2008. Notice how many of them use dramatic, emotively-loaded adjectives and how many are purely speculative.

1. 'Stocks Plunge Worldwide on Fears of Recession', 23 January 2008; NY Times

2. 'Markets Braced for More Economic Turmoil', 6 October 2008; Telegraph UK

3. 'WHO Declares Swine Flu Pandemic', 11 June 2009; BBC News

4. 'Asian Economic Outlook "Bleak"', 30 March 2009; CNN

5. 'Housing Market a "Time Bomb"', 15 June 2010; The Australian

6. 'Stock Markets Face "Bloodbath"', 26 August 2010; Telegraph UK

7. 'Europe's Money Markets Freeze as Crisis Escalates', 2 August 2011; Reuters

8. 'Europe's Debt Crisis Puts Australia at Risk', 10 November 2011; news.com.au

9. 'Australia Faces Growing Risk of Recession', 21 August 2012; The Australian

10. 'Bloodbath to Hit Australian Real Estate', 19 January 2012; news.com.au

11. 'Australia May Be on the Brink of a New Collapse' 18 August 2013; Guardian

12. 'For Stocks, Last Six Months Could be Tough to Match', 1 July 2013; CNBC

13. 'Are We Facing Another Financial Crisis?', 18 November 2014; The Conversation

14. 'Australia on Road to Recession as Car Industry Closes', 11 February 2014; SMH

15. 'Australia Faces 50% Chance of Recession By 2017', 25 March 2015; SMH

16. 'Why China's Stock Market Meltdown Could Hurt Us All', 8 July 2015; Time

17. 'RBS Cries "Sell Everything" as Crisis Nears', 11 January 2016; Telegraph UK

18. 'Brexit to Bring Recession and Contagion', 27 June 2016; Business Insider

19. 'A Trump Win Would Sink Stocks', 24 October 2016; CNN

20. 'Storm that May Cause the Next Crash is Brewing', 16 October 2017; The Street

> “It’s important to base decisions on good advice and guidance that you can trust.”

To be fair, many of those headlines accurately reflected concerns in some corners of the market at the time they were written. For instance, swine flu may have turned into a global pandemic. The Euro Zone crisis of 2011 and 2012 generated real fears of a break-up of the single currency zone.

But we need to put these into events into a wider context. Here are six observations:

1 Understand how markets work.

Breaking news is quickly built into prices. Often by the time you read about an event, the markets are worrying about something else. (To illustrate this danger, look at global shares over this ten year period. In 2008, the MSCI World Index delivered a negative return of just over 25%. But it rose in seven of the next nine years to deliver an annualised positive return for the decade of just under 7%.)

2 Understand how the media works.

Competition for eyeballs has intensified in recent years as online news and mobile devices have put real-time information on tap for everybody. With the facts already known, news coverage increasingly becomes dominated by speculation and opinion.

3 Ponder on the motivations of journalists and instant pundits.

Noise is their currency. What’s important in their world is not so much what is happening, but that there is always something happening. Otherwise, they feel like the fire brigade without a fire to put out.

4 Accept what you can and can’t control.

News can be diverting and interesting, it’s true. And there’s nothing wrong with taking an active interest in world events. But as long-term investors, acting on news that is already priced into markets can be counterproductive. The risk is something else then happens and all you’ve achieved is to realise a loss.

5 Focus on what you can control.

Like how your assets are allocated across and within shares, bonds, property and cash, the degree of diversification in your portfolio, what you pay in costs and taxes and the regular rebalancing of your portfolio.

6 Use a financial adviser.

All of this is easier if you have a financial adviser who can keep you disciplined and true to your original intentions. Because they know you, understand your risk appetite and are aware of your goals, the story always starts with you and not with what’s in the headlines.

None of this is to downplay the tragedy of real events or to deny the magnitude of whatever is happening in the world but taking a human interest in global affairs and looking after your own welfare need not be incompatible concepts.

PENSIONER OR SENIORS CONCESSION CARD?

By Mark Teale - Retirement Strategies and Solutions Specialist, Centrepoint Alliance

Depending on where you reside in Australia, there is a wide variety of cards and concessions on offer to people over the age of 60 or 65.

But working out what card is right for you can cause a degree of confusion - do I automatically become entitled to a Seniors Card when I retire and if so which one? How do I get a Pensioner Concession Card? If I lose entitlement to my pension can I still retain my Pensioner Concession Card?

These are all very common questions so let me try to explain.

If you are over the age of 65, you may find that you have an entitlement to at least one of the following cards;

- Pensioner Concession Card
- Commonwealth Seniors Health Card
- Seniors Card
- Gold Card: 'DVA Health Card - for all conditions'

So, what is the value?

Pensioner Concession Card

The first requirement to obtain this card is an entitlement to an age pension.

A Pensioner Concession Card entitles you to reduced prescription costs of $6.40 under the Pharmaceutical Benefits Scheme (PBS). There is also a $384 PBS Safety Net Threshold. In other words, if you need to fill more than 60 prescriptions in a year, the 61st will be free.

You may also be entitled to various other discounts or concessions from the Australian Government.

These could include:

- Bulk billing for doctor's appointments
- Refunds for medical expenses through the Medicare Safety Net
- Assistance with hearing services through the Department of Health
- Discounts for mail redirection through Australia Post

Commonwealth Seniors Health Card

Your Commonwealth Seniors Health Card provides similar discounts to the Pensioner Concession Card on PBS prescription medicines. You may also get a discount or concession on:

- Bulk billing for doctor's appointments and medical expenses, at the discretion of the doctor
- Fee reductions on medical expenses through the Medicare Safety Net
- Considerably reduced health, household, transport and education expenses

Note: Various states or territory governments and local councils may, in some instances, provide concessions at their own discretion and the availability of these concessions may vary between states and territories.

Seniors Card

Each state and territory have a Seniors Card scheme and some reciprocal arrangements are in place for using your card in other states. It is a free card, providing transport concessions and participating business discounts on a range of goods and services.

To be eligible, you must be a resident of the state (the age qualification varies between states - in some, it is 60 years and over, in others, it is 65 years and over) and not be working more than a set numbers of hours per week in paid employment.

The concessions again vary between state and territory governments, and local councils but may include:

- Reductions on property and water rates
- Reductions on energy bills
- Reduced fares on public transport
- Reductions on motor vehicle registration
- Free rail journeys

In some cases, you can receive the discounts by just holding the Seniors Card however in some states you need to also hold the Pensioner Concession Card to be eligible for reductions on goods and services.

Gold Card: 'DVA Health Card - for all conditions'

The Rolls Royce of concession cards from a health and transport point of view (and rightly so) is the card issued by the Department of Veteran Affairs to ex-Veterans who suffer from health issues as a result of their war service.

A Gold Card entitles the holder to DVA funding for services for all clinically necessary health care needs, and all health conditions, whether they are related to war service or not. The cardholder may be a veteran or the widow/widower or dependent of a veteran.

So, how do you know which card is right for you? It depends on where you live, your health, transport requirements, whether you own your own home or rent, are a self-funded retiree or an age pensioner or in some cases, whether you own a boat and fish, or you don't. Everyone will be different!

The following link can provide an overview of the concessions available in each state and territory – http://www.australia.gov.au/content/seniors-card or talk to your financial planner.

NEWS UPDATE

Willpower, harness it and you'll achieve happiness.

I recently came across a book named Willpower by Prof. Roy F. Baumeister which outlines why people struggle with dieting, how some people with low IQs land better jobs than their more intelligent counterparts and most intriguing how smart and successful people contribute to their own problems.

Willpower is intimately tied to our brain chemistry and used as mental fortitude to pursue our goals.

Willpower has been studied by scientists and they know its strengths, limitations and link to glucose. People with hypoglycaemia, i.e., low blood sugar, are more likely to have difficulties controlling negative emotions or concentrating.

We have a limited "supply" of willpower to use in our day-to-day – from choosing broccoli over cookies to being nice to our in-laws. Any of these tasks can contribute to willpower depletion.

We tend to make worse decisions when we suffer from mental fatigue. This plays out daily, when people come home exhausted from work which leaves them vulnerable to marketers who know to time their sales.

This may explain why people in demanding positions e.g. politicians, professional, business people etc. are likely to experience decision fatigue and seem to more easily succumb to temptations.

Good news is that with a healthy diet and ideal glucose levels willpower is like a muscle that can be trained. You can use your willpower to create good habits.

Understanding this means we can take more effective control of our lives. Call us today to obtain a copy of this book.

Best wishes Michael Kakaras

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