canberra times: q&a

Q 1: As the Personnel Manager in a large business I am regularly approached by staff asking for a pay rise due to higher costs of living. Clearly some staff are feeling financially stressed but as a business, we have budgets and targets aswell. How can assist them?

Withheld, CANBERRA

A 1: There have been many studies conducted indicating financially stressed staff are less productive due to being distracted, making errors, absenteeism and lack of interest in work, let alone the affect on workplace morale. The health and home environment of the staff member can deteriorate aswell.

Much of this stress is created by anxiety surrounding the uncertainty of their financial situation. Often we are focused only on the immediate financial issues, which can be overwhelming and consuming. More often than not, if you look at your financial situation in light of a bigger picture – whether that be over a longer period of time or in the context of all the other components of your financial situation - then you can often see the immediate issues can be handled.

A good financial planner may be able to show you that things are not as bad as you worry they are just by doing what you are currently doing. They can also often show you a new path to financial freedom, if the current path you are on is not projected to achieve your objectives.

Here is an example of a couple, feeling stressed about the size of their mortgage, as all income is used on expenses and mortgage and they feel they are getting nowhere:

- By speaking with a financial planner they can clarify and understand the different components of their financial situation and objectives including the following key points:
  - Male 43, working fulltime in private sector earning $70,000 pa, retiring at 65 (22 years).
  - Female spouse, 40, working fulltime in private sector earning $50,000 pa, retiring 62 (22 years).
  - Only financial assets are accumulated super funds of $80,000 and $40,000, invested in a balanced fund, receiving super guarantee contributions at 9% pa.
  - Their only debts are a mortgage with current balance $300,000 at 10% pa interest rate, to be conservative.
  - They have prepared a budget showing "core" lifestyle spending (not including mortgage payments) are $55,000 pa.
  - They would like to be able to replace their car every 7 years at a cost of $30,000
  - Any surplus cashflow is being directed to paying down the mortgage, then when paid off, assumed accumulated in an investment targeting a balanced return.

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Results:

- By preparing a financial projection, the clients can see the following projected results if they stick to their current lifestyle budget of $55,000 pa (in today's dollars) to retirement:
  - Mortgage repaid in full in 14 years time
  - Retirement spending of $68,000 pa for 23 years to ages 88 and 85 ($13,000 pa in today's dollars more than current spending)
  - They are projected to be entitled to a part aged pension from age 67, based on current rules.

This projection gives an understanding of where they are heading and can give confidence that the bigger picture of their financial situation is better than they realise. This can relieve anxiety and lead to a more productive and enjoyable environment for staff and business.

Phil Thompson is a certified financial planner and authorized representative of Rise Financial Pty Ltd (ABN 86350987645), AFSL 311718, an Approved Financial Planning Association Professional Practice. Answers should be used as a general guide only and professional advice should be sought before making investment decisions.

Send your financial questions to phil@risefinancial.com.au

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