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Is cash set to become a **thing of the past?**

Some financial professionals are predicting Australians could be living in a cashless society in less than a decade.

What does the potential death of cash mean for you personally and for Australian society as a whole? We explore the current trends in consumer payment behaviour and some of the ramifications of a cash-free world.

A revolution in the way we pay

Can you remember the last time you went out for dinner with a group of friends or family and everyone had cash to split the bill? It's not surprising if you can't remember because the past few years have seen a revolution in the way we choose to pay for goods and services. It seems that more and more Australians are forgoing cash in favour of electronic and contactless payment methods.

According to the Reserve Bank of Australia (RBA), Australians are the sixth highest users of electronic payments in the world, with only 37% of household spending now done using cash compared to 69% a decade ago.[1]

If the pace of change continues then it's predicted that physical notes and coins could vanish in Australia as soon as 2026.[2]

The cost of convenience

If you're one of the almost five million Australians who haven't visited an ATM in the past four weeks or can't even recall the last time you withdrew cash, a cashless society might feel like a natural progression.[3]

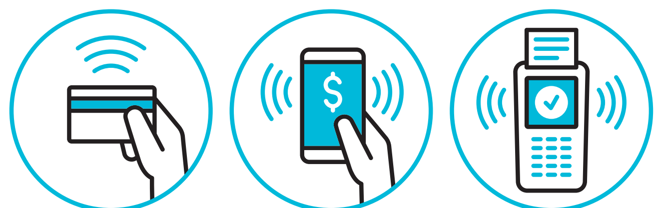
But while convenience has replaced cash as king, it comes at a cost to groups that rely on cash for tips such as waiters or cash donations such as charities and the homeless, who are now resorting to alternative ways of collecting money.

For small business vendors, the growing consumer expectation to pay for goods as small as a $4 latte using tap-and-go technology has also proven costly. The Australian Retailers Association estimates that these types of payments cost businesses an extra $500 million a year, due to the additional fees that businesses are being charged by banks to process these tap-and-go transactions.[4]

In response, some businesses are passing the extra costs on to consumers, either through surcharges on top of card transactions for tap-and-go payments or by increasing the cost of goods across the store.[5]

As a consumer, this disconnect with cash also has an impact on our spending behaviour. According to a study from the University of Sydney, people often spend up to 50% more by paying with any payment type other than cash. This is attributed to the fact that non-cash payments can cause us to subconsciously detach from our money, leading to a sense that our spending is not 'real'. This can, in turn, lead to inaccurate mental accounting and overspending.[6]

For the wider Australian economy, the news is more positive. Our tendency towards spending more when not using cash means more cash flowing from consumers to businesses and more money going into the economy. The RBA also points to the shift to a cashless society as a solution to a leaky tax system, which loses an estimated $6 billion a year to the cash-fuelled black market.



In this issue...
Is cash set to become a **thing of the past?**
Why some investments cost **more than others**
Is a family trust a **good solution** for you?

How will this shift affect other payment methods?

The ushering in of this new payment trend has displaced not just cash, but other traditional payment methods such as cheques. In fact, cheque use in Australia has dropped by 77% during the past ten years, with only a small number of cheques still being used by certain sectors in the community.[7]

While coins will obviously be retired should we move to a cashless society, there are current restrictions around coin payments. For example, if you have a collection of 5c coins, you can only use them to pay for goods up to $5. Any more than that will not be considered legal tender and you will need to deposit them into a bank account and use a larger denomination coin or note, or an alternative payment method to make your purchase.

No wallet? No problem

Contactless technology has spawned a range of creative payment options for consumers. We can now choose to pay for goods and services using a range of mobile and digital devices, which means leaving the house without your wallet is no longer the headache it once was.

Payment options vary from mobile apps like 'HeyYou', which allows you to order and pay for your morning coffee via your mobile, to digital wallets like Apple Pay or Google Pay, that are linked to your bank account and enable tap-to-pay purchases via your mobile, tablet or smart watch.

With the majority of consumers favouring the convenience of contactless payments, coupled with the technological advancements that are leading us away from a reliance on physical currency, a cash-free world seems inevitable. How it affects business, individuals and Australian culture as a whole will be an interesting social evolution to follow.

1 The Sydney Morning Herald, 'Australia could be cashless in just three years: experts', 16 December 2018.
2 www.finder.com.au, 'Cash payments predicted to disappear within a decade as tap and go takes over', May 2018.
3 Money and Life, 'How close are we to a cashless society?', 18 September 2018.
4 The Sydney Morning Herald, 'Rise of tap and go slugs bottom lines', 17 September 2018.
5 www.news.com.au, 'You are being charged every time you tap-and-go', 11 May 2018.
6 Business Insider Australia, 'How Australia's move to a cashless society is damaging millennials', 6 December 2017.
7 The Sydney Morning Herald, 'Cashless future is here, with coins and banknotes to become niche', 2 December 2018.

Why some investments cost **more than others**

People are sometimes unsure why different types of investments cost more to manage than others. There can be several reasons for this. Let's look at some of the main ones.

When deciding what to invest in, there are three main factors you should consider:

1. The expected return you need to meet your objectives.
2. The risk you are willing to take to achieve that return.
3. How costs, including taxes, affect the ability to generate returns in line with your appetite for risk. This means that higher cost investments must, over time, generate higher returns to compensate for the higher costs.

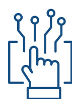
What factors make certain investments more expensive?

Overseas investments

Access to some overseas investment markets can increase costs. For example, emerging markets such as Indonesia or Brazil are seen as attractive markets for long-term investment because of their strong economic growth profile. This growth profile means investors may look to benefit from the anticipated rising demand for goods and services that occur as these countries' economies transition from a developing to a developed status. The costs of managing these investments in terms of trading and custody of assets are often higher than in more developed markets.

Currency protection

Investors may also pay higher fees for better risk protection from currency movements. This is because investing in overseas assets means taking on the additional risk of currency movements affecting the value of the investment. The value of an investment in an overseas market can also be influenced by the currency moving up or down. If the US share market is up 10% in one year but the Australian dollar appreciates against the US dollar by 10% at the same time, then effectively the investor makes no gain because the 10% drop in the value of the US dollar compared to the Australian dollar cancels out the 10% gain in the share market. In contrast, an investor who hedged by protecting themselves against currency movements would make a 10% return.[1] However, in order to have currency protection, an investor will have to pay a slight premium which translates into higher costs compared to the same investment that is unhedged.



Investment manager skill

Many investments are referred to as passive strategies. They may, for example, invest in a way that replicates a share market index, such as the ASX 200 or the S&P 500. These relatively low-skill strategies are usually inexpensive to manage. Choosing an active management approach which is reliant on the skill of the investment manager may generate higher returns or reduce risk, but it will cost more.

Access to direct investments

Instead of investing in an asset such as shares in a company on a share exchange via employing a fund manager, investors can choose to invest directly in an asset. This approach is often used with property investments. In such cases, there are additional costs that must be borne by the investor, such as maintenance, concierge staff, cleaning staff, rates and property taxes. Despite these extra costs, in some cases, the property investment will generate superior long-term performance with lower risk, making the higher costs involved worthwhile.

These are just a small selection of the reasons for some investments having higher costs than others. Higher investment costs, considered in isolation, are not a reason to reject a particular investment. When comparing different investments, cost is an important factor but not the only one.

Before making any investment decision, please contact us and we can help.

1 This example is for illustrative purposes only. Please seek advice from a financial adviser before making any investment decisions.

Is a family trust a **good solution** for you?

Family trusts can help you protect your assets, manage your family's tax more efficiently and enable you to provide an income stream to a vulnerable family member.

To decide whether a family trust could be good for your family it's important to understand how they work and the advantages and disadvantages.

What is a family trust?

A family trust is a trust that commences during your lifetime to manage certain family assets or investments and to support family member beneficiaries. The trust is governed by a trust deed which sets out the trust's rules. A trustee is appointed to manage it and is legally responsible. The trust deed and the trustee determine how income generated is distributed amongst beneficiaries.

Who can be beneficiaries of a family trust?

Beneficiaries of a trust must be family members. That is, your spouse, siblings, parents, grandparents, children, nieces and nephews. In addition, your spouse's family, any family companies, other family trusts and registered charities can be beneficiaries.

What are the advantages of family trusts?

Asset protection

Family trusts can protect family assets from future marriage breakdowns, challenges to a Will or bankruptcy because the assets belong to the trustee and not the individual. Therefore, they are less likely to be included as part of a property settlement than if they were held by an individual. They can also assist in avoiding challenges to a Will or being used to pay creditors (unless the assets were placed in the trust to avoid creditors).

Retaining important family assets within a family group, for example a farm, can also be a good reason to hold assets in a family trust.

Protecting vulnerable family members

Family trusts can help protect vulnerable family members who may make unwise spending decisions if they controlled assets in their own name. You can provide a spendthrift child with a periodic income but not access to a large sum that could be easily spent.

Tax benefits

Family trusts may also provide tax benefits to help the family group manage the tax liabilities of the family unit as a whole. This can be particularly useful when supporting adult children who are studying or older parents who are retired as they are likely to be on a low tax bracket.

There are also disadvantages in establishing a family trust including tax outcomes, expenses and management difficulties if family disputes arise.

If you're interested in finding out more about establishing a family trust, please contact us.

Source: Australian Executor Trustees

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