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SUMMER 2019

Being sensible with Buy Now Pay Later this silly season

Tips on keeping your Buy Now Pay Later spending in check and avoiding a holiday headache this silly season.

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Being sensible with Buy Now Pay Later this silly season

Move over debit and credit cards; consumers are flocking to Buy Now Pay Later (BNPL) services. Afterpay, Zip Pay and several similar payment solutions allow shoppers to take home their goodies now while paying them off via a few weekly, fortnightly or monthly payments. There's no interest payable as such, although fees are charged for late payments.

A survey by Mozo reveals that 30% of Australian adults have one or more BNPL accounts and we're not afraid to use them. Afterpay, our most popular BNPL service, achieved sales of $4.3 billion across Australia and New Zealand in the 2019 financial year, nearly double its sales of the previous year. With the nation set to splurge around $25 billion on Christmas, it's a safe bet that plenty of that spend will be by BNPL. But with 60% of those surveyed by Mozo admitting that BNPL lead them to buy things that they wouldn't have otherwise, it begs the question: how to use this payment option sensibly during the silly season?

1. Set your limits.

Make sure you have a budget for your Christmas spend, and use it to help resist the temptation of impulse purchases.

2. Track your spending.

Don't just track your BNPL spending. Make sure you review credit and debit card purchases, too. Are you staying within budget across all your spending methods?

3. Avoid fees.

Around one third of BNPL users have missed at least one payment. While late fees may seem modest, they can add up.

4. Don't repay BNPL loans with a credit card.

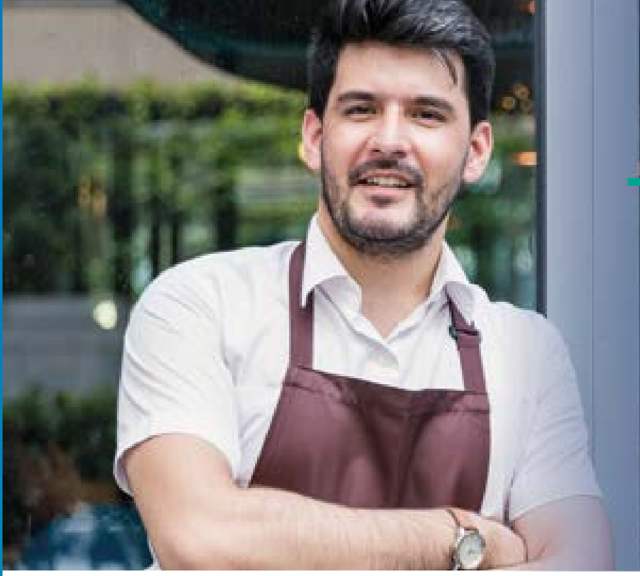
If you don't pay off your entire credit card bill within the interest-free period, adding your BNPL repayments to the card may see you paying a high rate of interest on your purchases. Better to use a debit card or direct debit from your bank account, and making sure there's enough money in the account to meet payments.

5. Avoid BNPL if you're saving for a home loan.

Lenders may look at your use of BNPL as a sign that you don't have significant savings and are living from payday to payday. The lower your debt, of all types, the easier it will be to get a mortgage.

6. Have a happy festive season

Used wisely, BNPL can help you jingle your bells and put the merry in your Christmas. Just make sure you know what you're signing up for and that you can meet all of the regular payments. Take care, and you'll be able to enjoy the start of the New Year without a financial hangover.



Taking care of business

Owning a business has its distinct advantages.

Choosing your work hours and being able to make decisions for your own future are just two, but this higher level of freedom takes a back seat when things go wrong... and as any business owner knows, things can and do go wrong just like in any other pursuit in life.

Smart business owners plan ahead for even the most unexpected threats but as times change, these threats come in different forms. We've highlighted a few in this article with suggestions on how to deal with them before they affect your hard-earned freedom.

Protection against fraud

Cybercrime has hit the world by storm. The most common being "ransomware" attacks whereby tech-savvy criminals access business computers to plant malicious programs that shut down entire systems until a ransom is paid. Governments around the world are fighting this battle on a daily basis. All have a key focus on educating people on what to do to protect themselves and what action to take if attacked.

With this increased awareness, many business owners are taking precautions to protect their systems from external attack, but what happens when the infiltrator comes from inside?

If you employ staff, don't rely on glowing CVs. With so many former "star" employees now sitting in jail cells for committing fraud in the workplace, employee screening is now an integral part of the hiring process. Many independent services are available and cover everything from employment history checks through to full police checks. In addition, specialist insurance policies provide protection against "white collar crime". Paying a little bit more for these services not only brings peace of mind but another level of freedom.

Who can you rely on?

It's crucial that all business owners have appropriate personal and business insurance cover if they are unable to work due to illness or an accident, but that will only look after the financial costs – who will manage business operations if you can't?

If you are the only person in your business (and over 60% of businesses in Australia - over 1.4 million - do not employ staff), it is imperative to have all of your operations and procedures clearly documented. But it doesn't stop there - if something happened to you, who would know where those documents are and how to access them? A wife or husband may have a general understanding of a business, but if they have to step into it on a full-time daily basis, will they know how it all works? Set aside some time to take them through your procedures and show them where key material is located.

If you don't have a partner who can step in, ask a trusted friend or colleague if they could look after the basics to keep your business operating in the short term. Most importantly, make sure they know where your procedures and important documents are located now, not when you might be unable to tell them.

Having a good contingency plan to cover your absence is vital – knowing that someone will be able to pick up the reins will mean the difference between keeping your business operating and having to close it down.

Disaster strikes!

What would happen if a disaster – natural or man-made – struck your business? Would you be ready? How long would it take to get back on your feet? Would you fully recover? Here are four key areas to address to help maintain your freedom:

1. A good business disaster recovery plan must be documented (not just in your head) and copies provided to all key personnel. Everyone should know what to do in the event...
2. Business interruption insurance cover can cover major outlays such as setting up new premises or re-establishing computer equipment.
3. Traditional business insurance policies may not cover losses related to cyber-attacks and given the snowballing risks, Cyber Insurance is becoming another essential for business owners.
4. Important original business documents such as mortgage papers, trust deeds, corporate registers, and signed agreements should be kept securely off-site, with scanned copies backed up in a separate location.
5. The Australian Cyber Security Centre (ACSC) reports that cybercriminals sometimes increased the ransomware price when they discovered a business did not have backups. All computer files should be backed up daily with a current copy located off-site. If you don't have a separate location to store backed up files, install a fire-proof safe to protect them.

Having read this you might be thinking it's all too hard, but just take one step at a time and talk to a professional adviser who can help you protect your business – and your freedom.

Not ready to retire? This might be another option.

The word "retirement" conjures up many images. While most baby boomers might be dreaming of more time on the golf course or booking a cruise, you might be thinking about buying a business. Crazy? Maybe not.

If you're close to reaching your preservation age you will soon have access to your superannuation. An increasing number of people at this stage are taking control of their finances and buying themselves a new later-life career in the form of an established business.

Perhaps you've been retrenched and finding it difficult to land a new job. Or maybe, after a short period of retirement, you're re-invigorated and ready to start afresh.

Seniors bring life experience and skills as well as a wide network of contacts to a commercial venture. But running a business doesn't always go to plan. Small businesses are risky by nature, often have voracious appetites for capital and are usually vulnerable to irregular cash-flow.

Assuming you satisfy superannuation conditions of release, consider these questions before leaping in with both feet:

How much capital will you need?

Will you be using your savings or relying totally on super? If using super, consider the risks associated with putting all your eggs in one basket. Do the sums and work out an appropriate balance.

Will you buy a start-up or an existing business?

Starting from scratch means starting small usually with a lot of unknowns ahead.

Existing businesses come with customers, structures and processes.

Regardless, your decision must be guided by how much you're ready and able to put into building and maintaining your new venture.

Have you sought professional advice?

No really – you still need to think about retirement planning, tax, insurance, etc. Important any time, they're fundamental when you're self-employed.

Are you compliant with super regulations?

Self-managed Super Funds (SMSFs) exist to protect the future benefits of members. Therefore, all SMSF investments must meet Related Party regulations, meaning that you cannot use SMSF money to buy a business if you, or another fund member, intends working and deriving an income from it. There could be other options available and this is where you need to seek specific advice first.

Retail or industry funds sometimes restrict lump-sum withdrawals. Access to and the tax applied to a lump sum withdrawal will depend on your age and the taxable components of your super. Your super fund can tell you how much in your account is taxable or tax-free.

Even though a lump sum withdrawal may be tax-free, if you use that money to earn income, that income will be taxed at your marginal tax rate.

If your business pays you an income, it's imperative that you speak with your financial adviser about super as significant restrictions apply to contributions. These include an annual cap on concessional contributions of $25,000. This will impact on how much you can re-contribute to replace the amount you've withdrawn.

Access to super below age 55 is subject to strict withdrawal conditions. The desire to purchase a business is not one of them.

Will you know when it's time to give up?

You probably don't want to think about this, but Australian Bureau of Statistics (ABS) figures indicate that 36% of small businesses fail in their first three years.

This is why conducting due diligence before purchasing an ongoing business is crucial. If things don't turn out as planned, throwing good money after bad won't help. Will you know when to quit? Do you have an exit plan?

What about your succession plan?

What will you do with the business when you finally retire? Sell? Pass it on to family? Plan for this final stage at the beginning.

Thanks to improved health and medical technology, Australians are living longer, which is why a sound strategy for such a big leap later in life is more important than ever. After all, if 60 is the new 40, then the story is not even close to finished!

Retire at 65 but don't retire your money

Australian retirees are facing a 'double whammy' when it comes to funding their retirement. On the one hand we, as a nation, are enjoying longer and healthier lives. On the other hand, record low interest rates have slashed the returns on the traditional bedrocks of post-retirement investment portfolios such as term deposits, cash management accounts and annuities.

A dilemma

This is the dilemma facing Dave and Linda. On the point of retirement these fit and active 65 year olds are looking forward to regular overseas travel while maintaining their comfortable lifestyle. They estimate this will cost them $80,000 per year, to be funded from their combined retirement savings of $1 million. Both are in good health, and realise there's a high likelihood that one or both of them could live well into their 90s.

Naturally, Dave and Linda's first thought is about security and capital preservation. This leads them to look at investing their funds in a portfolio mainly comprising income-producing investments that will spare them from the volatility of share and property markets. However they quickly discover that, with interest rates so low, it will be difficult to achieve a return of just 3% per annum. A simple financial calculation shows that if they draw $80,000 each year from a portfolio with this low rate of return, the money will run out in just under 16 years. This strategy will see them barely make it into their 80s.

Time for a rethink

This highlights to Dave and Linda that longevity risk is as much of a threat as investment risk. To address the risk of outliving their money, Dave and Linda consider a portfolio that, while retaining some conservative investments, apportions most of their funds to a well-diversified range of growth assets including property, Australian and international shares, and some higher-yielding income funds. With an estimated return of 7% p.a., Dave and Linda's money is calculated to last just over 30 years, seeing them well into their 90s.

Balancing the risks

Yes, a growth portfolio is, from an investment point of view, higher risk than a defensive or conservative portfolio. That is, it will be more volatile, rising and falling in value along with investment markets. Dave and Linda will need to accept this volatility if they want to meet their lifestyle goals. However, even 10 years is a long investment horizon, let alone 30, so with time on their side they should be able to ride out any market downturns.

And there's another safety net. The above calculations ignore any age pension. As Dave and Linda draw down on their savings, they will probably qualify for some age pension. Not only will this offset some of the investment risk, it will substantially extend the date when their savings will eventually be exhausted.

Helpful advice

Establishing a well diversified, considered portfolio is a little more complex than setting up a conservative portfolio. It will also require more active monitoring and regular review. On top of that individual circumstances can change quickly, particularly in older age.

For help with all aspects of retirement planning, including portfolio design, establishment of income streams and age pension strategy talk to your qualified financial adviser.