PREPARE FOR LIFE

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ElevenEdge FINANCIAL PLANNING

IN THIS ISSUE

WHY YOU NEED AN EMERGENCY FUND

by Peter Kelly, National Technical Manager

There are times in life when things don't go as we plan, or as we would like them to go.

For example, a good friend of mine recently took their dog for a run on the beach. The dog loves chasing thrown sticks and generally running on the beach. But this day's excursion did not end well. The dog turned suddenly in the soft sand and, as a result, suffered a torn crucial ligament.

After a visit to the vet, including an examination and x-rays (under anaesthetic), the bad news came in. Surgery would be required.

The surgery was duly performed, and I am pleased to say, the dog is recovering nicely!

But how did my friend, the dog's master, shape up? Needless to say, their wallet was decidedly lighter – about $2,500 lighter!

While some expenses, like car and non-urgent house repairs, or a desperate need for a holiday, can often be delayed until the money is available, some things in life require urgent access to cash.

Things like urgent medical expenses – for humans and our pets; house repairs – like fixing a burst water pipe; travel to visit a sick family member, or the need to bail out one of our kids when they get stranded. You can't plan for these expenses as you don't know if and when they will arise. But you can be prepared for the unexpected.

When the coronavirus pandemic first hit, and businesses were forced into lockdown, we saw queues of people lined up outside Centrelink the day they were stood down, desperate to receive financial assistance.

It has been reported[1] that around 21% of households have savings of $1,000 or less, with the average being $300.

So, what is the secret to building a financial buffer – something that will enable us to live a less stressful life knowing that if money is needed unexpectedly, it is there?

How much is enough?

How much do we need to have set aside for emergencies?

The answer to those questions is very much dependant on your personal situation. For example, a single in their late teens or early twenties, living at home with mum or dad probably doesn't need to cover emergency house repairs. However, they should have some money set aside to cover the unexpected. While there seems to be something magical about $1,000, and it's probably a good starting point, it shouldn't stop there.

For couple and families, the ideal amount is probably going to be more than $1,000. Perhaps a figure like $5,000 is a better target?

One suggestion for estimating the amount needed is to work out the cost of covering three to six months of living expenses.

Where does the money come from?

Saving money to seed an emergency fund can come from a variety of sources, and in most cases, it will come from more than one source.

Reviewing your budget – or creating one if you don't already have one – is a good place to start. Look for opportunities to save. Cancel online subscriptions and gym memberships no longer being used. Don't sign up for a new phone plan simply because the old plan has expired and there is a new device available. Entertain at home or in a park. Dine out at cafes rather than expensive restaurants.

With many people now paying for things by tapping a card (or phone), your bank transaction statements can be instrumental in identifying spending leakage.

If you have things you no longer use lying around your home, consider selling them on Gumtree or Facebook Marketplace.

Set yourself a savings challenge with a friend. The first to get to your agreed target wins bragging rights.

What should the emergency fund be used for?

An emergency fund should be kept separate from other money. It should be kept in a separate bank account and ideally not be "linked" to other accounts. Many people keep their emergency fund with a different bank. This helps to resist the temptation to transfer money from the emergency account for something that is more of a whim than a real need.

Running out of money before payday is not an emergency. If you have a budget, you should have planned for your everyday spending. Having a weekend away with friends is also not an emergency, no matter how confined we might feel post coronavirus.

But fixing a broken water heater, paying for urgent dental treatment, or having your dog's crucial ligament repaired is an emergency.

Having a comfortable emergency fund delivers peace of mind and can make a significant contribution to reducing stress within a family.

Spend a moment evaluating how much you might need for your emergency fund - review for personal circumstances, and what emergencies may cause a strain on your finances. Then get to work and build it. You won't regret it.

[1] *ME Bank Household Financial Comfort Report, July 2020, page 4*

6 HEALTHY HABITS TO TEACH YOUR **KIDS FOR FINANCIAL CONFIDENCE**

Whether your kids are four or 24, it is never too early or late to teach them healthy habits for their finances. Like everything in life, learning about money is a continuous process and each age will provide opportunities to teach different aspects of financial literacy.

Here are six areas you should be covering with your kids to help them build their knowledge of money and encourage financial responsibility.

1. SAVING

- Setting goals – sometimes you have to wait to buy the thing you want
- Types of savings accounts
- How interest works

2. SPENDING

- The difference between a 'need' and a 'want'
- The cost of credit
- Good versus bad debt

3. OWING

- What it means if you go into debt?
- What happens if you miss payments?
- Compound interest and the real cost of goods
- Non-payment of debts and impacts to your credit scores and future loan potential

4. EARNING

- Rewards for chores
- Encouraging entrepreneurship

5. BUDGETING

- Tracking your spending habits
- Opportunity cost of deciding where the money goes
- Long-term planning

6. TALKING

- Normalise conversations about money
- Share lessons from failure
- Get your kids involved in decisions about money

Of course, this is only a small list of healthy habits to help your kids build confidence about money. Your financial adviser is a great resource to help you build a plan to teach your kids financial literacy. You can also find some great books and resources with ideas and insights.

A few suggestions are below:

- Moneysmart.gov.au (https://moneysmart.gov.au/teaching-kids-about-money)
- Barefoot investor for families (barefootinvestor.com)
- Wealth Ways for the Young – Pete Wargent
- The Richest Man in Babylon - George Glason
- Think and Grow Rich – Napoleon Hill
- The Total Money Makeover – Dave Ramsey

DO YOUR TEENAGERS UNDERSTAND THE CONCEPT OF **'MONEY'**?

Mark Teale, National Technical Manager

One morning at my local coffee haunt, I listened with a great deal of interest as a couple discussed the dramas of living with three children. No, I was not eavesdropping; they are friends, and were all sitting at the same table.

Their three children are aged 20, 18, and 15 - a girl and two boys. The two oldest are attending university and also working, which is commendable. Even the youngest boy has a part-time job at a well-known fast-food restaurant.

The discussion evolved from how untidy and demanding they were; to how smelly the youngest boy was; to their spending habits, which was where it became a little more interesting, and, from my perspective, a little frightening.

All the children have mobile phones, on reasonable monthly plans, which mum and dad pay. The deal is that if they exceed the allotted call and download data associated with the plans, the children are responsible for the extra costs.

The two oldest children have cars which mum and dad bought for them. Mum and dad pay the registration and insurance, while the children are responsible for fuel and upkeep.

As University has finished for the year, the two oldest children are now working full-time: they both work on a part-time basis during the rest of the year. None of the children pay board and the older two were offended at the very suggestion.

You may think that was what I was concerned about, but what raised my eyebrows was learning that the two oldest children both have credit cards with debts over $5,000 each. Mum and dad didn't know about this until oldest child asked for help to pay a monthly repayment, as she was unable to cover this cost. She wasn't concerned about not being able to make the repayment. What worried her more was that her credit card had been declined when she was trying to purchase new clothes.

With the two older children making good money and with little in the way of overheads, what had gone wrong?

Honestly? I'm not sure. From the two children's perspective, there was an expectation that mum and dad would bail them out, just as they had always done.

As an outsider looking in, I believe that the two children, even though they are both working and doing well in University, have no idea of what money is. For them, money is a means to instant gratification, allowing them to buy what they want as soon as they want it, even if they haven't actually earned the means to pay for it.

So, what can mum, and dad do to help?

1. **Get them to start a budget.** Ask the children to record what they are spending their money on. Take time each week to review this this together, without judgement. It is an opportunity to discuss the difference between short-term gratification and longer-term plans. Hopefully, it will also help them to stop and think before reaching for the credit card.
2. **Start a targeted savings plan.** Having a savings account that provides extra bonuses for putting money in and not taking it out, will help them to achieve that goal, without relying on the bank of mum and dad to fund them.
3. **Give them financial independence.** Stop paying the kids' bills and start charging board. You could save this money for them as a bonus when they reach their targeted savings goals – just don't tell them this is what you intend to do.
4. **Teach them basic financial literacy concepts.** Do they understand how much extra they are paying when you add the interest on the credit card they have used? How much will that $200 pair of jeans or shoes eventually cost?

The above are just a few simple steps that can help these young adults to gain a better appreciation of money. While it may be painful in the short term, and probably anger both children, I think they will thank mum and dad in the long run for taking a stand. It will also set an excellent example for the youngest child, and hopefully, mum and dad will not have the same problems when he reaches his later teenage years.

I should point out that there are several good books available which are specifically directed at teenagers to help them understand the concepts of saving, investing and the risk of credit. All the best and good luck!

ABOUT US

"Our vision is to give our clients the freedom they want by being the professional they need."

As a business, we want to grow alongside our clients through strong relationships and providing a tailored client service. The core value of the business is driven by our clients who are family-orientated, passionate and respectful.

On behalf of Eleven Edge Financial Planning, we thank all our clients who have made this possible for us.

Yours sincerely,
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