FM FINANCIAL

Helping you make the right financial decisions for both now & the future
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Establishing Wealth 2017

Welcome to a 2017 Establishing Wealth Newsletter - The articles are selected carefully and we hope you find them relevant and informative.

Whether you have bought your first home, started a family or recently got married - the next phase in your financial future is a critical one. Making the right financial decisions now can have a significant effect on your future.
We encourage you to make contact with a Financial Planner at FM and discuss your current life, as well as your goals and plans for the future. The FM team have some great tools that can help ensure your financial future.

For those with family members in this new stage of financial changes - please feel free to share this newsletter, and the contact details of your FM Adviser. We are always ready and willing to help.

Call us on 1300 763 544 or Email info@fmfinancial.com.au with any questions or queries.

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FAST TRACK your home loan

With interest rates on the rise, now is the time to look at ways to fast track your mortgage. After all, the sooner you pay off your mortgage, the less you will pay in interest.

That's probably why nine out of ten Australian mortgage holders told a recent finder.com.au survey that they try to pay back their mortgage ahead of time.[i]

So what are the ways you can fast track your mortgage and minimise your interest payments?

Increase your repayments

The most popular strategy is to make extra payments. Rather than paying your designated monthly repayment, why not pay more? Not only does this reduce your interest charges but if rates should rise you will be able to absorb the increase.

You can also make extra payments if you get a windfall or a bonus at work. But if you have chosen a fixed home loan, you may find you can't make extra payments, so check with your lender.

More frequent payments are also a good strategy. Instead of paying your mortgage off monthly, pay half the monthly amount each fortnight. After all, there are only 12 months in a year, but 26 fortnights, so you effectively end up paying an extra month each year.

Most home loans are structured so you pay mostly interest in the first five to eight years without making any inroads into the principal. If you can manage to pay some principal off too during that period, then you can cut the interest you'll pay on an average 25-year loan.

Consider an offset account

An offset account can also prove useful. With your salary going into your mortgage account, the principal will drop and that means you will pay less interest. For instance, if you had a 100 per cent offset account with $30,000, on a home loan of $400,000, you would see interest only calculated on a balance of $370,000 instead of $400,000.

If you're looking at a honeymoon rate on a new home loan, do your homework and make sure that the rate you pay at the end of the honeymoon period is not substantially higher. If that is the case, it could eliminate any gains you may have made in that first year of lower rates. But be aware that switching to a cheaper loan might incur a high exit fee.

It's always a good idea to review your home loan annually to make sure it's still working for you. For instance, do you really need all the bells and whistles that are on offer? Often, you'll be paying for these extras through higher interest rates.

Negotiate a better deal

If you are unhappy with your current rates, then talk with your existing lender to see if you can negotiate a better deal. But make sure you do your homework first and check out what other lenders are offering so that you are in a better negotiating position with your current lender. Most lenders would rather hold on to existing clients than lose them to a competitor.

When negotiating your home loan, you might be able to access a package from the lender giving you some beneficial extras such as discounted home insurance, fee-free credit cards or fee-free transaction accounts. Or you might be able to waive the fees associated with the loan.

When you initially take out a loan, consider making your payment before the due date. That way you are always ahead of the game.

With interest rates expected to rise in 2017, this may be a good time to consider fixing part of your loan to cushion yourself against future rises.

If you want to make sure that you are doing all you can to minimise interest payments on your loan and fast-track your mortgage, call us to discuss the financial strategies that might work best for you.

Checklist

- Make extra repayments
- Pay more frequently
- Use an offset account
- Review your mortgage annually

i 'Aussies go above and beyond to pay down home loan sooner', Nov 2016, finder.com.au

Delayed gratification

Are you too soft on yourself?

When was the last time you had to wait for something you really, really wanted? Not just your morning coffee, or your favourite tipple at the end of a long day – something seriously important?

Now think, when was the last time you could have had something, but put it off? If you can't think of an answer to either, you're not alone. People in general just aren't that good at waiting for things any more. But it might be time to have a think about why that is; after all, blaming easy credit and same-day delivery only gets you so far.

What the science says

Back in the '60s, researchers at Stanford University in the US ran a historical experiment, now nicknamed 'the marshmallow experiment'.[i]

Psychologists tested the ability of children (aged 4 to 6) to delay gratification. They did this by offering them a treat immediately, but telling them that if they were able to wait 15 minutes, they could have two treats. The findings were revealing: only around a third of the children could wait for the second treat. When the researchers followed up with the parents several years later down the track, they found that the kids who'd managed to hold off had done better in life generally, including getting better grades.

Why waiting is good

Every day we face circumstances where putting off something nice can lead to something even better. Battling to stay on track with healthy eating? That's just one example. There's saving up for something instead of putting it on credit, making things from scratch, and studying for a new qualification. Chances are you've encountered at least one. Just about everyone can benefit from sharpening up their self discipline.

In the years following that marshmallow experiment, researchers continued to study the finer points of delayed gratification. They tested which techniques were most successful in helping people hold out longer. Perhaps most importantly, they tested whether delayed gratification can be learned and cultivated. Good news – it can.

Master your 'must-have-it-now' instincts

The same researchers from the marshmallow experiment theorised that successful exertion of willpower comes down to a kind of internal 'hot and cool' system. It's been likened to the old cartoon devil and angel on your shoulders. The devil/hot side is your emotions and impulses. The angel/cool side is cognitive – it's all about thinking things through.

A popular technique to help you to master your impulses is to remind yourself why you're delaying gratification. This could be as simple as a mental picture of what you're aiming for. If you find that that isn't strong enough, you might try carrying an actual picture in your wallet to remind you every time you make a spending decision.

Removing yourself from the presence of whatever is tempting you off course is an obvious technique. However, depending on what you're avoiding, this can be tough; there is a reason why supermarket checkouts are stacked with little treats. This is where it's important to be self-aware. Recognise when you're particularly susceptible to make decisions you otherwise wouldn't, and avoid those circumstances where possible.

Having trouble temporarily letting go of a few little pleasures so you can reach a financial goal? Remember, we're here to help.

Flex your willpower

1. Remind yourself *why*
2. Reinforce with a mental or physical image of your goal
3. Remove yourself from temptation

i https://www.ncbi.nlm.nih.gov/pubmed/5010404

HONESTY is the best POLICY with insurance

Life insurance is one of the most important investments you can make to protect your family's future wellbeing. And like any investment, it needs careful consideration.

Taking out too little or too much insurance can be costly. Failing to disclose all relevant information to an insurer could result in a claim being denied – possibly after years of paying premiums – just when you need help most.

Negotiating in good faith

Heartbreaking stories about insurance companies failing to pay out when a policyholder suffers an illness or injury get plenty of media attention. What's often glossed over in these reports is that the company is within its legal rights to deny the claim.

There are several reasons a claim can legitimately be denied: unpaid premiums; exclusion periods or clauses; or a medical condition not being severe enough to qualify for a payout. But non-disclosure is the most easily avoidable reason for claims being denied.

An insurance policy is a contract, which means both parties are required to enter into it in good faith. That means you have to respond truthfully when your insurer asks you specific questions. You also need to volunteer any information, such as pre-existing health conditions, that would be relevant in deciding whether to insure you.

The good news is that most claims are paid out in full. That noted, one of the first things an insurer will do on receiving any claim, particularly a life insurance claim that's likely to involve a substantial pay out, is double check the policyholder didn't misrepresent their circumstances when taking out the policy.

Getting assistance

Non-disclosure issues are one reason it pays to choose a retail product rather than a direct life insurance policy. As the name suggests, a direct insurance policy is sold as a one-size-fits-all direct to the consumer, rather than through an adviser. It's easy to apply for online or over the phone, with little or no medical information required.

With a retail policy, an expert adviser will walk you through the application process, taking care to ensure you don't inadvertently fail to disclose any relevant information. It may be a little more expensive but it can save you money in the long run. An Australian Securities and Investments Commission (ASIC) report found average declined claim rates were highest for non-advised policies (12 per cent), compared to 7 per cent for retail policies."[i]

There are other reasons direct insurance policies can offer false economy. These include a basic level of cover with few extra benefits and a wide-ranging clause stating 'claims due to pre-existing conditions are not valid'.

As life changes, so should your insurance

Another issue to be aware of is that your insurance needs will vary at different life stages. So it's sensible to get into the habit of reviewing your insurance cover annually or, at the very least, whenever major life events, such as the following, occur.

- **You welcome or farewell a child**
  Kids are expensive, something to consider when calculating the income your partner would require should the worst happen. Alternatively, if your children have reached the age where they are independent, you may be able to scale back your policy and premiums.
- **You welcome or farewell a partner**
  As your relationship status changes, so might your main beneficiary and the amount you wish them to receive.
- **Your income or debt levels fluctuate**
  That payout of $80,000 a year, which seemed sufficient when you had the lifestyle of a young middle manager, might not be so livable when you're a fifty something executive. On the other hand, once you own your home and your partner will not be left with the burden of a mortgage, you may be able to reduce your cover.

The right insurance solution for you and your family will be as unique as you are. If you would like to discuss your insurance needs, don't hesitate to give us a call.

i ASIC REP 498 'Life Insurance Claims: An Industry Review', 12 October 2016