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FINANCIAL SERVICES PTY LTD

## Timely Tips

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### Australia's debt pandemic



**Over the last 40 years we have seen dramatic changes in attitudes – political, social and financial.**

During the 1970's, Australians were careful with their money and disciplined with their savings. In the mid 1970's Australians were saving between 15% and 20% of total household income. Property was the most popular investment vehicle – the "great Australian dream" of owning a home was the status quo, despite high interest rates. The view of retirement was that it was a "rest" for a long life of hard work. Retirees had worked and saved hard to own their home outright.

Throughout the 1980s, the average Australian household owed less than \$50 in debt for every \$100 in income. Since 1995, that figure has more than tripled to almost \$160 in debt for every \$100 of income. The average house price was much lower but interest rates were much higher so it made sense to pay off the house as quickly as possible. The environment in the 1980s promoted the "property is king" attitude. That is, the "great Australian dream" was owning your own home, owning a holiday home, and then owning some investment properties to retire on – an achievable "reward" for a lifetime of hard work.

By the 1990's, house prices were on the rise, and though interest rates were falling, people's ability to afford a home was declining. More people, not just the wealthy, were dabbling in the sharemarket. Household savings as a proportion of income steadily declined over this period – people were saving

just over 5% of their income. The attitude towards retirement began to shift from being a "reward" to a "right".

The noughties finally saw widespread debt on a national scale. At times, the savings rate dipped into negative territory – households were spending more than they were saving. House prices were on the rise and well in excess of income growth. Owning property had become out of reach for many Australians, even with low interest rates. More Australians were comfortable being saddled with debt, particularly younger Australians, and retirement had come to be seen as a "right", not a hard earned "reward".

A number of factors contributed to increase preparedness to take on debt. Real incomes have risen strongly, Australians are better educated, inflation and interest rates have been low and financial deregulation has increased the amount households can borrow. With so much money being pumped into housing, it is not surprising that the value of houses has increased dramatically.



Due to our increasing levels of debt, inadequate savings and longer life expectancy, many retirees or pre-retirees, those over 55, still take up to 5% of debt with them into retirement.

The retirement issue has been compounded by longevity. Longevity is not only increasing but the increase is accelerating. Those who survive until 90 could spend a third of their lives in retirement. The problem is compounded by the very low fertility rate of baby boomers. Most commentators agree that it is the retirees' responsibility to fund their retirement, just as previous generations have done and subsequently will need to do.



### So how much will you need to live in retirement?

A general rule of thumb is that you'll need approximately 65% of your pre-retirement income. ASFA believes a couple can live comfortably in retirement with an annual income of \$51,132 pa, which requires a capital base of \$770,000.

### Did you know?

Australian families with dependent children need life insurance between the value of 10 and 13 times their combined annual income.

A May 2005 survey conducted on behalf of the Investment and Financial Services Association (IFSA) found that on average, only 4% of those families with dependent children had life insurance more than 10 times their earnings.

Source | Aviva & IFSA

To live more modestly on an income of \$27,695, you will need \$417,000 of capital.

What can you do to be prepared?

- Save – stay in control of your own financial destiny.
- Talk – engage a financial planner to find out how much superannuation is enough.

Source | Investment Exchange

## Does your insurance still cover your business needs?

**Once you've got it, you often don't give your insurance another thought until you need to make a claim.** However as your business changes, it's easy to outgrow your insurance.

If you have made some big changes recently, like expanding your business, or taking on a new partner, you may need to reassess your insurance. As your circumstances change, so do your insurance needs. Not updating your insurance can leave you vulnerable when you need it most.



### Sound familiar?

Do any of these events sound familiar to you? If you've recently made changes to your business, like those below, it could be time to review your insurance.

- You are expanding your business
- You have a new business partner
- You have taken out a large loan
- You have taken out a personal guarantee
- You are employing new people in your business who are crucial to its operation
- There is a change to your business structure
- You are leasing new equipment / premises



### Why is business insurance important?

Running a business is hard enough without adding the complications of injury, illness or even the death of a business partner or key person. That's why every business should include business insurance as a matter of course. Important areas for every business owner's consideration include protecting any business loan, succession planning and business expenses.

Businesses with two or more owners should consider what might happen to the business if one of the owners dies, becomes totally and permanently disabled or suffers a terminal or traumatic illness.

A business generally depends on a few people to produce the profits, provide the capital or manage the business. If there is no viable succession plan, there may be

significant financial hardship for the surviving business owners, as well as for the surviving family members. Business insurance is a specialised area of insurance which involves undertaking a full and detailed interview with a financial adviser to determine the best plan for your business, including:

- needs of the business
- amount of insurance necessary to satisfy these needs
- cost of the insurance
- prioritisation of the business needs and insurance (having regard to the cost) and
- requirements necessary for the amount of insurance proposed.

Once you have worked with your financial adviser to identify your business needs, the goal of business insurance is to provide a funding mechanism. The funding can help the business to financially survive a key person crisis. A business that has business insurance in place may also demonstrate to creditors, shareholders and employees the principles of sound financial management and planning.

Source | Comminsure



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