

# Your money Your future

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## Cold comfort

### How to battle the super shortfall and boost your retirement savings

It's official. We are retiring earlier and living longer than ever before.

The average Australian retires at 57, while a 55-year-old woman can expect to spend 34.7 years in retirement and live to the ripe old age of 89.<sup>1</sup>

The basic age pension, at \$14,367 (single) or \$11,952 (per person in a couple), will keep the wolf from the door but is unlikely to cover anything more than the most frugal lifestyle.

A comfortable lifestyle involving a range of leisure activities requires \$48,962. This means that you will

need to save at least 12-15 per cent of your gross income for 30 years.<sup>2</sup>

Contributing the compulsory 9 per cent over 30 years will not be enough for most people.

Spending habits fluctuate during retirement, and your need to access capital will vary depending on expenses such as home renovations and healthcare costs.

It's never too late to work out a retirement plan. Take the first step by arranging an appointment with your financial adviser today.

1 Australian Government Actuary – 2006

2 ASFA Fact Sheet No 5 – Jan 2004



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## Keeping your head during market volatility

*"If you can keep your head when all about you are losing theirs..."*

- Excerpt from Rudyard Kipling's 'If'

Concerned investors could be forgiven for losing their heads as global financial markets continue to take them on a tumultuous ride.

Many superannuation and managed funds invest in Australian and international sharemarkets, and as a result of the fall in the value of shares in the past year, the value of your superannuation or managed fund investment may have fallen.

Financial year 2007/08 was a poor year, but in the context of a long-term investment goal, such as building your retirement savings, one year is a short-term perspective – too short to abandon a long-term strategy.

### What's been happening in the financial markets?

Sharemarkets around the world started to fall in value in August 2007 in response to the sub-prime mortgage melt-down in the US. The 'credit crunch' as it became known, spread to the broader markets, and the US economy in particular slowed significantly. The year was characterised with sharp rises and falls in sharemarket values.

The net result for 2007/08 has been a fall of 13.4 per cent in the value of the Australian sharemarket and a fall of more than 20 per cent for international shares.

Many superannuation and managed fund investments are in diversified funds, funds that invest across a range of different asset classes; shares, property, fixed interest and cash. Given the poor performance of shares and property both locally and internationally over the last year, these diversified funds may also have performed badly.

While 2007/08 has seen negative returns, it is important to keep in mind that one year is a short-term perspective of the market. Looking at the annual returns over a five-year period – a longer-term perspective of the market – you will see that the returns have remained positive.

### Market returns to 30 June 2008

Asset class	One-year returns to 30 June 2008	Average annual returns over five years to 30 June 2008 (% p.a.)
Cash	7.4%	6.1%
Australian Fixed Interest	4.4%	4.4%
International Fixed Interest	8.7%	6.1%
Listed Property	-36.3%	5.5%
Australian Shares	-13.4%	16.2%
International Shares	-20.8%	4.5%
<b>Diversified funds</b>		
Defensive (30/70)*	-2.6%	7.0%
Balanced (70/30)*	-12.2%	8.9%
High Growth (99/1)*	-18.0%	9.9%
Consumer Price Index (CPI)	4.1%	3.0%

\* Defensive defined as 30% of investment held in growth asset classes such as shares and property with 70% of investments held in defensive asset classes such as cash and fixed interest. Balanced defined as 70% growth assets and 30% defensive assets. High Growth defined as 99% growth assets and 1% defensive assets.

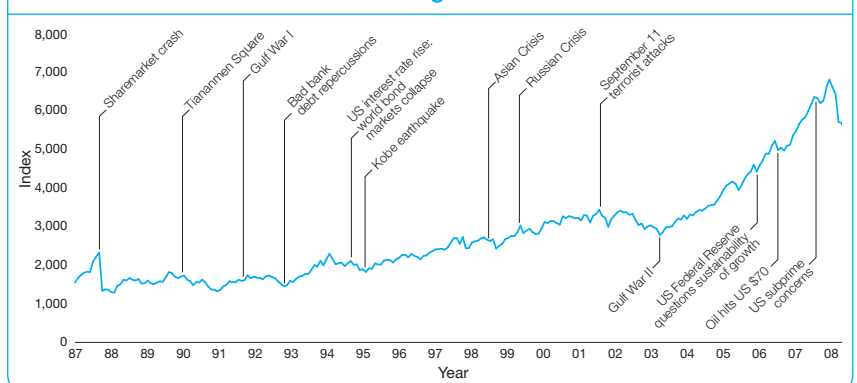
Indices: All figures are before any fees and taxes. Indices used include UBS Bank Bill Index, UBS Australian Composite Bond Index, ASX 200 Accumulation Index, ASX 200 Property Trust Accumulation Index, MSCI World Accumulation Index (\$A), and Lehman Brothers Global Aggregate Index.

Source: Datastream.

### Will the financial markets recover?

The gloom predicted by newspaper headlines tends to emphasise bad news and investors could be forgiven for thinking that things won't ever get back to normal. But financial markets inevitably do recover. The following chart shows the performance of the Australian sharemarket over the last 20 years, during which time there have been some significant events that triggered market falls.

### Recovering markets



Source: IRESS

Index: S&P/ASX All Ordinaries Price Index. Data as at 30 June 2008.

Time works in the investor's favour and when we look at share markets over the longer term, volatility is not the issue that it is with a one-year perspective.

### Advice, advice, advice

Years like 2007/08 reinforce the need for quality financial advice. Your financial adviser will help you set your financial goals, assist you in determining your attitude to investing and how to best achieve your goals. Importantly, your financial adviser can help you along the way to make sure you remain on track, whether the markets are volatile or not.

## Financial fitness for life: how well do you shape up?

It can be all too easy for your eyes to glaze over when the subject of personal finance comes up and you can end up consigning the difficult decisions to the 'too hard' basket.

But often taking some basic steps can have a real and lasting effect on your financial health.

Try our financial health quiz to see how well you shape up.

### Budgeting

What's your usual monthly expenditure?

- a) My budget plan details my exact monthly outgoings in various categories.
- b) I have a rough idea from receipts and bank statements.
- c) I don't have a clue – my spending varies so much, it's difficult to keep track.

### Borrowing

You owe \$500 on your credit card and the payment is due today. But you've had your eye on an outfit costing a similar amount and it's the final day of the sale. What do you do?

- a) Pay off the credit card and go without the new outfit.
- b) Pay off the credit card and buy the outfit on the same credit card.
- c) Buy the outfit and worry about the credit card payment later.

### Large purchases

You're buying a new car and the salesman tries to interest you in finance. How do you respond?

- a) Decline the offer. I plan to pay in cash from my savings.
- b) Consider the offer but shop around for the best loan.
- c) Accept the finance and worry about the repayments later.

### Financial protection

You have just broken your arm while skiing. How do you manage?



- a) My income protection insurance will provide replacement income and protect my family until I recover.
- b) Hopefully my savings will cover any shortfall.
- c) Not sure. I've never prepared for this scenario.

### Retirement planning

What standard of living will you enjoy in retirement if you continue to follow your current savings plan?

- a) My superannuation and other investments are on track to provide us with a comfortable retirement.
- b) I've consolidated all of my super into one account and hopefully this will provide us with a modest standard of living.
- c) I've no idea how much I've got in my various super accounts.

### Scams

A salesman calls you with a once-in-a-lifetime opportunity to invest in a secure property financing note offering a high rate of return. How do you respond?

- a) Decline the offer. It's risky and I already have a diversified investment plan.
- b) Sounds interesting but I'd need to do more research.
- c) Take up the offer – no risk, no reward.

### How you scored

Mostly As: You're in robust financial health but there's no room for complacency.

Mostly Bs: You obviously try to stay on top of your finances but there's still room for improvement.

Mostly Cs: You're in the financial equivalent of intensive care and radical surgery is required.

Whether you're a savings Olympian or a little leaguer, it pays to talk to your financial adviser about ways to improve your financial fitness.

## Lost and found – the search for super is over

**The world of work is changing and the era of a job for life is well and truly over. These days, staying at one employer for more than a few years is enough to qualify for a gold watch.**

One fifth of the 10.8 million employed Australians stay with their current employer for less than a year, so think of how many jobs one person can have in a lifetime.<sup>1</sup>

As we change jobs more and more frequently, it's becoming harder to keep track of our personal superannuation accounts and subsequently many Australians are losing track of their accounts.

### No one likes losing things of value

According to recent figures there's a whopping \$11.9 billion in lost and unclaimed super on the lost super register in 6.1 million accounts – that's an average of \$1,950 per account.

You may be listed on the Australian Taxation Office (ATO) Lost Super

Register as a lost member if your:

- super provider has been unable to contact you, as they do not have your current address or the mail they sent to you has been returned
- super provider has not received contributions or rollovers from you in the past five years, or
- account was transferred to your fund from another super provider that reported you as a lost member.

Finding lost super accounts used to involve a lot of legwork chasing providers and paperwork.

But the ATO's SuperSeeker service has solved these problems at a stroke.

SuperSeeker is a free, real-time online and telephone service that enables you to search the ATO's lost members register (LMR) for your super in seconds. All you need to search is your name, date of birth and tax file number.

Once you have found your lost super it's your choice what you want to do with it. You can transfer it to your current fund or to a new fund.

As of 1 July 2005, Choice of Super Fund was introduced which means that eligible employees may have the right to choose which super fund will receive their 9 per cent superannuation guarantee (SG) contributions.

So now may be a good time to look for lost super or review your current superannuation provider(s) and take control.

It pays to talk to a financial adviser before making any decisions. Consolidating your super may or may not be in your best interest as the rights and obligations of members vary between funds.

Go to <http://www.ato.gov.au/super/> or call 132 865 to start your free super search today.

<sup>1</sup> Australian Bureau of Statistics: Labour Mobility, Australia, Feb 2006 (reissued Dec 2007).

## Protecting one of your most important assets – your income

**Unless you have inherited great wealth or won a big lottery prize, you will need to work to pay for the necessities of life.**

But have you ever thought about how you'd cover the costs of food, clothes, rent or mortgage payments, child care or school fees, entertainment and holidays if you couldn't work due to illness or a serious accident?

This is where income protection insurance can help, by providing you with the peace-of-mind of knowing you can receive up to 75 per cent of your income if illness or injury stops you working for a period of time.

With income protection insurance in place, you can receive a regular income stream, allowing you to maintain a reasonable lifestyle for yourself and your family until you are recovered and ready to return to work again.

The cost of premiums for income protection insurance will be tax deductible if you are paying them yourself, whether you are an employee or a self-employed person. This reduction in tax liability makes protecting your income a more affordable option.

Policies offered by different insurers can vary greatly so it's a good idea to discuss your individual requirements with your financial adviser to help determine which policy is the right one for you.

For instance, policies can carry a range of definitions and options. Choices need to be made about the desired benefit period (ie the longest period of time for which a benefit is payable for continuous disability) and waiting period (ie the length of time before becoming eligible for benefits), as well as many other options.

- If your employer is paying your income protection premiums under a salary packaging arrangement, your employer, rather than you, will be able to claim this as a tax deduction.
- Regardless of whether you or your employer is paying your premiums, it's important to note that any income you receive via your income protection insurance policy will form part of your assessable income for taxation purposes.

**For assistance and more information on income protection insurance please speak to your financial adviser.**