GTC FINANCIAL SERVICES

Total Financial Care

May 2016 Newsletter

Welcome to the latest edition of our newsletter. We hope that you find the following articles to be informative - as we aim to help you make better financial decisions.

How much money do you need to be happy?

It's not about how much money you have, but how well you manage it. We all know that money can't buy love and money isn't the key to happiness. At the same time, a number of studies have demonstrated what we instinctively know – that having enough money to live comfortably makes a big difference to our overall well-being and life satisfaction.

A US poll,[1] conducted in 2012 by researchers at the Marist Institute for Public Opinion, suggested that an annual salary of US$50,000 (AUD$48,500 at the time) represented a significant tipping point in determining happiness and personal satisfaction.

Households with annual incomes of less than US$50,000 were less happy than those with an annual household income of more than US$50,000. Some of the largest disparities between the two income levels occurred in satisfaction with housing, relationships with friends and overall satisfaction with life.

Another, more comprehensive US study[2] by economist Angus Deaton and psychologist Daniel Kahneman analysed the responses of 450,000 Americans polled by Gallup and Healthways in 2008 and 2009.Participants were asked how they had felt the previous day and whether they were living the best possible life for them. They were also asked about their income. The study found that the lower a person's annual income fell below US$75,000 a year (about AUD$115,000 at that time), the unhappier he or she felt.

The study pointed out that there are actually two types of happiness. There's your changeable, day-to-day mood: whether you're stressed or blue or feeling emotionally sound. Then there's the deeper satisfaction you feel about the way your life is going.

While having an income above US$75,000 didn't seem to have an impact on the former (emotional well-being), it definitely improved people's overall life satisfaction. The more people made above US$75,000, the more they felt their life was working out on the whole.

This is certainly worth bearing in mind when you consider that the latest statistics show a couple would need an annual household income of AUD$56,3395 to live a comfortable lifestyle in retirement. But can wealth be measured only by your income? A person may be wealthy today and poor the next. Managing and growing your savings over the long term will give you the greatest opportunity to enjoy life.

Of course, not many of us are blessed with the financial acumen – or time – to effectively manage our money singlehandedly. Even if we are, it can be tricky to navigate an often turbulent global economy, stay on top of the share market and keep abreast of frequent changes to legislation surrounding superannuation and taxation. This is why having an ongoing relationship with a trusted financial professional is so useful.

Overall life satisfaction also means being prepared for life's swings and roundabouts. For example, establishing a financial safety net may ease the burden of major unexpected bills or events that might otherwise put your family's financial well being at risk. While money may not buy happiness, managing it well can bring the peace of mind that can make a huge difference to your quality of life.

1 'Generation to Generation: Money Matters', April 2012.

2 'High income improves evaluation of life but not emotional well-being', published by the Center for Health and Well-being at Princeton University, August 2010.

SOURCE: Colonial First State Investments Limited

Counting the cost of a curve ball

Here's a confronting question: what would you do if the main breadwinner in your household could no longer bring in an income? Do you have a Plan B? Most people don't. That's where insurance comes in.

Curve balls. They're unexpected, often deceptive and it's impossible to predict their trajectory. That's why they're so devastating – in sport and in life. There's some interesting data now available about the kind of curve balls that can impact your life, your finances and your retirement.

The headline figure is this: one in three Australians could be disabled for more than three months before turning 65.[1] If you combine this with another startling fact – that 60% of Australian families with dependents will run out of money if the main breadwinner can no longer bring in an income – you can see the problem. Curve balls are pretty common, but so few people are prepared for them.

With the mortgage to pay, school fees to fund and day-to-day living expenses to meet, you could run down your savings very quickly and face financial difficulty.

What kind of Plan B do you need?

The last thing you need to worry about when you're dealing with a curve ball is your finances. That's where insurance comes into its own. It's a well-known saying that you only realise the value of insurance when you need it – and you don't have it.

Taking out Income Protection insurance could provide you with a monthly benefit of up to 75% of your income to replace lost earnings while you recover.

Most Income Protection policies offer a range of waiting periods before you start receiving the insurance benefit (with options normally between 14 days and two years). You can also choose from a range of benefit payment periods, with a maximum cover generally available up to age 65.

Other things to consider

- Income Protection insurance premiums will generally be lower if you choose a longer waiting period and shorter benefit payment period.
- If you don't have sufficient cash flow to fund the Income Protection premiums, you may want to arrange the cover in superannuation, where the cost will be deducted from your account balance.
- Other curve balls you may want to insure for include critical illness (such as cancer and stroke), total and permanent disability and death. These curveballs can be covered by different types of life insurance, which you may want to consider.

To find out if you have the right protection in place and to discuss strategies that may assist you, contact your Financial Adviser.

Source: NAB Group

[illegible] port of the Disability Committee. IA Aust: Sydney.

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Interest rates affect everyone differently

With interest rates at historically low levels, thousands of mortgage holders are able to pay off their homes faster; but interest rate movements mean different things to different people.

If you

- have a mortgage - or two,
- own a business
- invest your hard-earned savings
- or live on your retirement fund

the decision made every month by the Reserve Bank of Australia (RBA) Board affects you in some way.

Although low interest rates help to reduce the costs of personal and investment loans, credit cards and business financing, on the flip side, investors watch returns on interest-bearing investments diminish substantially. They understandably do not celebrate with every rate cut.

So, depending on which category you fit into, here are some thoughts on dealing with interest rates:

Homeowners: With variable rates remaining low do you use this as an opportunity to build a buffer against interest rates eventually rising? Or direct your spare cash to reducing credit cards or personal loans?

- **Investors:** This may be a good time to consider starting a long-term investment strategy. Given that dividend yields and rents have changed in the past couple of years, it's worth another look to determine if potential investments are likely to be positively or negatively geared.
- **Business owners:** Overdrafts, car leasing and other business loans may benefit from a full review. In particular, any strategy to reduce debt should be revisited. Maybe take advantage of a lower interest offer with another lender. But always balance the potential savings against any costs associated with moving your business to a new bank.
- **Deposit holders:** Dwindling returns on cash may make you feel like there would be little difference if you hid it under the mattress. There are always alternatives to boost your returns but it's critical to read the fine print and understand what you're investing in. Higher returns usually attract higher risk, so be sure your ability to manage that risk is properly addressed.

Do you know a friend or a family member looking to improve their lifestyle? We would love to offer them a FREE initial appointment to explore their current financial position and aspirations.

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