MoneyInsights
with Wealth Planning Solutions

Planning for retirement when you have debt

According to Australian Bureau of Statistic (ABS) figures, the average household debt has quadrupled over the last 18 years, jumping from $62,000 in 2003-04 to $242,000 in 2021-22. This has worrying implications for older Australians, many of whom are finding that debt following them into retirement.

Ideally, your super and savings should be funding all the things you were dreaming about doing as a retiree, not getting eaten up by your mortgage, personal loan or credit card. But even if debt is going to play a bigger role in your post-work years than you hoped, there are strategies to help make things more manageable.

Revisit your mortgage arrangements

Your mortgage may be the biggest source of budgetary strain, so if you can reduce your monthly repayments even a little bit it might make managing your cash flow easier. Scan the market for an idea of what other lenders are charging, and if you believe you're currently paying more than you need to be, it might be worth switching.

That might mean refinancing to a different lender or leveraging your market research to secure a lower rate with your existing one. You might even be able to switch to one of your lender's cheaper loans, but that might involve parting with certain features (such as your offset account).

Put together a budget

Keeping a budget is good practice no matter your circumstances, but it can be particularly helpful when there's debt to tackle. Start by calculating the income you receive from all sources. Once you have a ballpark figure, you can estimate how much you can afford to spend, how much you can save, and what you can direct towards paying off your debt.

While some people find success with budgets that account for every dollar, others might prefer a looser approach. You don't need to tighten your purse strings so much you close yourself off from all things enjoyable; you just need a clear picture of where your money is going each month and a willingness to make a few sacrifices.

Consolidate your debts

Between the different interest charges and varying fees, having multiple debts can be a headache to manage. One potential solution is to roll all your debts into a single loan so you only have to budget for one recurring repayment rather than several.

People often choose to consolidate their debts into their home loan, as the interest rates on home loans tend to be lower than those on credit cards and personal loans. Just keep in mind that doing so will decrease the equity you have in your home.

Think about downsizing

If your children have moved out and you and your spouse no longer require a large home to accommodate them, you can think about selling your property and purchasing a smaller one. The benefits here are twofold: it might allow you to pay off the remaining balance on your mortgage, and if you're 55 or older and meet certain eligibility criteria, you and your spouse might be able to use part of the sale proceeds to make a tax-free contribution of up to $300,000 each to your super.

Delay retirement for a little bit

Finally, you might consider putting off retirement for a few years so you can spend some more time lowering your debt levels. The more you can chip away during your working years, the less vulnerable you may be to interest rate fluctuations when you retire. And if you can free up enough money, you might be able to retire with more confidence that you'll be able to do all the things you originally planned (as well as manage any surprise expenses).

Surprise retirement expenses you should know about

Retirement often forces people to put their spending habits under the microscope in ways that they didn't during their working years. While you might find that you're not spending as much in some areas, there's every chance that new expenses will crop up. Here are just a few that you might encounter.

Boomerang children

Whether they've moved back home or never actually left in the first place, it's common for young adults to be living with their parents these days.

While this might be a welcome development, it often means larger grocery and utility bills (unless, of course, your children are able to chip in).

Assisting your children in other ways

Even if your children have left the nest and show no signs of wanting to return, there's always a chance that you'll be asked to provide for them in other ways. That might mean paying for weddings, uni fees, and even chipping in once they have children of their own.

Perhaps the biggest one, however, is helping them to buy a home. Home prices have risen to eye-watering heights, and depending on how much help your children need to get a foothold in the market, your generosity could have a material impact on your retirement.

Providing for elderly parents

It's not just your adult children you might be called on to assist. Australians are living much longer than they used to, and if your elderly parents are still alive they might need support too. This might mean letting them move in with your family, hiring a carer, or making senior-friendly modifications to their home.

Divorce or relationship breakdown

For many retirees who go through a divorce or relationship breakdown, the financial repercussions are sometimes greater than what younger couples experience. That's because older divorcees generally have more to lose in divorce settlements and less time to do the difficult work of rebuilding their financial lives. Loss of the family home can also be difficult, especially considering how unfriendly rental markets can be these days.

Higher than expected inflation

Even low rates of inflation can have a large impact on the purchasing power of your money over time. If high inflation strikes, it could force you to cast aside a lot of the plans you made leading into retirement. And if recent history has taught us anything, it's that periods of high inflation can persist for much longer than governments, central banks and everyday people are comfortable with.

Unexpected medical costs

Medical expenses tend to increase as we age, and while the more routine healthcare costs (e.g. medications and visits to specialists) might be easy to manage, a sudden injury or diagnosis of serious illness could easily throw your finances into disarray.

Aged care

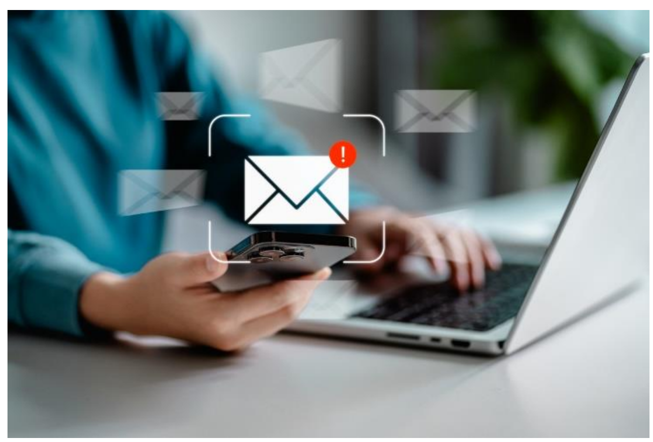
Even if you had plans to "age in place" instead of entering aged care, life can throw you a curveball and force you to change your mind. The good news is that there are residential aged care options that are relatively low-cost (and financial assistance from the government is available if you're eligible). However, you might prefer a more well-equipped facility with all the bells and whistles, which can cost significantly more.

How to tell a real message from a phishing scam

Have you ever received a message from your bank asking you to share private information, move money from one account to another, or perform some other eyebrow-raising tasks? Chances are the sender isn't actually who they're claiming to be, but how can you be sure?

These days, phishing messages seem to be an unavoidable part of living in the digital age. While many of us can recognise the telltale signs of a scam, cybercriminals (and the tools available to them) are getting more sophisticated by the day.

Below are some ways to help tell a phishing scam from a legitimate message, along with some steps to consider taking if you're unlucky enough to fall victim to one.



What are phishing messages?

These are messages that resemble communications from a trusted source (such as your bank, insurance company or super fund) but are actually ploys by cybercriminals to obtain your personal information.

They often contain suspicious looking links or attachments that can install malware onto your computer once clicked. This might allow scammers to make changes to your device remotely and without your knowledge.

Other giveaways can include typos, poor grammar, and urgent calls to action (such as calling a number, claiming a prize, or entering your login details). Generally, if your first impression when reading the message is that something's off, there's a good chance you're right.

What to do if you receive a phishing message

- Don't click on any links or open any attachments: Doing so can leave your device vulnerable to attack. Some red flags to watch out for include URLs that are deceptively similar to official websites, shortened URLs, and excessive use of hyphens and numbers. Even if a link doesn't look suspicious, hover over it to see if it matches the text displayed.
- Go directly to the source: Without interacting with the message, navigate to the official website of your bank or service provider yourself. Many companies these days will have a dedicated page explaining what they will and won't ask for in communications to customers.
- Call your bank or provider: For peace of mind, you can call your provider using the number listed on their website and ask them to confirm if the message you received (and any information contained within) is legitimate or not.
- Report the message: Finally, consider taking a screenshot of the text or email so you can report the scam to the ACCC's ScamWatch.

What you can do if you click on a phishing link

Even the most cautious of us can unwittingly click on a malicious URL. If you find yourself in this position, whether due to a slip of the finger or a lapse of judgement, don't panic. Below are a few steps that might be able to minimise the damage.

1. Turn off your internet connection: This can potentially reduce the likelihood of malware spreading to other devices on your network. If your computer is tethered to an internet router, unplug the cable. If you're connected via Wi-Fi, turn it off using the network settings on your device or by switching off your router.
2. Back up any files using cloud storage, an external hard drive, or a USB: This is to prevent your files from becoming infected with malware, but it can also give you peace of mind that they won't be lost if you have to perform a factory reset.
3. Run an antivirus scan: If you already have antivirus software installed, run a scan and do not use your computer until it is finished. This should be able to identify any suspicious files that were installed on your computer and either remove or quarantine them. Alternatively, you can take your device to a professional to have it looked at.
4. Change your passwords and PINs: It's good practice to change the passwords on your accounts every few months, but doing so after your computer has been compromised is strongly advised. Try to create stronger passwords that you haven't used before.

You will also need to alert your bank or service provider so they can put the appropriate controls in place. Depending on the nature of the scam and how recently it took place, they might be able to block any suspicious activity.

What else do you need to know?

Scammers can go to great lengths to impersonate people or institutions that you trust. These days, phishing messages can appear in the same message thread as actual communications from your bank. And a single phishing message might conceal an entire team of scammers, with people ready to pick up the phone to 'confirm' a claim once a victim calls the number in a message.

If you receive a text or email that raises alarm bells in your head, stay calm and try to avoid making any hasty decisions. Remember that a real organisation wouldn't put you in a position where you're under pressure to act — and if you're still uncertain, go directly to the source to confirm.

Estate planning strategies for blended families

If you're in the middle of the estate planning process, having a blended family can add a lot more complexity than you were prepared for. Everything from your beneficiaries to choice of executor will require much more thought, and extra care will need to be taken so no one feels excluded.

First of all, what is a blended family?

These days, families can look a lot more diverse than they used to. Marriages often end due to death or divorce, and many people enter new relationships together with the children from previous ones. If these new relationships result in more children, the picture can get even more complicated.

Blended families can take many forms, including:

- A divorcee with kids who marries another divorcee with kids
- Someone with children who marries someone without children
- A widower with children who goes on to remarry

What are some of the problems that might arise?

One potential issue is children from your previous marriage feeling left out when your assets are distributed. This might be because there wasn't enough in your estate to provide for everyone, or it could be because you wanted your assets to pass to your spouse before going to your children and things hit a snag along the way.

For example, say you pass away and leave behind a spouse, a stepchild, and the children from your previous marriage. While you were alive, you and your spouse might have agreed that when one of you dies, their assets would pass to the surviving partner, and then to all your children upon that partner's death.

But there's always the possibility that your spouse's relationship with your children might cool a little bit, if not completely sour, now that you're not around. And if there's enough discord, your spouse might eventually go to a lawyer and ask to have your children written out of the Will.

MoneyInsights

with Wealth Planning Solutions

A well drafted will is the foundation of any estate plan, especially for blended families. It should clearly state how you want your estate to be distributed, including provision for children from previous relationships, your current spouse, and any shared children.

Mutual Wills

One way to reduce the likelihood of this happening is by having mutual Wills drawn up while you and your spouse are both alive. Mutual Wills are legally binding agreements between spouses or partners that ensure neither party can change their will after the other dies. If done correctly, this can prevent the surviving spouse from creating a new Will that runs roughshod over the other's wishes.

Just keep in mind:

- It's not enough for you and your spouse to draw up two similar Wills — there needs to be sufficient evidence that they are mutual Wills. This usually means you have both entered a legally binding agreement not to change or revoke the terms of the Will.
- The Wills should be reviewed regularly to make sure they still reflect you and your spouse's wishes. If the Wills need to be amended, this should be done with the consent of all parties and properly formalised.

The Wills should be drafted with help from a lawyer to make sure your Will conforms to legal requirements and is free of any ambiguities that could lead to disputes.

Relying on a life interest to provide for everyone

Many blended families also rely on something called a 'life interest' to provide for both their surviving spouse and their children, albeit in different ways. This is most commonly used when deciding what to do with the family home.

Typically, a trust is created in which ownership of the deceased's property will pass to their children on the condition that the surviving spouse is allowed to occupy it for the remainder of their life.

Arrangements like this may be useful, but there are a few things all parties will need to be aware of. For starters, there's the question of who will maintain the property — the children who own it (but do not reside in it) or the spouse who is residing in it (but does not own it and may also be too feeble to put in the work). And there might be certain tax and social security implications to think about too.

Family Trust

A family trust can help preserve wealth for future generations and manage assets on behalf of the family, including blended family members. This can allow for greater control over how assets are passed to children from different relationships.

Having a blended family can make estate planning quite stressful, but there are certainly options to help smooth out the process. Along the way, think about consulting an estate planning lawyer for advice tailored to your specific needs.