



Protect your income without affecting your cash flow

Most people feel six months without a significant percentage of their current income could bring them close to financial ruin. Despite this only 31 per cent of Australians insure against loss of income, even though the income we earn over our lifetime is often our most valuable asset.*

One reason cited to explain this low level of income protection insurance is a belief that premiums are somehow too expensive.

Fortunately there is a way to afford income protection insurance. You can use your super fund as a tax-effective vehicle to purchase insurance, and protect yourself and your family from financial stress; all with little or no effect on your day-to-day cash flow.

Income protection insurance allows you to insure up to 75 per cent of your income in the event that you can't work due to accident or illness. The income can be used to pay your normal expenses. In fact the benefits may be paid to you each year until age 65 while you are unable to work.

Some useful tips

Purchasing income protection insurance through super is tax deductible to your super fund, but there are some important factors to consider:

- 1 If you nominate a portion of your personal or employer compulsory contribution to be earmarked for insurance, you reduce your superannuation fund's investment

power by the same amount. A better option might be to increase your super contribution through salary sacrifice so your insurance premiums are covered by additional concessional taxed dollars and don't affect your retirement nest egg.

- 2 Superannuation fund managers buy insurance in bulk and often pass on the savings. However, individual fund managers have relationships with different insurance companies and the policy premiums charged can vary from fund to fund. You should also take care to compare apples with apples – benefits paid for income protection can vary greatly from policy to policy.

Whether income protection is acquired inside or outside of super, you can make choices about the waiting period before payments start and the term of the benefit period. Different insurance policies offer different features, so to protect what is likely to be your most valuable asset, your income, you need to make an informed decision.

Income protection should be an integral part of your overall financial plan. We can help you determine the right amount of cover to protect you and your family. For more information please make an appointment with us today.



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The Aussie dollar – the world's economic barometer

The Australian dollar currently ranks fifth among the most traded currencies in the world's foreign exchange markets, behind the US dollar, the euro, the yen and the pound sterling, yet it represents less than 7 per cent of the world's forex (currency exchange) trades compared to the US dollar's 86 per cent.*

So why does the Aussie dollar punch well above its weight? There are at least two good reasons for this:

- 1 The Australian dollar has floated completely free since 1986 and there are no government controls on it (as there are on the Chinese Yuan, for example), so its price is set by the major foreign exchange markets across the world. The Australian dollar is a popular choice for international forex traders and managers seeking to hedge the instability of other currencies precisely because there is so little government intervention in the currency, and because there is a general view that Australia has a stable economy and government.
- 2 The Australian dollar offers diversification benefits in a portfolio containing the major world currencies because changes in exchange rates of the Australian dollar are often directly opposite to those affecting many other currencies. This is because Australia's balance of trade depends mainly on commodity exports, meaning that the Australian dollar's value goes up during global booms when Australian commodity exports rise, and falls when mineral prices and other exports drop. Most of the world's currencies react the opposite way – they are more popular in a downturn when investors shift from shares into cash.

However, these are just the underlying factors that make the Australian dollar a popular choice for foreign currency traders. There are many other day-to-day developments that may cause fluctuations in the value of the Australian dollar and of the many other currencies that are traded against it.

One factor that currently supports the value of the Australian dollar is our official interest rate of 4.5 per cent – much more attractive than the US rate of 0.25 per cent or Japan's 0.1 per cent. And relatively minor



announcements can also have an impact. For example, the Australian dollar rose against the US dollar on July 8 this year when improved Australian employment figures for June were announced.

Changes floated

One event occurred in June that had the potential to change Australia's ranking in the forex league table: the decision by the Chinese Government to allow its currency, the yuan, to fluctuate in a wider band.

This announcement, heralded as a precursor to a 'floating' of the yuan, turned out to be something of a fizzer; the Chinese Government still retained its grip on the yuan by confining its trading band to between 0.3 per cent and 0.5 per cent against the US dollar. A freer yuan can help China's western trading partners, especially in Europe, achieve an exchange rate that will increase their exports to China.

If this gradual trend towards a full float of the yuan continues, it may even result in the US being knocked off its perch at the top of the forex ladder one day, since a significant slice of its dominant 86 per cent share of the currency market is built on the huge purchases of US dollars that the Chinese Government makes to maintain its rigid control of the yuan.

Most analysts seem to think that if the yuan was allowed to trade in a wider band, it would assist Australia's exports and Australian companies competing against foreign imports. While the Chinese Government's latest moves may be limited, they are in the right direction to assist the Australian economy.

* www.forextraders.com/forex-analysis/forex-fundamental-analysis/currency-groups.html

Working smarter – a super future

If you are over 55, there may be a quicker way to build up your nest egg while you access a generous concessional-tax or tax-free income stream at the same time.

Or, if you are a little nervous about retiring completely in these turbulent times, how about the opportunity to make a gradual transition into retirement while continuing to work part time and build your super?

Both these options are available right now through a special retirement income plan called a non-commutable allocated pension (NCAP). And the best thing about it is that you don't actually have to retire to start one. Anyone over 55 can commence an NCAP from their superannuation fund and draw a tax-advantaged income stream from it, yet continue to work full or part time and make ongoing super contributions out of their salary.

How does it work?

If you are over 55, you can elect to convert all or part of your super into an NCAP, which is a pension fund that, like a super fund, offers you a choice of portfolios. You then nominate and draw an income stream from your pension fund each year. Your age determines the minimum drawdown you must make. If you are under 65, for example, the minimum withdrawal is normally 4 per cent of your account balance.* This income is tax free if you are aged 60 or over and attracts a 15 per cent tax offset if you are aged between 55 and 59 (inclusive).

You are entitled to keep on working full or part time while receiving the income from your NCAP, so you can continue making superannuation contributions to a super fund from your salary. That means you can reduce your taxable income while continuing to build your nest egg. It is quite possible to receive the same amount of money to live on from your combined NCAP and salary as you were before starting an NCAP, and at the same time make larger super contributions through salary sacrifice.

If you're looking for a way to boost your retirement savings without cutting your living standards, speak to us today to see if an NCAP strategy could give your superannuation a boost this year.



Sarah's story

Sarah, aged 55, is an engineer and plans to retire at 65. She earns \$110,000 per annum and has \$450,000 in super. She wants to maintain her disposable income while increasing her super account balance.

To achieve these objectives, Sarah commences an NCAP while salary sacrificing a larger pre-tax portion of her income into super.

The NCAP's tax advantages work for Sarah to reduce her personal income tax: the investment earnings and growth on her pension account are tax free, plus her NCAP income is taxed at a concessional rate. Using this strategy, Sarah can salary sacrifice to boost her superannuation by around \$64,000 by the time she is 65.†

* The minimum drawdown has been reduced by 50% for the 2010/11 financial year.

† Assumptions: The projections in this strategy are based on various assumptions, including, but not limited to: maximum pension payment = \$32,237 in year 1; salary sacrifice = \$40,100 in year 1; no change in take-home pay before/after strategy; no change in risk profile; estimated investment return (Growth portfolio) = 6.4% pa (super), 7.3% pa (pension); all investment earnings figures are after tax and after fees; no change in Super Guarantee contributions, ie 9% of \$110,000; administration fees and charges are not included.

Note that taxable pension income from an NCAP qualifies for a 15 per cent tax offset if aged 55-59. The payment is tax free if over age 60.

Education, education, education... save now to invest in your child's future

The Australian Scholarships Group estimates the total formal* cost of education for a child in 2010 is over \$100,000 in a government school or \$420,000 for private schooling.

It's not surprising with figures like these, that parents wonder how they will afford to give their children the best start in life!

One way of dealing with these costs for parents is to commence a savings plan with a tax-effective insurance bond. It's simple, flexible, effective and tax free to the investor after 10 years. This is because the insurance company pays the tax at a rate of 30 per cent throughout the investment period on behalf of the investor. If the investor's marginal tax rate is above 30 per cent, it's a great strategy.

How does it work?

You can make a one-off investment, invest every year, or invest every month, with as little as \$1,000 a year or \$100 per month.

* Summary amounts include tuition fees and levies, requisites, clothing, incidentals, computer and internet costs.

And you can increase your contribution by up to 25 per cent each year.

Case study – growth and flexibility

The table below shows the effect of an initial investment of \$5,000 in a balanced portfolio insurance bond, with additional amounts of \$250 per month over 10 years. The table also shows the effect on your investment if you take advantage of the optional 25 per cent annual increase.

In this example, Year 1 contributions were an initial \$5,000 plus \$250 a month for both bonds. In Year 2 bond B regular contributions increased to \$312.50 per month, and by a further 25 per cent each year thereafter. Either way, after 10 years it's an impressive result.

	Insurance bond A \$250 per month	Insurance bond B \$250 per month in Year 1, plus annual increases of 25%
After 2 years	\$12,169	\$12,944
After 5 years	\$24,986	\$35,577
After 7 years	\$35,150	\$62,864
After 10 years	\$53,320	\$137,377

Assumptions: Average return of 7% per annum

To take advantage of an insurance bond's tax-paid status, there is a minimum investment period of 10 years. After 10 years you can withdraw the capital or earnings as you require. If you do withdraw the capital or earnings in those first 10 years you have to pay some of the tax otherwise paid by the insurance company.

The bonds have a special tax status because they are classed as life insurance policies, not as investment assets.

There is also a choice of investment categories and you can make changes any time you need to – subject, of course, to the rules of the company offering the bond.

So get smart, and plan ahead now for your children or grandchildren.

News bites

Where is your cash stashed?

There is currently \$610 million in unclaimed money lying lost or forgotten with the Australian Securities and Investments Commission (ASIC) and some of it could be yours.

Unclaimed money generally ends up with ASIC and the Commonwealth Government after it has lain dormant for more than seven years in accounts with insurance companies, banks, building societies, credit unions or friendly societies. It also includes money from company takeovers or from companies that have been unable to contact shareholders for six years.

ASIC is encouraging all Australians to search the ASIC database. It's free to search the database and if any of the money is yours there is no cost involved in claiming it back.

How to find missing money –

Log on to ASIC's online database at www.fido.gov.au/unclaimedmoney and type in your name. If you find money you think you may be entitled to, just lodge a claim to prove it's yours or that you're the beneficiary.

Source: www.fido.gov.au

Research supports Australia's underinsurance epidemic

A recent survey carried out by Lifebroker Life Insurance has shed some light on Australia's continuing underinsurance epidemic.

Results showed men and women vastly overestimated the cost of life insurance by 49 per cent and 65 per cent respectively, even though premiums for life insurance can be lower than car, home and health insurance.

Lifebroker managing director Chris Eade said it was this overestimation that was dissuading people from buying insurance, with 36 per cent of survey respondents stating the perceived expense was a major factor in their not having coverage.

The overestimation of premiums is believed to arise from buyers not shopping around enough to compare options and life cover typically being sold through face-to-face contact.

The research also revealed other contributing factors including a lack of awareness on the financial risks of illness, injury and premature death.

Source: www.lifebroker.com.au. The Lifebroker Life Insurance Report 2010 was an online survey of 1000 Australians conducted by Sweeney Research.

Have you got leave up your sleeve?

Australians are working longer hours and taking less annual leave, leading to a rise in obesity, fatigue, substance abuse and stress.

Research indicates that full-time employees in Australia had accrued 123 million days of annual leave, equating to \$33.3 billion in wages, as of December 2008.

While there can be perfectly good reasons for accruing leave, such as saving for a big overseas trip, many Aussies simply aren't taking the leave they're entitled to. As a result, many people are not achieving a healthy work/life balance, resulting in mental fatigue and in some cases burnout. Such factors can often make people unhappy in the workplace and less effective at their job.

So if you haven't had a holiday in a while, do yourself a favour and take a well-earned break.

Source: Roy Morgan Research, December 2008