Money Matters

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Life insurance - in whose hands?

It pays to have a trusted partner in times of need

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SHERLOCK WEALTH

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We hope you enjoy our latest edition of Money Matters.

Please contact our office if you would like to discuss anything in this edition.

The team at Sherlock Wealth

LIFE INSURANCE – IN WHOSE HANDS?

Life insurance protects our loved ones in their time of need but research suggests it takes a trusted partner to cover all bases.

Life insurance is a product people buy but hope never to use – and yet it might be the most important asset they ever own.

It's crucial to protect families and dependents if the worst should happen. Data suggests trusted financial advisers can also play a central role in easing the burden, not only now but if a claim ever has to be made.

The corporate regulator recently examined 15 insurers covering more than 90 per cent of the life insurance market including term life cover, total and permanent disablement (TPD), trauma, and income protection.

It found insurance claims were declined the least when an adviser was involved (7% of claims), followed by group insurance through superannuation (8%) and non-advised channels (12%), such as direct insurance sales via the internet.

While life insurance via super and direct channels may appear superficially cost-effective, the true cost may be borne later due to a greater risk of getting the wrong type or level of insurance coverage. That can result in additional distress for families already dealing with the loss, injury or permenant disablement of a loved one.

The Insurance in Superannuation Working Group, comprised of major super funds, recently warned that premiums can have a significant effect on members' balances. Younger Australians without dependents may be over-insured, meaning higher premium costs are eating into their super and eroding investment gains and growth.

The Federal Government has since proposed legislation to make it easier for consumers to opt-out of automatic life and disability insurance policies within their super accounts.

ClearView Managing Director Simon Swanson says there are important reasons why a higher percentage of policies sold through advisers are paid.

"At claim time, retail clients are supported by their adviser to get their claim paid promptly in full (unlike many group policyholders who are forced to deal with call centre staff alone).

"Furthermore, retail clients typically undergo more rigorous underwriting, including medical examinations, to secure cover. It may seem

troublesome but it delivers greater certainty and ultimately value. It ensures the insurer fully understands the risk they're taking on, and aren't surprised at claim time."

The advice industry is also working hard to continually lift standards around life insurance. A new life insurance code of practice came into force this financial year which promotes high standards of service to consumers, introduces a benchmark of consistency, and establishes a framework for professional behaviour and responsibilities.

Financial advisers are increasingly voting with their feet when it comes to the services and value that life insurers offer. More advisers than ever before are switching insurance providers, with 47% changing in the last year^.

ClearView was recently recognised by Investment Trends as the life insurer with the highest adviser satisfaction ranking in the industry. *

To find out about industry-leading life insurance to protect the ones you love, contact our office today to speak with a financial adviser.

^ The Investment Trends 2017 Planner Risk Report.

Getting over underinsurance

The median level of life insurance in Australia would cover less than two-thirds (61%) of their basic needs, according to Rice Warner research.

Sadly, the consequences are only exposed when it's too late to fix.

It is known as underinsurance: the gap between the level of insurance needed and the level of insurance cover in place.

"Underinsurance not only leaves Australian families exposed to economic risk, it also places significant pressure on the government and taxpayers," Federal Minister Josh Frydenberg told the Financial Services Council (FSC) conference in 2015.

The FSC estimates that it costs the government – and taxpayers – almost $2 billion a year through higher welfare payouts to those who have inadequate or no insurance.

However, the situation is slowly changing.

The life underinsurance gap over the decade to 2015 had narrowed, particularly for low-income earners, according to Rice Warner.

Nonetheless, the actuary's research suggests that not only is the median level of life cover inadequate, but that it only provides 37% of the income replacement level (the amount of money required to replace net income and maintain current living standards until age 65). Median levels of total and permanent disability (TPD) cover and income-protection cover are even lower.

High quality advice is crucial to adequately assessing how much life insurance is appropriate for each individual and family depending on their liabilities, goals, risk appetite and lifestyle.

The rising risk of running the Bank of Mum and Dad

As property prices surge higher, growing numbers of Australians are giving their kids a helping hand to buy their first home. But at what cost?

Every generation wants a better life for their children. With property prices increasingly beyond reach of the average first home buyer, the Bank of Mum and Dad is playing a bigger role than ever before.

When it comes to funding property, parents are right up there with the big banks.

Parents lent a total of $65.3 billion to help their kids get into the property market, according to financial comparison site Mozo. That makes them the fifth biggest lender in the country, ahead of major institutions like ING and Macquarie.

Their generosity often goes unrewarded. Amazingly, two-thirds of parents who contribute to a home deposit don't expect repayment.

> "First home buyer households who received help are also more likely to experience cash flow problems in the form of not being able to pay their utility bills or meet their mortgage repayments due to a shortage of money."

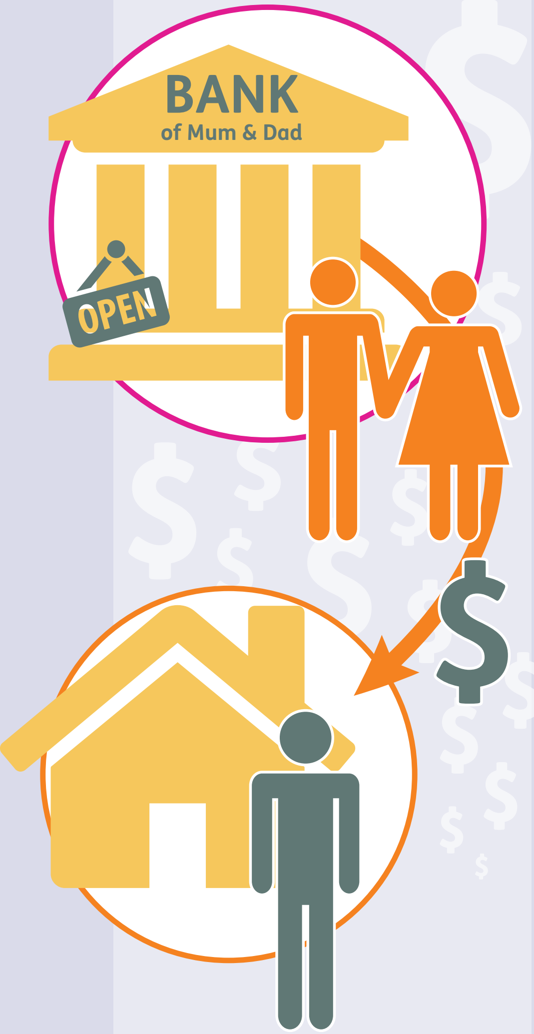
Changing the face of retirement

Making sacrifices goes hand in hand with parenting. But there's a big difference between sleepless nights soothing babies or waiting for teens to come home and having a disappointing retirement after decades of work.

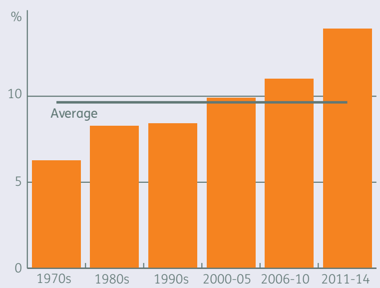
Are generous Australian parents being generous to a fault?

One-third of people who helped adult family members financially have needed to make cutbacks to do so, according to a recent survey. For some, that means delaying retirement. For many more, it means entering retirement while still paying off their own home.

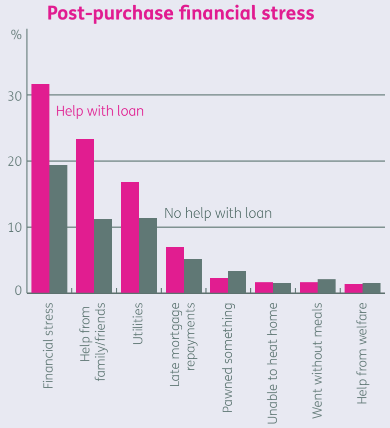
Meanwhile, just under half (46%) of working Australians aged 50 and



FHBs who received help with loan



Post-purchase financial stress



above expect to be in debt when they retire.

The single most common use of lump sum superannuation payments is to pay for their home, according to the Productivity Commission. That includes repaying mortgages, paying for home improvements or buying a new home. People who don't own their home outright at retirement are significantly more likely to withdraw a large proportion of their super as a lump sum.

A double-edged sword

Helping adult children to get a foot on the property ladder can not only put your own retirement at risk, but it can also lead to surprising problems for the beneficiaries of those funds.

"First home buyer households who received help are also more likely to experience cash flow problems in the form of not being able to pay their utility bills or meet their mortgage repayments due to a shortage of money," according to John Simon and Tahlee Stone, writing in a recent Reserve Bank of Australia research discussion paper which tackled the issue.

While most people are not yet falling behind on their mortgage repayments, the warning signs are present with interest rates at record lows and household debt at record highs.

Australians' personal debt has now climbed to 190% of annual disposable income, according to the RBA.

That makes us some of the most heavily indebted people in the world. Only Switzerland has a higher proportion of household debt compared to its gross domestic product (GDP). It makes people vulnerable to even small increases in interest rates, and is a concern for central banks both at home and abroad.

But while it may be increasingly difficult to save for a home deposit given soaring property prices, RBA researchers found that higher deposit requirements filter out less financially secure households from home ownership.

"Our findings... suggest that more savings accumulated by the household themselves, rather than just the existence of savings however accumulated, is better."

Perhaps it's true that the greatest gift we can give our children is encouraging their independence.

Making it work

It's not for everybody, but intergenerational wealth planning – or just helping each other out – can be a success. Family members who are better off, with accumulated funds and relatively low commitments, can help their children or parents reduce reliance on banks or government.

Trust, transparency, and reciprocity all help to make it work.

The bank of mum and dad is often the ultimate in low-doc loans. Frequently, there's nothing put in writing at all. And if finances – or relationships – take a turn for the worse, that can create a serious exposure.

It's a wise move to put everything in writing, unless there's total certainty that financial assistance is given as a gift with no strings attached. Feeling awkward about putting agreements in place might be a sign of deeper discomfort. It's much easier to address that upfront, rather than running the risk of strained relationships down the track.

Proper planning is also essential. Setting clear financial goals well in advance, like being able to afford to help family members, improves your likelihood of achieving them. *

To build a financial plan that will help you reach your personal goals – whatever they may be – contact our office today to speak with a financial adviser.

Healthy body, healthy mind: fighting dementia

To make a success of old age, you've got to start young.

But the passing of time also brings challenges: more than 413,000 Australians are currently living with dementia and that figure is expected to climb to more than 1.1 million by 2056, according to Alzheimer's Australia.

"The biggest risk factor for developing dementia is older age and, because we are living longer, we're seeing more people developing it," says Dr Maree Farrow, a senior academic at the University of Tasmania's Wicking Dementia Research & Education Centre.

Dementia is the single greatest cause of disability in Australians over the age of 65 years but this major health issue also has a side-effect.

It is putting many older Australians at greater risk of poor financial decision-making, fraud and abuse at a time when they should be enjoying retirement.

Most people's financial decision-making abilities peak in their early 50s and cognitive declines can lead to costly errors over time, according to one study. Another study of older trustees of self-managed superannuation funds suggests people may have greater difficulty recognising cognitive declines compared to behavioural declines.

However, Farrow says it's something of a myth that we're all destined to suffer cognitive decline as we age and there are a range of strategies to combat the effects of the diseases that cause dementia.

"There's no reason to expect that you're inevitably going to not be able to remember things or be any worse than you were in your 30s," she says. "But there's also the luck of the draw – you don't know if you'll be afflicted with the disease."

There are more than 100 different forms of dementia, which affect thinking, behaviour and the ability to perform everyday tasks. However, the four most common types are Alzheimer's, vascular, frontotemporal and Lewy body disease.

While medical research has yet to find a cure, there are three key ways to help delay the onset of dementia: stimulate your mind, keep physically fit, and maintain a healthy heart. All three strategies work to keep the brain healthy.

"Keeping your brain active doing mentally stimulating activities is important but what people are not so aware of is the health of your body affects the health of your brain," she says.

Maintaining a keen interest in financial wellbeing, guided by your financial adviser, can be one of those activities. Only about one-third of investors currently have a financial plan in place to specifically tackle declining decision-making abilities, according to a State Street Global Advisors' survey.

"We also now tell people that what's good for the heart is good for the brain," Farrow says. "If you've got high blood pressure, high cholesterol, diabetes or other vascular risk factors, managing those really well can help reduce your risk of dementia."

A healthy diet is important but there's no magic food that can cure or prevent dementia.

"I'd love to be able to say eat as much chocolate as you like and you won't get dementia but I can't do that."

*Dr Maree Farrow runs the University of Tasmania's free online course Preventing Dementia MOOC, which will be offered in 2018. Express your interest at **mooc.utas.edu.au/courses/preventing-dementia-2018**.* ✱

COUNTING THE COST OF COUNTING SHEEP

As we get older, we have more time on our hands but tend to spend less of it asleep. What's keeping us awake, and what can we do about it?

The relentless pace of modern life makes time the ultimate luxury. Freedom to sleep-in is an indulgence few of us can afford. So, it's a cruel irony that as we enter retirement and have more time to enjoy, sleep often eludes us.

More sleep? You must be dreaming!

Think we need less sleep later in life? It's a common misconception. But older adults need the same amount of sleep as their younger counterparts. On average, seven to eight hours' sleep a night, although that varies between individuals.

What does change is how we sleep. Our body clocks adjust over time making it common to fall asleep and to wake up at earlier hours. Sleep is also often lighter.

Insomnia and other sleep disorders also increase as we age. The average incidence of these conditions is more than double in Australians 60 years and over than in adults between 20 and 59 years old, according to data provided by the Sleep Health Foundation and Deloitte Access Economics.

But sleep disorders aren't the only reason we're not dropping off. Other health and lifestyle issues are an even greater problem.

Sleep can be a costly business

Four out of every 10 Australians aren't getting enough sleep, according to the research.

Those sleepless nights cost a lot more than a few frayed tempers and late arrivals. They add up to the staggering sum of $66.3 billion every year. For perspective, that's more than the federal government's annual budget for education and defence.

Our health pays the price, too.

Inadequate sleep causes both our physical and mental wellbeing to suffer. It contributes to heart disease, stroke and diabetes. The risks of depression, anxiety and obesity increase. It even weakens the immune system.

Fatigue impairs concentration and thinking, making us more likely to be involved in accidents at work and on the road. Productivity drops and more mistakes are made.

Don't shut your eyes to the problem

Lack of sleep can result from, and contribute to, other health conditions. That can create a vicious cycle. Seeking medical advice is important to properly distinguish between symptoms and causes – and to treat any underlying issues.

If you're tired of waking up tired, these tips can help you fall – and stay – asleep:

Turn off the TV and put down the iPad and the phone

Blue light from screens combined with mental overstimulation has been proven to make it harder to doze off.

Make a wise investment

An uncomfortable mattress is a false economy when you spend over 28 years of your life in bed. Ear plugs and an eye mask can also help reduce background distractions.

Steer clear of sleeping pills

Medication is rarely a long-term solution with treatment generally focusing on treating the root cause, whether physical, psychological or both.

Move your body and calm your mind

Exercise earlier in the day, along with cutting back on caffeine and alcohol in the later afternoon and evening, help stop you feeling too wired to sleep. ✱

If worries about money are keeping you awake, contact our office to speak with a financial adviser.

Investment markets stable after strong run

Most major investment markets opened the new financial year in solid fashion as global economic growth continues to pick up pace.

It follows a strong 2016-17 when Australian and global equities both surged more than 14% despite ongoing geopolitical uncertainty, which has recently centred on deteriorating US-North Korea relations.

Nonetheless, the outlook for most major economies continues to improve as the scars of the global financial crisis a decade ago heal. The US Federal Reserve has raised its key interest rate three times since last December in response to stronger economic growth, although President Trump's tax reforms and fiscal stimulus plans remain in doubt.

European business and consumer sectors continue to improve and support the European Central Bank's plans to reduce its monetary stimulus program over the next few years. The economic outlook for Australia's largest trading partner, China, also remains positive with annual GDP growth just under 7% despite some debt concerns.

The Australian economy has shown mixed signs with business confidence high but consumers, weighed down by record household debt, are less positive. The Reserve Bank of Australia has held official interest rates at a record low of 1.5% for more than a year, keeping term deposits and bond returns anaemic.

Australian shares have been steady in the first few months of the new financial year as reflecting some uncertainty about the pace of economic growth and corporate earnings. However, the Australian dollar has strengthened, largely in response to a weaker US dollar, which has been dragged down by geopolitical tensions and domestic policy uncertainty. *

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