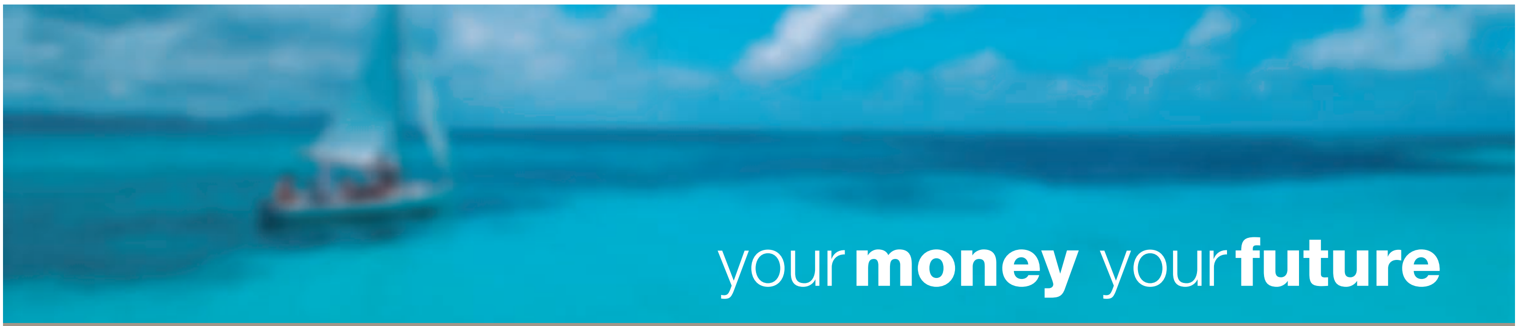

FINANCIAL PLANNING NEWSLETTER

Live long and prosper

Early planning can help you enjoy the benefits of increased longevity and live the life you want in retirement

Australians are living longer and enjoying more productive retirements than ever before.

Australian men can expect to live until the age of 79, while the average Australian woman lives until 84.* This puts Australia up there with the most advanced societies in the world – our life expectancy is the fourth highest for men and third highest for women.†

Getting on top of your superannuation early and formulating a long-term savings plan will see you best placed to prosper in your retirement.

Changing face of retirement…

By 2041, one in five Australians will be over 65 years of age and 7 per cent of the population will be over 80, representing the fastest growing sector of the population.‡

As we live longer, many of us are opting to retire earlier than ever. In 2007, the average age of retirement was 47 for women and 58 for men, which means we may end up spending as long retired as we did in the workforce.§

And the nature of retirement is changing. It's now a reward for hard work – a chance to develop new hobbies or travel the world. But do you have enough saved to fund your retirement dreams?

…and the workplace

Living longer is set to change the way we work. We are more likely to move between jobs and opt for multiple career paths during our working lives.

Older workers offer years of experience, valuable skills, and tend to be highly motivated. Companies will need to develop more part-time and contractual positions that suit older people.

An ageing population will also spell public policy challenges. By 2047 there are forecast to be only about 2.4 working-age Australians for each retiree aged 65 and over.¶

The government will need to remove any benefit or pension disincentives that act as roadblocks to participation in the workforce, as well as reduce pressure on the public purse by lifting the pension age.

The goal – a comfortable and fulfilling retirement

As we retire earlier and live longer, we will need a bigger retirement nest egg to keep pace with inflation and see us through. In order to achieve a comfortable retirement a couple needs an estimated $53,565 a year.**

The days of relying on the age pension are long gone and we are increasingly expected to fund our own retirements.

Planning is key. The earlier you start saving, the more likely you are to enjoy a comfortable and fulfilling retirement.

* http://www.aihw.gov.au/mortality/life_expectancy/trends.cfm
† http://www.aihw.gov.au/mortality/life_expectancy/compares.cfm
‡ http://www.wesleymission.org.au/publications/ageing/introduction.htm#Australian
§ http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4102.0Main+Features50March%202009
¶ http://www.aph.gov.au/library/pubs/BriefingBook42p/17SocialPolicy-ImmigrationandPopulationAging/Population.htm
** http://www.superannuation.asn.au/mr100628/default.aspx

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Benefits of diversification

Constructing an investment portfolio is like assembling a winning sports team, where a good team is more than the sum of its parts. Each team needs individuals with different strengths so that they work together and outperform the team with a few star players.

The same is true for investments. Today, the investor's challenge is to blend traditional 'team members' like shares, property, cash and bonds with newer 'players' like gold, infrastructure and hedge funds because they all perform differently, at different times in the market cycle.

In 2011 Australian bonds were the best performing traditional asset class and Australian shares were the worst. Two years earlier shares came out on top and bonds were the wooden spooners.[1]

Diversification is not about having ten investments instead of five. The core idea that makes diversification work for you is 'correlation'. If eight of your ten investments move together – go up and down together – then you have eight strongly correlated investments. However, if each of your five investments moves at different times and rates, then your portfolio is diversified in an efficient manner.

Gold, for example, has at times displayed little correlation with other asset classes.[2] It was up nine per cent in 2011, while the more traditional asset classes tended to struggle.

By dividing your money between different baskets you spread your risk, and potentially reduce volatility. In a nutshell, this is diversification.

Making diversification work

A well-constructed diversification strategy benefits from solid research and sound advice.

Over recent years a cautious investor might have been tempted to shift their money into 'safe' term deposits, for example. However, if interest rates fall this 'safe' investment suddenly looks like a less attractive strategy. Not only will the investment income fall but the opportunity to invest in growth assets, such as shares and property that historically outpace inflation over time, has gone.

Managed funds can generally achieve good diversification. Some investors use a core and satellite approach, with a core investment say, a diversified fund, supported by smaller allocations to specialist funds.

With sound advice you can avoid ending up with a messy outcome, or having too many investments with correlated returns.

Making diversification work for you is not about winning the premiership every year but choosing the right mix of investments to achieve the returns you need each and every year to meet your financial and lifestyle goals.

1 Russell Investments 'Value of Diversification' 2012 edition, www.russell-investments.com.au

2 PWorld Gold Council, http://www.gold.org/investment/research/regular_reports/investment_statistics_commentary/

Gen Ys: getting set for life

Emerging from life as a student presents a world of opportunities for Generation Y (Gen Y) to set up their financial future. And the early evidence is that Gen Ys are learning how to save and spend wisely.

A generation of savers

Though some think that Gen Ys are big spenders on depreciating assets such as holidays, iPads and cars, they are actually strong savers.

A recent survey[1] found 36 per cent of Gen Ys do not own a credit card or a store card, and almost 80 per cent report they are saving some money each month.

Saving, of course, comes down to budgeting: knowing your income and expenses. The first step is to work out your budget to make sure your income exceeds your expenses. The second step is to understand as much as possible about interest rates: how they can work for you, and especially how they can work against you.

Getting ahead, step by step

Building assets is not a single leap but a balancing act. It's about keeping debt under control while saving; and about taking some important steps now, with an eye to the future.

For Gen Ys with credit card debt, a good option is to clear it quickly as the interest rates charged are in the high teens.[2] This generally makes it a higher priority than Higher Education Loan Program (HELP) debt, which is only indexed at 3% and does not attract an interest penalty.

Online bank accounts are often a good place to start saving, with rates up around the 6 per cent mark.[3]

And as that money starts to build up you can think about investment options because investing is the key to building assets. The questions always are: what to invest in, and how to get started? Will it be in shares, property or a business?

This makes it essential to discuss your options with an adviser who can help you clarify your preferences and choices. And it is a good time to also discuss what insurance cover you need to protect your income and assets.

Finally, while it may be 30 years plus before you have access to your money,

superannuation is where the future vision kicks in. Have you kept track of all your super? If you've changed jobs, or done casual or part-time work, you may have lost track of some super. It is worthwhile making the effort to look for your lost or unclaimed super, as it could mean more money for you in retirement.

Getting a firm grasp of your financial affairs now can set you up for life.

1 REST survey, http://www.superreview.com.au/news/superannuation/gen-y-must-adopt-long-term-saving-habits-rest

2 http://www.canstar.com.au/interest-rate-comparison/compare-credit-card-rates.html

3 http://www.canstar.com.au/interest-rate-comparison/compare-online-savings-account-rates.html

Insuring the value of unpaid work in the home

The value of unpaid work in the home is often overlooked and can sometimes be forgotten when putting insurances in place to safeguard your family. If you have a partner who works part time or not at all and they are not insured, your family's future may not be as secure as you think.

Even if you or your partner do not earn any income, you both support the family. If a non-working parent dies or is disabled the family may need to increase spending on childcare, cooking, cleaning and other household tasks that were previously done out of love.

The cost of employing people to provide childcare and domestic services can easily add up to around $600 a week, depending on the age and needs of your children. This needs to be taken into account when you sit down with your partner, and your financial adviser, to work out your family's total insurance needs.

The insurance gap

It is not hard to find a typical Australian family with life insurance needs of between $750,000 and $1 million, yet Rice Warner Actuaries[1] estimates that life insurance cover in Australia is 49 per cent less than it should be. Part of the reason for this gap in coverage is the underinsurance of non-working spouses.

Life insurance serves two main purposes; to pay off your debts if you die prematurely, and to leave a lump sum that can be invested to produce income for your dependents so they can continue to enjoy their current standard of living.

In addition to life cover, you also need to think about how your family would cope if you or your partner was seriously ill or injured. Even if you are the sole breadwinner and think the family could continue to live on your income if your partner was seriously ill or disabled, you need to factor in the extra medical costs not covered by health insurance.

Income protection is recommended if you are in the paid workforce but it won't cover a non-working partner. However, total and permanent disability (TPD) insurance and trauma cover may fill that gap.

TPD policies typically pay a benefit if you are permanently unable to work in your own occupation, or any occupation. But some policies include a homemaker definition, allowing a claim if you are permanently unable to perform your regular domestic duties, leave home unaided, and require ongoing medical care.

Protection against serious illness

Trauma cover may provide an alternative to TPD for non-working spouses and pays a lump sum if you suffer a serious illness such as heart attack, cancer or stroke. Your policy will spell out exactly which diseases and conditions are covered.

Rice Warner estimates the overall insurance needs for young parents aged 35 with two kids on average household earnings are roughly $750,000 of life insurance cover, $670,000 TPD cover and $4,500 a month of income protection.[2]

As a rule of thumb, Rice Warner estimates the cover for a partner who works part-time or not at all should be roughly half that of the primary wage-earner, but the exact amount will depend on your income, age, number of children and lifestyle requirements.

Case Study – Joe and Kate

Joe and Kate are in their late 30s with three young children.

Joe is a manager at a large consulting firm and earns $110,000 per annum, with comprehensive insurance coverage provided by his employer. His wife Kate is currently taking time out from her job as an events manager to look after their three small children.

While undergoing a routine examination, Kate was diagnosed with an aggressive form of ovarian cancer. Even with months of intensive treatment, the prognosis was not good. She fought every step of the way while her family prayed for a recovery. Tragically, she did not win her battle and died within a year.

While the couple understood the importance of insuring Joe as the primary provider, they had not considered insuring Kate's essential role as the homemaker. For Joe's family, the shattering loss of Kate was made much harder by the financial burden of paying someone to maintain the household and provide care for the children.

With a combination of life and critical illness insurances, a family like Kate and Joe's may have received a lump sum that could be invested and used to defray the increased costs over the coming years.

Discussions about illness, disability and death are often familiar territory for financial advisers, so you can have an open discussion about these issues. Your adviser understands your personal circumstances and can help you put a dollar value on your overall insurance needs so your family has every base covered, including home base.

1 Rice Warner Actuaries "Underinsurance in Australia" Research Report (2011)

2 Rice Warner Actuaries, ibid.

Scams – would you fall for them?

Email spam is often used to carry out fraud. It's important to remain vigilant, so here are some tell-tale signs of typical frauds, and what to do if you are targeted.

How the scam works

You receive an email unexpectedly from your bank, credit card company or other service provider. It will usually ask you to send your account details, and sometimes your PIN, either by return email or by following a link to a website.

Most people would just delete any unsolicited emails asking for personal information. However, terms such as 'security and maintenance upgrades', 'investigation of irregularities' or 'bills or charges due' can trick the recipient into lowering their guard.

Why these frauds look genuine

Fraudsters scan the internet for email addresses or generate them at random. They don't need an internet service provider's mailing lists. They may send just a few dozen emails or thousands in the hope of a bite from a few unsuspecting people.

These emails can look genuine by using:

- the names of real people
- company logos and branding
- links to pages from the real website, and
- official-looking fineprint.

Example: Westpac Banking Corporation*

Customers were sent emails inviting them to complete an online survey for a chance to win attractive prizes. Although the website address displayed was similar to the real Westpac site, in fact it directed users to a non-Westpac web page where customers needed to register their account details to participate in the survey.

* www.fido.asic.gov.au

Protect yourself from email scams

If you get a suspicious email, contact your financial institution or your legitimate service provider directly. Do not respond using any contact details in the email.

If you have sent any details by email or through a website that you're worried about, email or phone your financial institution or the legitimate service provider through their customer support department, and ask them to confirm the email's authenticity. They will tell you what to do next.

News bites

Australia is the wealthiest nation in Asia Pacific

Australia has emerged as the wealthiest nation in Asia Pacific, according to the 2011 Credit Suisse Global Wealth report. Global wealth increased 14 per cent from January 2010 to June 2011, and Asia Pacific was the main contributor to the rise during this period. The median wealth in Australia is US $221,704 per adult, the world's second highest after Switzerland with US $540,010.

The Credit Suisse Global Wealth report compares the projected increase in wealth for the fastest growing and emerging economies for the next five years. It also analyses the wealth distribution of 4.5 billion adults in more than 200 countries.

Reasons for the rise in wealth in Australia include the strong Australian dollar, an increase in property ownership levels and a strong labour market. Interestingly Australia is also home to 4 per cent of the world's millionaires, although it has just 0.4 per cent of the world's adults.

Carbon tax – What we need to know

The carbon price scheme will become effective as of 1 July 2012. The carbon tax will encourage the use of renewable energy sources by placing a direct cost on carbon pollution.

Businesses that emit carbon dioxide will need to purchase a pollution permit which requires them to pay for the amount of pollution that they create, with the rate starting at $23 per tonne of carbon dioxide emitted. The scheme has been designed to reduce carbon emissions in Australia, with the aim to reduce worldwide pollution levels.

The government will assist households through a tax reform package by introducing changes in tax rates and tax-free thresholds. From 1 July 2012 taxpayers with income below $80,000 will get a tax cut. These tax changes are to be delivered in two rounds – the first of these on 1 July 2012 and the second on 1 July 2015.

Assistance will also be provided to people who receive payments such as the Age Pension, Disability Support Pension, Carer Payment, Newstart Allowance and Family Tax Benefit through increases to these payments, in the form of tax-exempt payments and supplements.

In order to ensure low-income households are able to cover the expected price impact, most government payments will be increased by way of a Clean Energy Advance in May –June 2012. This advance provides assistance for the period from the introduction of the carbon price on 1 July 2012 until 30 June 2013.

Then from 1 July 2013, families will receive assistance through the Clean Energy Supplement, which will be a new fortnightly supplement, in addition to the basic rate of pension payable. Some low-income households might not receive enough assistance through tax cuts or Government payments to offset their average expected cost impact under a carbon price.
These households will be able to apply for an annual Low Income Supplement of $300 paid by Centrelink.