



FINANCIAL ONE



# Summer Newsletter 2018

Welcome to the latest edition of our client newsletter,

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.

In the meantime we hope you enjoy the read.

All the best,  
The team at Financial One

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# What are the 3 biggest living expenses for households?

We check out the three largest contributors to household spending in Australia and where people would source additional cash if living expenses rose.

If you worked a full-time job in Australia in 1975, the average amount you would've earned a year was about \$7,600, whereas today, that figure would be closer to \$72,000<sup>i</sup>, according to research by McCrindle.

That's welcome news, but while we're earning more than what we did in 1975, things are also costing us more. A loaf of bread is 10 times the price, a litre of milk is three times the price, a newspaper is 20 times the price, not to mention petrol has doubled, with house prices in some capital cities up thirtyfold.<sup>1</sup>

We check out the largest contributors to household spending today and where people say they would source additional money if day-to-day expenses increased further.

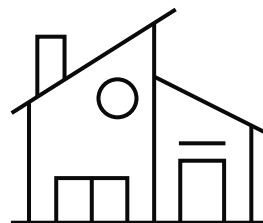
## Housing, food and transport

The three largest contributors to household spending in Australia have been the same for many years, according to the Australian Bureau of Statistics (ABS).

Three largest contributors to household spending in Australia

Housing is now the largest contributor at

20%



Source: Australian Bureau of Statistics – Households spending more on the basics

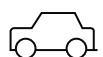
Followed by food

17%



And transport costs

15%



ABS figures reveal three-and-a-half decades ago the largest contributors to household spending were food (20%), transport (16%) and housing (13%), with housing now at the top of that list (20%), followed by food (17%) and transport (15%) respectively.<sup>ii</sup>

A separate report by Deloitte highlighted that around 37% of Aussies were concerned about their ability to cover expenses, with more than 50% indicating that they expected to pay even more on housing and energy costs going forward.<sup>iii</sup>

## What people would do if costs rose further

When asked, if your day-to-day living expenses increased, where do you think you'd source additional money from, here was the top eight responses in a survey of Australians:<sup>iii</sup>

1. Reduce luxury spending – 20%
2. Buy fewer groceries – 12%
3. Spend less on transport – 12%
4. Borrow money via a loan or credit card – 10%
5. Draw on savings – 5%
6. Spend less on food delivery and eating out – 5%
7. Cancel subscription services – 4%
8. Cancel streaming services – 3%.

With costs of living continuing to increase, if you are feeling the pinch there is help at hand. We can review your situation and assist you to put in place a plan to get back on top of things.

- i McCrindle Research  
– 40 years of change: 1975 to today
- ii Australian Bureau of Statistics  
– Households spending more on the basics
- iii Deloitte Access Economics  
– ALDI household expenditure report

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# Responsible and ethical investing

## – what are they and what's the difference?

Whether it's the war on waste, human rights abuses, animal rights or climate change that is your issue of choice (or perhaps you're concerned about all of them), more of us are taking an interest in making decisions with our money that reflect our values.

Recent research from the Responsible Investment Association Australasia (RIAA) shows that 92% of Australians now expect their super or other investments to be invested responsibly and ethically, and that four in five of us would consider switching providers if our current super or investment fund engaged in activities inconsistent with our values.<sup>i</sup>

But while the increased interest in responsible and ethical investing is undeniable, there's still some confusion around what they actually mean.

### Responsible and ethical investing explained

In simple terms responsible investing encompasses a range of investment styles and techniques that take into account environmental, social, governance (ESG) and ethical issues within the investment research, analysis, selection and monitoring process.

For example, funds might screen out companies or sectors due to controversial or unethical business practices or negative social impact (negative screening). Other investment strategies may focus on selecting companies or sectors with a stronger focus on sustainability drivers relative to their peers (positive screening).

Some common examples of factors that might typically be considered include:

- **Environmental:** Waste, pollution, greenhouse gas emissions, clean technology products and services, environmental management practices.
- **Social:** Workplace health and safety, labour relations and standards, community impacts, human rights.

- **Governance:** Board independence and diversity, executive pay and incentives, bribery, and corruption, conflicts of interest, shareholder rights.
- **Ethical:** Tobacco, gambling, weapons, testing on animals, controversial medical research such as stem cell research, live animal exports.

The most widely used technique by fund managers is ESG integration, which involves the systematic consideration of ESG risk and return factors alongside financial considerations when making an investment decision.

There's also impact investing where capital, in the form of your investment, is provided to a business which has the purposeful intention of generating a measurable, beneficial social or environmental impact, in addition to a financial return.

Increasingly fund managers are using a combination of these responsible investing techniques, creating a range of options in the market for customers seeking to line up their own values with their investment profile and appetite for risk.

### How to invest responsibly and ethically

When it comes to investing your money – be it your super or other financial investments – it's become increasingly easier to put your money where your mouth is.

According to RIAA, around 55% of all assets under professional management in Australia were invested responsibly at the end of 2017.<sup>ii</sup>

If you'd like to invest more responsibly or ethically it's important to first consider which issue or issues are of the most importance to you, and how strongly held your convictions are.

Do you prefer avoiding certain industries (for example, the fossil fuel industry) or would you rather favour other industries (such as renewable energy, health-care)?

Or perhaps you're happier with an approach that selects companies that demonstrate the most sustainable characteristics within their industry sector?

### What we're doing at AMP

AMP Capital has been focussed on assessing the environmental, social and corporate governance performance of the companies we invest in since 2001.

In 2007 we signed on to the United Nations-backed Principles for Responsible Investment and we've recently completed an ethical divestment strategy in accordance with a new ethical framework and have sold all our investments in companies that manufacture tobacco, cluster munitions, landmines, biological and chemical weapons across our entire portfolio. We are also a founding signatory of global Tobacco-Free Finance Pledge.

AMP Capital is responsible for managing the underlying investments in AMP's super products and publishes information on its website about its responsible and ethical investing practices, ESG investment insights, and responsible investment product offerings. For more information visit [www.ampcapital.com/au/en/capabilities/responsible-investment](http://www.ampcapital.com/au/en/capabilities/responsible-investment)

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Adam is responsible for building upon the strong foundation AMP Capital has set in adopting the UN Principles for Responsible Investment and integrating ESG considerations. His role includes facilitating continued implementation of responsible investment practices in all asset classes including listed equities, infrastructure, property, fixed income and credit. Adam also engages with other Australian companies on ESG issues and supports the implementation of environmental targets for the broader AMP group.

<sup>i</sup> RIAA, From Values to Riches, Charting consumer attitudes and demand for responsible investing in Australia

<sup>ii</sup> RIAA, Responsible Investment Benchmark Report, 2018 Australia

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# I'm young – do I need life insurance now?

Life insurance is usually not something people think about until they begin to accumulate assets, debts and dependants. And there can be a fair amount of information to sift through, including some little known and commonly misunderstood facts.

But you shouldn't leave it too late in life to think about your cover. By ensuring you have appropriate cover when young and fit, you could save yourself some hassle, and quite possibly some money, when you're older.

## You probably already have life insurance

Did you know there's a good chance you already have some life insurance cover, as more than 70% of Australian life insurance policies are held inside super?<sup>i</sup> But what do you need to know about this type of life insurance?

## Understanding insurance within super

There are some benefits to having insurance within your super. It's often cheaper<sup>ii</sup>, because super funds purchase insurance policies in bulk. And if your premiums are deducted from your super, you won't be dipping into your take-home pay.

Paying insurance premiums via your super, however, could decrease your super balance if your premium is not being offset by contributions. And if you make a claim, you may need to pay tax on the benefits paid to you.

It's also important to recognise that the life cover provided by super funds is usually bought on a group basis, based on averages not individuals.<sup>ii</sup> If you – or your loved ones – need to claim on your policy you may find out you aren't covered for everything you hoped you might be.

## Understanding stand-alone life insurance

The other option is to buy a stand-alone policy from an insurance company.

While this type of cover usually comes out of your take-home pay, it's tailored specifically to you and can be adjusted to reflect your changing circumstances – such as buying a home or having children – to ensure your insurance remains suitable to your needs.

## And where does 'underwriting' fit in?

An important part of the process for obtaining this type of cover is called underwriting, which typically involves completing an application form, possibly followed up by a phone call, to collect personal details such as your age, gender, health and medical history, and lifestyle information.

Using this information, the insurance company can accurately assess your risk, and set your premiums to reflect this, so you should never pay more than you need to.

## The benefits of buying life insurance early

By buying insurance when you're young you're less likely to have exclusions applied, or to be declined cover, than you might be when you're older and your health has deteriorated. You're also less likely to have to pay higher premiums to cover particular health issues.

And once you've taken out stand-alone life cover, it will automatically renew each year regardless of changes to your health, until you either choose to cancel it or reach the maximum age under your policy.

Contact us if you would like to know more about life insurance.

i <http://ricewarner.com/insurance-through-superannuation/>

ii <https://www.moneysmart.gov.au/superannuation-and-retirement/how-super-works/insurance-through-super>

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