July 2018

July is here along with freezing temperatures and good snowfalls in the south and east of the country. Meanwhile, temperatures are sizzling in Russia for the football World Cup where the finals are looming, although not for the Socceroos who are headed home.

As the financial year ended, Australian investors had reason to be optimistic despite ongoing global tensions. Our economy grew 1 per cent in the March quarter, lifting the annual growth rate from 2.4 to 3.1 per cent, marking 27 consecutive years of growth. Unemployment eased from 5.6 per cent to 5.4 per cent in May while inflation is a benign 1.9 per cent. The cash rate remains at a record low of 1.5 per cent while the 10-year government bond yield finished the year little changed at around 2.6 per cent.

The Australian dollar fell below US74c, down from its January high of US81c, due largely to the stronger US dollar. This helped push Australian shares to 10-year highs in June, with annual total returns from share prices and dividends up 14 per cent. Commodity prices are also broadly higher for the year, with Brent Crude oil up 63 per cent to US$77 a barrel and iron ore firming 8 per cent to US$67 a tonne.

Despite modest annual wage growth of 2.1 per cent, rising petrol prices and falling home prices, consumers remain positive. The ANZ/Roy Morgan consumer confidence rating was up 6 per cent over the year to 121.4 in late June. The CoreLogic Home Value Index fell 1.1 per cent in the year to June, with Hobart, Adelaide and Brisbane the only capital cities posting gains in May.

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A little adrenaline *can be a good thing*

We all know what it feels like to be stressed. For most of us, it is a hallmark of our daily lives. While the word has very negative connotations, stress can actually drive us forward. That surge of adrenaline we get when tackling something out of our comfort zone helps us to achieve our goals. The challenge is managing stress so that it helps rather than hinders us.

In our lives we move between brief periods of 'fight or flight' and longer periods of 'rest and digest'. These are governed by the levels of cortisol and adrenaline in our system, and all sorts of things can trigger them. Obviously, these days we are very rarely in mortal peril, so more often than not stress is triggered by simpler things in our lives; our job, our relationships, and our ability to achieve our goals.

What is good stress?

Known as eustress by psychologists, good stress gets us off the couch and helps us get things done. It is a driving force in our life: that feeling of getting excited by a new challenge, a scary ride, or the burgeoning phase of a new relationship. By definition eustress comes in waves, meaning you will have brief periods of it followed by a sense of accomplishment and relaxation. These brief periods of stress have been found to be beneficial to our health in that they can improve cognitive function and protect us from some effects of aging.[i]

It is when stress moves from being acute and short term to chronic and longer term that it becomes harmful to our health and well-being.

When good stress turns bad

Bad stress develops when we have no breaks from the stress in our lives. Rather than motivating you, this type of chronic stress can leave you depressive and unable to cope with the problems in your life. If we do not have adequate lengths of 'rest and digest', the resulting excess of cortisol in our system and depleted adrenals can leave us at risk of longer term health problems such as high blood pressure, insomnia, cardiac arrest, diabetes and depression.

Is there such thing as too little stress?

Indeed there is. People without a heathy level of stress in their lives can end up feeling unmotivated, directionless and passive. We all need a bit of excitement in our lives to feel like life has meaning, and a dearth of healthy stress can lead us into a rut.

So how do we maintain a healthy level?

Given that our adrenal systems that respond to stress are built to handle a sprint, not a marathon, it's important that we relax and recharge in between stressful events.

A common cause of long term stress is a perceived disconnect between a situation and our resources to deal with it. Often if we are in periods of distress it might mean some of our circumstances need to change. If you're under the pump at work, you may need time off or a distraction in the form of a hobby.

Changing the way we perceive the obstacles in our lives is also an important step towards maintaining a healthy amount of stress. Instead of seeing obstacles as insurmountable, reframe them as short term challenges to be overcome, and equip yourself with the tools to do this.

Another tool that has been proven to combat stress is mindfulness, as when we are faced with only our immediate concerns we are able to function in a rational and calm manner. When we live in dread of future outcomes or regretting past mistakes eustress becomes distress.

Moving forward

We shouldn't be afraid of stress. In short bursts it helps us to get things done and realise our dreams. We need to find ways to manage and get respite from constant, unrelenting stress. These tools are harder to put in place once you are already in a place of extreme anxiety, so why not start thinking about it today? It might just make a huge difference to your long term wellbeing.

i https://www.newscientist.com/article/dn23440-stress-has-unexpected-health-benefits--sometimes/#.UdyzY79zbml

Super & inheritance: *making your wishes known*

People often think their superannuation will be treated as part of their estate when they die and distributed according to their Will, but that's not the case. Unless you have nominated your beneficiaries, the decision as to who receives your super is in the hands of the trustees of your fund.

When that happens, the trustees normally direct all funds to your dependants – your spouse, your children, financial dependents and people with whom you had an 'interdependency relationship' such as living together.

But wouldn't it be better to nominate exactly who you want to inherit your super death benefits? (Death benefits is the term for all of the money in your super account plus any life insurance.) You can generally nominate beneficiaries with either a binding or a non-binding nomination, although some super funds only provide a member with the ability to make non-binding nominations.

Make your wishes binding

For binding nominations, the trustees have to carry out your wishes, provided you have nominated eligible recipients. If a nomination is non-binding, it tells the trustee how you would like your benefits distributed, but leaves the ultimate discretion with the trustee, taking into consideration your circumstance and relationships at the date of death.

Under super law, death benefits can only be left to a dependent or your personal legal representative (the executor of your Will), in which case it will pass into your estate for distribution according to the terms of your Will.

It's important to note that a binding nomination generally only has a limited life. Every three years you need to advise your super fund in writing of your nominated beneficiaries or it becomes invalid.

If you have not nominated a beneficiary and have not yet organised a Will, then your super will be distributed according to a state-based formula which may not reflect your intentions.

Consider taxation

It's also important to take tax into account when nominating beneficiaries. If your spouse is alive then it is likely your death benefits will go to your partner as a lump sum and/or an income stream referred to as a reversionary pension. There is no tax liability if it's paid as a lump sum unless both you and your spouse are aged under 60 when you die. Also, the maximum your spouse can have in their pension account is $1.6 million. So there are considerations if the death benefit pension causes your spouse to exceed this income.

If your spouse predeceases you then the benefit will be divided between other dependants. Be aware though that there's a difference in the definition of dependants under super and tax law.

Under super law, a child of any age may receive your death benefit, but under tax law if they are aged over 18 and not financially dependent on you, they will be subject to 17 per cent taxation on the taxable component of the sum they receive. For this reason, your adult children may be better off receiving the money through your estate as they will only pay 15 per cent tax, saving the 2 per cent Medicare levy.

Non-dependent adult children cannot receive a reversionary pension; instead they must take a lump sum.

If you are legally divorced, then your ex-spouse is no longer deemed a dependant under super law. However, if you still want to leave your super to your ex-spouse it must go to your estate and be paid from there. Interestingly, your ex-spouse will receive the money tax free.

Self-managed funds

For those with a self-managed super fund, you can use a clause in the fund's trust deed to either nominate a valid dependent who will receive the benefit or else have the money paid to your legal representative who will pay the money into the estate.

Making sure your hard-earned money is distributed according to your wishes is not an onerous task, but it is an important one. Not nominating a beneficiary, or nominating someone who is not eligible to receive your super, can lead to lengthy delays and emotional upset at what is already a difficult time for your family.

Seeking professional and legal advice can help to ensure that your death super benefits are considered as part of your overall estate planning and that your wishes are carried out.

Weighing up the value of life insurance

It probably comes as no surprise to anyone that there is a significant underinsurance gap between what we would need to maintain our standard of living should the unthinkable happen, and what we are actually covered for in the way of insurance.

Australia is one of the most underinsured nations in the developed world, ranking 16th for life insurance coverage.[i]

There are lots of reasons people give for not buying life insurance, but top of the list is invariably cost. Sounds reasonable enough, especially when households are under pressure from increasing costs of living. But dig a little deeper and it turns out the way we weigh up decisions when outcomes are uncertain is not always in our best interests.

According to something called 'Prospect Theory', people fear a certain loss more than they value a larger but uncertain gain. We tend to view money spent on insurance premiums as a loss, unlike money spent on a daily cup of coffee, a pair of shoes or a weekend away, which deliver immediate rewards.

There's also a disconnect between what we say we value and what we spend our money on.

Thinking about the unthinkable

When asked, most people say the thing they value most is family. Yet when it comes to insurance many of us cover our car and our home but overlook our most important assets – our life, our ability to earn an income and the wellbeing of the people who depend on us.

Thinking about being diagnosed with a terminal disease, suffering a disabling accident or contemplating your own death or that of your partner is uncomfortable. Seeking cover for those possible eventualities is something that is very easy to put off or avoid altogether.

The real value of life insurance is the peace of mind, that if we die or become seriously ill and are unable to work then the right amount of money will go to the right people when they need it most.

Types of life insurance

There are different types of life insurance. Death cover provides a lump sum if you die or are diagnosed with a terminal illness. Total and permanent disability (TPD) pays a lump sum if you are permanently disabled due to an accident or illness and unable to work again. Trauma Insurance (critical illness insurance) pays a lump sum on the diagnosis of one of a list of specific illnesses such as a heart attack, cancer or a stroke. Income protection provides a monthly payment if you can't work due to illness or injury.

The amount of life insurance you need depends on your family circumstances, your income and lifestyle. While many working Australians have default cover in their super fund, that's no cause for complacency. It's often a basic level of cover, which may need to be topped up outside super.

Take Chris, aged 30. He has a partner, two children and the median level of default life insurance cover in super for someone his age. That is, $211,000 in death cover, $162,500 for TPD and $2,250 a month for income protection. According to a recent report by Rice Warner, the amount someone in Chris's position needs is closer to $704,000 of death cover, $910,000 of TPD cover and $4,150 a month of income protection.[ii]

Paying for peace of mind

Paying life insurance premiums won't provide the instant pleasure hit of an espresso, but most people would be surprised to know that the peace of mind that comes from protecting their family's financial security costs less than their daily cup of coffee.

Rice Warner estimates the cost of death cover and TPD cover for the average working Australian at less than 1 per cent of salary, and less than 0.5 per cent for white collar workers.[iii] Which begs the question, what cost do you put on the wellbeing of the people you love most?

If you would like us to help you work out the appropriate level of life insurance for your family, and the best way to achieve it, give us a call.

i Swiss Re Economic Research & Consulting, 2007

ii Underinsurance in Australia 2017, Rice Warner.

iii www.ricewarner.com/rice-warners-affordability-study-how-affordable-is-group-insurance-in-superannuation/