Personal Finance Lessons of 2020

Entrust

As we advance through the beginning of 2021, there are plenty of personal finance lessons to take out of the events of the last 12 months. The Covid-19 pandemic has resulted in economic damage and forced us to think about what will put us in good stead going forward. Below are some common financial strategies and conversations that may appear as we navigate further into the unknown.

Planning for Emergencies

Many Australians experienced the prospect of having insufficient readily available savings during 2020. This led to millions of early superannuation release payments to assist in meeting immediate short-term expenses and alleviate personal economic uncertainty.

An emergency, or contingency fund, is an amount of money saved and set aside for urgent or immediate expenses. Having cash accessible (such as via a simple savings account) provides peace of mind in the event of unexpected events. It can also help to reduce the impact of shorter-term disruptions by acting as a buffer during a period of reduced income.

The amount of an adequate safety net is generally based on a number of months' salary or living expenses. A cash emergency fund can be 'set and forgot' or receive additional money on an ongoing basis as it is saved.

Review of Expenses

Can we save more? The experience of 2020 will have us thinking further about how we should spend our money and whether a budget can assist in finding a good balance in daily life.

This may lead to a review of outgoings, serve to change habits and incorporate increased financial discipline. Some common areas that may be deemed appropriate for review include interest rates on mortgages and checking whether the family is adequately covered in case of health problems, death or disability.

Having an Investment Plan

We can find it difficult to focus when things look particularly risky. However, share markets can also surprise us and react differently to expectations. An appropriate long-term investment plan can help weather short-term risks whilst providing the opportunity for review as required.

Separate to a cash emergency fund, a longer-term investment bucket should consist of money not needed for at least five years. It's also important to understand your risk tolerance and return expectations. The next part of the plan is to find investments that are aligned with the above. A diversified investment portfolio that meets your risk profile and that you can stick with regardless of the market environment has shown to be a prudent investment strategy for those wishing to achieve long-term investment returns.

Engaging with our Superannuation

Superannuation plays a major part in our retirement plans as it provides a low-tax environment to build assets over time. With the underlying assets having exposure to share markets, the pandemic forced us to become more engaged with our retirement nest-egg. Superannuation accounts generally provide flexibility and there are many strategies and opportunities available to build wealth in the vehicle.

Having Estate Plans in Place

Having a will is one of the most important things to do for yourself and your family. Although it can be difficult to bring up conversations relating to mortality, being prepared for the worst allows you to leave behind an understanding of the wishes you have for assets and belongings.

It's important to update your will as situations change (e.g. getting married or divorced, experiencing a significant financial change). In addition, it's vital to review superannuation beneficiary nominations as superannuation benefits are not automatically dealt with by a will.