FINANCIAL PLANNING NEWSLETTER

Moving with the times

Change is the only constant in life said Greek philosopher Heraclitus some 2500 years ago.

This observation has never been more true than for business in Australia today. The arrival of broadband, the growth in social media, the use of iPad, digital and online technology, the higher Australian dollar and the so-called two-speed economy are all changes that have impacted the business landscape.

Those businesses that do not adapt to this new environment could well find themselves facing failure.

To survive and thrive in the shifting sands, businesses need to harness new opportunities, constantly, and understand how innovation can improve outcomes, because not all change, is good change.

The first step on this journey of transformation is to analyse your business.

That involves looking at your products and services; determining where your business has come from, where it is going and how it is going to get there; assessing both current and future potential competition; examining the ability to survive in the coming years and mapping out short, medium and long-term goals.[1]

Changing landscape

Among recent changes has been the rolling out of broadband in Australia, with major and mostly positive implications for many businesses, making them more agile and responsive to their customers' needs.

Additionally, it may lead to lower operating costs and the opening of new markets, particularly in terms of taking business online with greater use of graphics, high definition video and other multimedia, plus the development of smart phone applications and products.[2]

Social media is playing an increasingly critical role for business in marketing and reputation management, while online blogs and reviews are directly influencing consumers' purchasing decisions.

According to the Sensis Yellow Social Media Report published in June 2012, some 27 per cent of small businesses, 34 per cent of medium businesses and 79 per cent of large businesses have a social media presence.[3]

The report indicates that nearly 70 per cent of social media users read reviews before making a purchase decision and on average they read about 12 reviews. However, it

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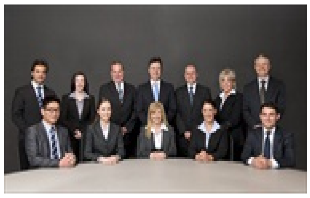
1 Australian Government, 2012, <http://www.business.gov.au/BusinessTopics/Innovation/CaseStudies/Pages/Abusinessadvisorsperspective.aspx>

2 'Opportunities for small business and community organisations in NBN first release areas', February 2011, Report to the Department of Broadband Communication and the Digital Economy by The Allen Consulting Group, <http://www.nbn.gov.au/files/2011/05/Allen-Consulting-Opportunities_for_small_business-in-NBN-first-site-areas-copyright3.pdf>, p. 8-9

3 Sensis Yellow Social Media Report, June 2012, Sensis in association with Australian Interactive Media Industry Association, <http://about.sensis.com.au/IgnitionSuite/uploads/docs/FinalYellow_SocialMediaReport_digital_screen.pdf , p. 43



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Moving with the times continued

seems that only 24 per cent of online users actually post blogs or reviews, so reaching that small number of 'influencers' is becoming an important strategy for marketers.

Businesses have a clear opportunity to build relationships with their customers using social media as well as boosting their sales. The Sensis data shows that social media users are most interested in discounts, giveaways, product information, advice and coupons[4].

Winning strategies

The recent announcement that discount footwear giant Payless Shoes had gone into administration sparked claims that the proliferation of online shoe shops in recent years was partly to blame.

And if the example of successful online footwear company styletread.com.au can be drawn on, there could well be substance to the claims.

Styletread.com.au has gone one step beyond being innovative by offering spectacular customer service, albeit in the virtual world.

The company delivers for free, has a 365-day free return policy and offers express refunds.

This type of service takes most of the risk out of buying footwear online and has unsurprisingly attracted a growing band of customers.

When Crust Gourmet Pizza Bar decided to take on the majors of the pizza industry in 2001, they wanted to create something fresh and different.[5]

Their pizzas were healthy, the first to receive the heart health tick, and they used online and social media strategies to build the brand and grow their business. They focused on winning market share through online promotion of discount coupons and meal deals.

Using social media, Crust was able to harness the power of word-of-mouth as a way to promote their story while retaining their brand integrity. Without the need for a big marketing budget for traditional media, the company differentiated itself and its products and built a loyal customer base.

Forging communities online continues to be one of the strongest tools Crust has in its toolkit for taking on the big pizza brands. Since 2001, it has grown to 120 locations around Australia.

Constant analysis

Many Australian businesses struggling under the weight of the high Australian dollar and increased competition from cheaper online global providers are constantly reviewing their business models.

The successful ones are adapting their products and services and looking ahead to the next profitable market and the most cost efficient way to reach it.

Next time you review your super fund or managed fund investments with your adviser, consider which ones are truly innovative and making the necessary changes to adapt to the new Australian business landscape.

As Charles Darwin observed: 'It is not the strongest of the species that survive, nor the most intelligent, but the ones most responsive to change.'

4 ibid., p. 5

5 M Logos, 'The Social Media Success of Crust Pizza', 3 June 2011, Dynamic Business, <http://www.dynamicbusiness.com.au/small-business-resources/growing/social-media-success-crust-pizza.html>

Kids and money

In today's electronic age, teaching children about money is much harder than in the old days of piggy banks and savings books.

Digital transactions are difficult for a child to understand. All they see is you giving a card to a salesperson and then being handed the goods.

How can they be expected to learn about the value of money in this era of cashless and almost invisible transactions?

The government-sponsored Financial Literacy Board is now piloting a new education program that will integrate the teaching of money management skills in English and maths classes in Australian primary schools.

Engagement

While this initiative is commendable, children begin to develop attitudes to money before they start school.

Let your children watch you do online banking so they can see how much money you have and how it is managed each month to pay for recurrent and unexpected living expenses. Explain the reasoning behind your budget and how it helps the family to take holidays or go to the football.

Pocket money

Pocket money can teach children many lessons.

You may want your children to earn their pocket money by doing a household chore and then make them save some of the money to create a savings discipline from an early age.

If you go down the savings road, compare the different children's accounts offered by banks and credit unions. While some institutions continue to offer rates of less than 1 per cent, others are paying as much as 6 per cent.

Most banks no longer impose account-keeping fees on children's accounts, but there may be charges levied for making withdrawals. Alert your children to such fees and how they may erode the annual return on their savings.

After the account is opened, you should encourage your child to regularly check their account so they can appreciate the benefits of compound interest.

For teenage children, you might raise the prospect of setting up a trust in their name through which your child can invest some of

their savings in a managed fund or shares. This can be a daunting task for a parent and it may be useful to talk to one of our financial advisers about the various ways this can be done.

Money pervades all parts of life and should be a regular topic of discussion for families. The sooner children come to grasps with money and investments, the better placed they will be for future financial success.

Aged care begins at home

Major changes to aged care are underway and should be in full swing by mid 2014, with the focus on care in the home.

The Federal Government's *Living Longer Living Better* reform package is aimed at encouraging older Australians to receive help in the home.

Almost $1 billion will be spent over the next five years to increase the number of in-home care places by 40,000 to almost 100,000.[1]

The reforms are good news for retirees who require care but would prefer to continue living at home.

In many cases finding the money to pay the bond for an aged care facility can be a complex task, sometimes involving the sale of the family home.

The government's increased funding is made up of $75 million to establish a single Commonwealth Home Support Program to bring together all existing home support services and $880 million to increase the number of Home Care packages available.[2]

Right now, almost one in three people have to wait more than three months for home care packages.

Means-tested fee

The new Home Support Program will consolidate the following government programs into a single scheme:

- Home and Community Care Program for Older People
- National Respite for Carers Program
- Day Therapy Centres Program
- Assistance with Care and Housing for the Aged Program.

But there will be a means-tested fee for these services on top of the existing basic fee.

While it won't cost full pensioners anything, other retirees will have to pay a fee although there will be an annual cap of $5000 for part-pensioners and $10,000 for self-funded retirees. A lifetime cap of $60,000 on care fees will also apply.[3]

Home care services include Meals On Wheels, transport, home modifications and maintenance.

Extra funding of $41 million over five years will also be available for those suffering from dementia so they can stay in their homes for longer.

To qualify for aged care help you need to have an assessment made by an Aged Care Assessment Team.

Apart from the expanded government offering, which has been generally welcomed by the aged care community, you can of course choose to pay for private care in the home. Many providers exist across Australia.

Planning ahead

Home care is not for everybody and that is where planning ahead is vital.

If you plan to enter an aged care facility, then getting financial advice will be important to minimise costs and maximise your position.

Every case is different. Selecting the right facility depends on your level of assets and your level of need.

Take the case of Peter who is 91 with no children and living in an aged care facility. Because the bond of $450,000 had seemed a little steep, he had chosen to make periodic payments instead of paying outright. (Interest rates on periodic payments are now at around 7.6 per cent.) It wasn't that Peter didn't have the money to pay for the bond, but that he thought it would reduce his income. In fact he had $930,000 sitting in his bank account, earning almost nothing in interest.

If he had sought financial advice, he might have discovered that paying the bond outright was the much smarter way to go. He could have taken the $450,000 out of his bank account, paid the bond and then invested the balance.

Not only would he have saved on not having to pay the interest on the bond, but also by moving the balance to an investment he was likely to have received a much better rate of interest than from his regular bank account.

This may not be a solution for everybody, but Peter's situation shows that you should not automatically baulk at the size of the bond without working out the repercussions of not paying.

And it's also important to remember that the bond is just that – you do get most of it back. It is basically an interest-free loan to the provider.

At present the aged care provider is allowed to retain $323 a month for a maximum of five years so that when you leave the facility you receive the bond back minus the retention amount. If you live for more than five years in an establishment, the retention amount would be $323 x 60 months, which would equal $19,280. In Peter's case about $430,000 would be returned to his estate.[4]

It is difficult to work out the best strategy for aged care and it's even harder if the decision has to be made at a time of crisis. That's why a financial adviser can help you map the road ahead. Hopefully, the new *Living Longer Living Better* changes will help to simplify the process.

1 'Living Longer living Better – Aged Care Reform Package', April 2012, Australian Government Department of Health and Ageing, <http://www.health.gov.au/internet/publications/publishing.nsf/Content/ageing-aged-care-reform-measures-toc~ageing-aged-care-reform-measures-chapter2.htm>

2 ibid, chapter 3

3 ibid

4 'The Accommodation Bond in Residential Aged Care', 2012, Aged Care Connect, <http://www.agedcareconnect.com.au/accommodation_bonds.php>

Is it time for Do It Yourself Super?

If controlling where your retirement savings are invested is important to you then running your own self managed superannuation fund (SMSF) may have its advantages.

There are many benefits in managing your own super, the most important of which is that you have more control over how your money and assets are invested to grow wealth for your retirement.

More than 900,000 Australians are now managing so-called Do It Yourself (DIY) funds that control $439 billion or 40 per cent of all superannuation assets held in the country[1].

Less tax, more control

A recent survey of the DIY super sector by fund manager, Vanguard Investments, found that the main drivers of the SMSF boom were investors wanting to gain control of their portfolio and to reduce costs[2].

SMSFs can reduce the amount of tax you pay on income derived from privately-owned assets and business property.

By transferring ownership of personal assets such as fine art and rented apartments to the super fund, the income generated by these assets attracts a concessional tax rate of 15 per cent.

The concessional rate also applies to the income of business owners who transfer the ownership of a shop, investment property or farm to the SMSF.

The tax benefits of holding these assets in the fund may be augmented if they are sold. Instead of paying a personal income tax rate on the capital gain of a business asset that is sold by the super fund, the effective tax rate may kept to as low as 10 per cent.

Offsetting franking credits against any capital losses may also lower tax.

DIY investors can cut the cost of managing their portfolio by taking a more active role in asset allocation and administration of the fund.

Operating a DIY fund doesn't mean that you are always on your own. The amount of time you commit to managing the fund is up to you. Your financial adviser can help you transfer assets to the fund and select investments.

There is much debate on how much you need in superannuation to make an SMSF cost-effective but the general rule of thumb is at least $250,000.

Key activities

People who run their own funds may opt to become trustees and take on the role of collecting and investing their contributions and distribute their own benefits in retirement.

A SMSF can have up to four trustees who have ultimate responsibility for running the fund.

The key activities of running a fund are:

- setting the investment strategy
- selecting investments
- administering the fund
- legal compliance and accounting.

It is common for an accountant to help set up a fund and for members to then seek further help from a financial adviser.

Investors need to establish clear investment objectives and to understand their tolerance to risk. Investing heavily in equities will be very stressful if the volatility of the sharemarket is going to keep you awake at night.

Similarly, investing in the relatively safe haven of cash and term deposits may not generate the returns you need to fund a comfortable retirement.

Compliance

The Australian Tax Office oversees the SMSF sector.

It requires that all funds are independently audited every 12 months and that trustees maintain all records relating to their operation.

All funds operate within the parameters of a trust deed. This document lays out what types of investments can be made and whether the fund can borrow money to invest.

Trustees need to make sure that all of the fund's assets, including the bank account, are separate to a member's personal assets and that no money is accessed by the member or any related parties until they have reached retirement age.

All SMSF investments need to meet what is known as the sole purpose test.

This means that any assets purchased are done so with the ultimate goal of providing retirement income and not for personal use.

So, while a fund can buy property, the trustees of the fund or their relatives are not allowed to use it unless it is a business property. Similarly any artwork bought by the fund cannot be hung on the walls of the SMSF member's house.

Right advice

While many people are attracted to the idea of taking direct responsibility for their superannuation, some are daunted by the many rules that govern the operation of SMSFs.

Not all people who set up a fund have to be trustees. They can appoint a third party, such as a lawyer or an accountant to act as a corporate trustee.

Under such an arrangement the investor maintains control over the investment decisions of the fund, leaving much of the paper work to their appointed trustee.

Your adviser can take you through the options for setting up a DIY fund that meets your needs.

1 'Self managed super funds statistical report', June 2012, Australian Government, <http://www.ato.gov.au/superfunds/content.aspx?menuid=49150&doc=/content/00332225.htm&page=8&H8>

2 R. Bowerman, 'The things you can control', July 2012, Vanguard < https://www.vanguardinvestments.com.au/retail/ret/news-and-commentary/helm/helm_2012_jul/helm_2012_jul.jsp>, p. 2