The FinancialLink Group

insights

September **2018**

Money doesn't grow **on trees**

From the time they're learning to crawl, parents begin teaching their children about right and wrong, personal safety, manners and morals.

It's not just about spending

Children see their parents spend money, on one thing or another, most days. However, teaching children about important, less visible money skills such as earning, saving and investing will have a profound impact on their attitude to money in the future.

Giving children the skills to control their finances is not only beneficial to their financial wellbeing – it also contributes to the forming of their personality and unique attributes. The lessons on self-control, resourcefulness and sharing are all valuable in shaping a well-rounded, socially aware and responsible person.

Where to start

There are some simple things you can do to help your children get on the right track.

In this issue...

For young children in infants school

- Encourage your children to play 'shop' so they start to understand that goods cost money and some goods cost more money than others.
- Set a goal to save money for their next toy. Make sure it's not too expensive – it's important it's something they can achieve in a realistic timeframe. Some schools have banking days so kids have the chance to bank money received from their relatives, for birthdays or Christmas, to earn interest.
- Consider giving them money to spend at the school canteen or cake stall so they can use their basic knowledge of coins and notes and the maths they've learnt at school in a practical way. Help them count the change.
- Teach them that sometimes they need to choose between two or more things they want to buy.
- Explain that money comes from working and that you need to go to work to earn money.
- Teach them that some people don't have as much money as you or are less fortunate than you and let them help you choose a charity.

For children in primary school

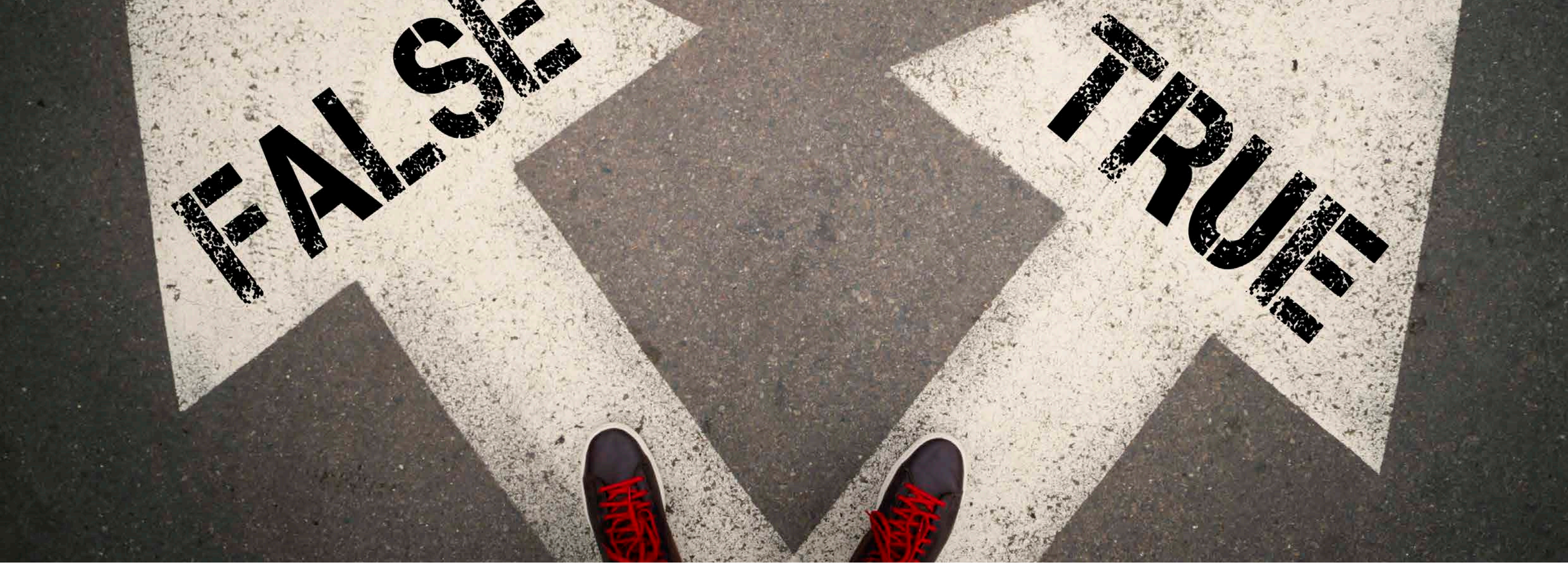
- Encourage your children to earn their pocket money by doing age-appropriate chores around the house – and consider putting the money directly in a bank account to help create a savings routine. You don't have to pay them for every chore they do. Some activities can be simply part of contributing to the running of the household. Or, you could give them a flat rate which includes all the communal activities they do plus some extra money if they go above and beyond. Put up a tally on the fridge so they can see how much they're earning.
- Teach them about credit cards and that it's not free money and has to be paid off each month otherwise you'll be charged interest.
- Let them help you research for items online to show them how shopping around can save money.

For children in high school

- Show your child your household budget or explain the concept of the 'three money buckets':
    1. **Expenses** – for items that need to be paid at least monthly such as groceries, mobile phone bill, public transport costs, petrol.
    2. **Short-term savings** – for items that occur less regularly, quarterly or yearly such as car registration, school fees, birthday parties.
    3. **Long-term saving** – for larger, special events or purchases such as a holiday or new car.
- Talk to them about the magic of compounding interest.
- Consider setting up an investment bond or trust in their name – for the purpose of buying a car or holiday when they finish their formal education. That way they can see the benefits of longer-term investing in managed funds or shares.
- Talk to them about the pros and cons of loans including personal and home loans and the importance of saving for a deposit for a home.
- If they have a part-time job help them check their payslip and the tax they're paying. If they're not yet paying tax explain that once you earn over a certain amount tax will automatically be taken out and you need to do a tax return.
- Talk to them about your superannuation savings and that it's an important way to save for retirement, when you can no longer earn money.
- Talk to them about insurance – home and personal insurance.
- Explain inheritance and the importance of having a Will.

Keep engaging your children on money and keep talking to them about it as they grow. The lessons learned will stay with them for life.

More information to help you teach children about money is on the Financial Planning Association's money and life website.



Mythbusting super

Although most of us have money in super, there are still some myths and misconceptions surrounding it. We explain five of them.

Myth 1: Super is a form of tax

It's understandable that some people think super is a form of tax. After all, you're likely to see super payments on your payslip near the amount deducted for tax – but super is not a tax.

It's true that you can't access it until you retire but it's your money and it makes sense to keep track of it, look after it and top it up. If you don't, you'll have to rely more heavily on the Age Pension to support you when you retire and the Age Pension is unlikely to be enough to live a comfortable retirement.

The ASFA Retirement Standard estimates that if you're a single person you need about $42,700 per year to live a comfortable retirement[1]. The current age pension rate for a single person is only $23,600 per year[2]. There's a clear gap and super can bridge that gap. And, as the cost of living increases, depending on when you retire, you are likely to need even more than $42,700 each year to live a comfortable retirement.

Myth 2: You have to use your employer's super fund

Most people don't have to use their employer's super fund if they have an alternative fund. Your employer will offer you the option of joining their fund but, as long as you're eligible, you don't have to take it.

You simply need to fill in a 'Choice of fund' form and give it to your payroll department. They will do the rest.

Whatever fund you choose, consider consolidating any other super account balances into your chosen account so it's easier to manage.

If you're not sure which fund is right for you, contact us.

Myth 3: It's hard to consolidate super

Times have changed and you can easily consolidate your super online via an existing super account or through your Centrelink myGov account. You may even discover that you have some 'lost' super that you didn't know you had.

Myth 4: If you want to contribute more to super you need to contribute a large amount

It's a common myth that super funds only accept large contributions into super. This is simply not true. You can put any amount, even $5, into your super. You can also claim a tax deduction in your next tax return.

Myth 5: Insurance eats away at super

Your super fund provides you with insurance so that you and your family are protected in case something happens to you and you die or can no longer work.

You can choose to reduce, increase or cancel your cover. However, keep in mind that most people are underinsured. If you have children, a home loan or other debts you need to consider how you, and/or your family, would survive if you couldn't work or died.

If you're worried about protecting your family, please contact us. We're here to help.

1 ASFA Retirement Standard – March 2018

2 DHS payment rates for age pension – March 2018

The **power** of an attorney

A power of attorney is a legal document that allows you to nominate someone you trust to make financial decisions on your behalf if you are unable to do so.

A popular misconception is that a person's partner can make financial decisions for them and manage their assets. However, unless a formal power of attorney has been granted, these decisions may revert to a government agency instead. Having a power of attorney in place means you can nominate the person you want to make the decisions — it protects your interests.

Depending on state and territory laws, as well as your circumstances, a power of attorney can operate in different ways:

A general power of attorney

allows someone to make financial and property decisions on your behalf for a limited time only, for example, if you are overseas for an extended amount of time.

An enduring power of attorney

is the most common form and allows you to nominate someone you trust to make legal and financial decisions on your behalf if you, for instance, have an accident, fall ill or lose capacity. The benefit of an enduring power of attorney is that unlike an ordinary power of attorney, it will continue to operate even if you lose full legal capacity.

An enduring power of attorney is an extremely powerful legal document, so it's not only vital to ensure you have one in place, but it's also critical that you appoint the right person or persons for the job.

Your attorney can step into your shoes and enter into contracts, operate your bank accounts and pay your bills for you. They even have the ability to sell your house or incur debt on your behalf.

It is a position that carries great responsibility and your attorney(s) should always act in your best interests. You can imagine the possible problems and difficulties that can ensue if your appointed attorneys don't get along or can't agree on important decisions that need to be made. If you can foresee conflicting issues arising amongst your attorneys, or if there is no one that you can absolutely trust, appointing a reputable, professional trustee company may be a good option.

What happens if you don't have an enduring power of attorney?

If you do not get around to putting an enduring power of attorney in place and suffer an illness or loss of mental capacity, an application would need to be made to the relevant Administrative Tribunal in your state or territory for a financial administrator to be appointed to act on your behalf.

If the relevant Administrative Tribunal feels there are no appropriate family members or friends who can be appointed, they would usually appoint the Public Trustee to manage your financial affairs.

If you would like more information about enduring powers of attorney, please contact us.

Source: Australian Executor Trustees

Your TFLG Financial adviser is:

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