

IN THIS ISSUE

- Do you have an Emergency Fund?
- Life Protection with COVID-19
- Enduring Powers of Attorney – why do you need one?

DO YOU HAVE AN EMERGENCY FUND?

by Peter Kelly, Retirement Strategies and Solutions

When COVID-19 first impacted Australia and the country went into lockdown, one of the first casualties were our jobs.



Many businesses simply closed down overnight with employees retrenched, stood down, or simply told not to bother showing up for work. For others, working hours were reduced with their wages following suit.

The news from that period featured stories of endless streams of people lined up outside their local Centrelink office, waiting to apply for the JobSeeker Payment.

I vividly remember the news reporters interviewing those who had lined up, with many admitting that they only had minimal savings in the bank and needed a Centrelink benefit in order to survive.

Then we saw an explosion of Australians lining up at food banks and charities to get access to basic food items.

And these were not young people that might have been studying and only working part-time – these were adults.

What are the steps we must take to ensure we are never faced with having to line up outside Centrelink on the day we lose our job?

Back in May 2016, Finder released the results of a survey¹ they conducted into the amount of savings Australians had to cover emergency expenses.

While it is comforting to note that just under half of those surveyed had savings of \$5,000 or more that could be accessed in an emergency, 30% had less than \$1,000 and 12% had less than \$100.

Somehow, I don't think the numbers have changed much since 2016.

Emergencies come in all shapes and sizes, ranging from urgent dental work, medical expenses not covered by Medicare, car repairs, home repairs (like a mid-winter replacement of the hot water system or getting a plumber to fix a blocked toilet), having to book flights and accommodation to visit a critically ill family member, or meeting living expenses in the event of job loss or a reduction in working hours.

With the COVID-19 pandemic freshly imprinted in our minds, now is the time for each of us to be learning from the current situation.

IF YOU NEED TO PUT A PLAN IN PLACE, HERE ARE 6 THINGS TO CONSIDER:

1. Decide how much you need in your emergency account. What are the basic expenses you need to cover for short period? Is it \$1,000, \$2,000 or more?

2. Once you've set what your emergency fund should be, open a separate bank account – make it difficult for you to access when it's not really an 'emergency' situation.

3. Arrange an automatic transfer from your pay to fund your emergency account. Set a date to reach your emergency fund minimum. By then you should be in a routine and not miss the funds coming out of your pay.

4. If you are having trouble finding the extra funds to build up your emergency fund, consider selling

some of your unwanted items. Become friends with eBay, Gumtree or Marketplace,

5. Use your tax refund to kick-start your emergency fund.

6. Remain focussed and committed – don't be tempted to dip into the fund unless it's really necessary.

¹<https://www.finder.com.au/press-release-may-2016-rainy-day-savings>



LIFE PROTECTION WITH COVID-19

By David Spiteri, Life Insurance Specialist

Since the outbreak of the coronavirus we have seen an enormous amount of change in how we go about our day to day living.

Some have been unfortunate to have temporarily lost their job, or have taken a reduction of their normal working hours; others have been fortunate to have kept their job, having altered their working arrangements by working from home.

COVID-19 has had more than an effect on many people's financial situation. In a time of crisis we generally tend to assess our spending habits and look to see where and how costs can be minimised. More importantly, the coronavirus is having a detrimental effect on people's health and, at the time of writing this, the coronavirus has led to more than 270,000 deaths around the world which has prompted many people to either check their life insurance policies to see if they are covered for the coronavirus or, due to their financial situation, look at options to reduce or suspend their premiums.

Those who received financial advice from a financial planner when implementing their life insurance plan may find they have more options available to assist in funding your life insurance premiums. For others, there may be confusion about how coronavirus has impacted life insurance premiums and what is covered and can be claimed.

I have compiled a list of the most common questions that I have fielded over the past month which may be of assistance to you.

IS COVID-19 EXCLUDED FROM MY EXISTING INSURANCE POLICIES?

Definitely not! All existing retail insurance policies do not exclude death or disablement due to the coronavirus, regardless of the severity.

CAN I CLAIM ON MY INCOME PROTECTION POLICY IF I CONTRACT THE CORONAVIRUS?

With income protection you must satisfy a continuous period of being disabled which is called the “waiting period” before the monthly benefit is payable. Waiting periods can vary from 14 days, up to 2 years.

If you have satisfied the waiting period, then you are eligible to claim. You should check your income protection policy to be clear about what waiting period is applicable to you.

DOES MY INCOME PROTECTION COVER ME WHILST BEING UNEMPLOYED DUE TO CORONAVIRUS?

It is important that you check your policy to see how your income protection is being paid for as it varies:

- Income Protection fully paid by your superannuation account generally will not cover you whilst being unemployed when your illness or injury occurs, unless you are unemployed because of an illness or injury for which you are currently on claim.
- Income Protection partially or fully paid by yourself generally will cover you for illness or accident whilst unemployed for 12 months. Partially paid income protection is generally when part of your premium is paid by your superannuation fund and another part paid by you personally.

Your financial adviser can assist you in confirming if you are covered whilst unemployed.

IS THERE ANY PREMIUM ASSISTANCE IF I BECOME UNEMPLOYED?

One of the major benefits of obtaining good financial advice is that you are more likely to have an insurance portfolio where some insurance products can provide some premium relief as an automatic inclusion or as an optional benefit. A good income protection policy will have a benefit called an “Involuntary Unemployment” benefit which, in the event of becoming involuntarily unemployed, allows premiums to be waived for a period of up to three months. During the three months that the premium is waived, your cover is still active.

Some insurers have extended this benefit to their entire insurance product suite, so it is important that you check your policy to see how you are covered.

WHAT CAN I DO IF I CANNOT AFFORD TO CONTINUE PAYING MY PREMIUMS?

There are several options available, however it is strongly recommended that you speak to your financial adviser before you contemplate any change.

You may consider pausing your policy for up to 12 months. The term used by insurers is a “premium suspension”, which means that you will not pay premiums for this period. It is very important to note that during this period, you will not be covered under the terms of the policy and would be unable to claim for any claimable event that occurred within the suspension period.

Another option may be to change the policy ownership from being owned by an individual to being owned by your superannuation fund. What this means is that instead of you paying your premiums from your after tax dollars, premiums may be able to be funded by your superannuation savings account. In taking this strategy, careful consideration is required as this will reduce the amount you have in your superannuation savings account. This strategy cannot be used for all insurance products and you will need to have your financial adviser assess if this strategy is viable for you.

Income protection premiums are primarily priced based on your occupation, health, age, the amount of cover required, the length of time that the benefit will be paid for, and the amount of time that you can wait before you start receiving the benefit. For example, in the event of an accident or injury, with a monthly benefit of \$5,000, a waiting period of 30 days, and the benefit to age 65, should you have an accident or become ill, you will start to receive your monthly benefit if you are disabled for more than 30 days and the benefit will be payable to the age 65 or until you can go back to your normal occupation.

A way of reducing your income protection premium is to extend the waiting period from 30 days to 90 days. The important thing to note is that this means you will not receive a monthly benefit until you have been disabled for at least 90 days. Extending the waiting period to 90 days will result in around a 40% reduction on the premium. The longer you can wait for the benefit to be payable, the cheaper the premium will be; however careful consideration is required as this can cause you financial strain as you will need to support yourself the first for 90 days.

Insurance is quite complex as there are so many variables, options, and benefits that many people are unaware of. Getting life insurance advice from a financial planner is always recommended as they will be able to tailor cover to suit your needs and objectives. The most important part of using a financial planner is that they will be there to help you through the claim process and in times like these, where consideration on how to ensure you remain covered while managing your health and financial wellbeing.

ENDURING POWERS OF ATTORNEY

WHY DO YOU NEED ONE?

Mark Teale, Retirement Strategies and Solutions



Several years ago, a good friend was visiting her mum who lived interstate. After the visit she spoke to me regarding her mum's health. She had not seen her mum for a few months and was shocked at how quickly her health had declined in such a short period of time.

Not only was her mum not eating properly, she was no longer cleaning her home or able to drive her car after an unfortunate accident. She had also stopped paying her bills.

This diminished mental capacity had been noticed not just by my friend, but also by her mum's doctor.

My friend arranged home care, which solved some of the issues. However, my friend's mum did not have an Enduring Power of Attorney and it was too late for her to be appointed. This is because her mum's diminished mental capacity took away that option.

In this case, the Public Trustee was appointed the administrator of her financial affairs and my friend was appointed her guardian, answerable to the administrator – the Public Trustee.

This arrangement was not completely satisfactory and came at a cost.

All major financial decisions had to be approved by the Public Trustee – the sale of her home, entry into a nursing home, and the execution of her will. Plus, every year a complete audit by the Public Trustee (at a cost) was conducted on all income and expenses.

How could this situation have been avoided? By having an Enduring Power of Attorney appointed before the mental capacity of a person become diminished.

So, what is an Enduring Power of Attorney (EPOA)? And how is it different to a General Power of Attorney (POA)?

Let us first look at a POAs.

A POA can be used to appoint someone to make financial decisions on your behalf for a specific period or event. For example, if you were going overseas and needed someone to sell your house or pay your bills.

It is relevant for the period specified and you can revoke the power of attorney at any time.

The POA will also be revoked once you have lost the capacity to freely and voluntarily make a decision, understand the ramifications of that decision and communicate the decision in some way.

The EPOA

An EPOA is like a POA except, as the name suggests, it is enduring and, if you do lose capacity to make a decision, your appointed attorney is still able to make decisions on your behalf.

So be careful who you choose as your attorney.

When considering who to choose, make sure it is someone you trust as well as willing to take on the responsibility. You should ensure that they don't have financial problems. Consider family members or a close friend who understands your personal wishes and health care needs.

Remember, you are potentially giving another person total control over your assets and the ability to make personal decisions about your health, care and accommodation when you cannot do so yourself.

If you wish, you can appoint more than one attorney as a safeguard.

In the rare cases, where the attorney does not act in the best interest of the person who has appointed them, all states have legislation allowing the public trustee or guardian to investigate the attorney and take action to resolve the matter to best protect the adult concerned.

I should also point out that every state's process regarding these matters is slightly different, so please do talk to someone who understands and can provide direction before going ahead and completing any documentation.

DISCLAIMER

The information contained in this newsletter is of a general nature only and may not take into account your particular objectives, financial situation or needs. Accordingly, the information should not be used, relied upon or treated as a substitute for personal financial advice.

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