

Green Associates Newsletter — January – March 2010



Women: Equal insurance for equal risk

Remember Miss Moneypenny? The secretary whose fondness for the roguish James Bond was second only to the dedication she had for her job as secretary to M, in Ian Fleming's 1953 novel, *Casino Royale*.

Like many women in the workforce in the 1950s, Miss Moneypenny's earning capacity was limited. She received less pay than a man for work of equal value, was more likely to work in care industries or subordinate roles, and would have been expected to leave employment once she married to focus on the care of her husband, children and home. Even in Australia, women working in the federal public service had to resign when they married right up until 1966*.

Fast forward to 2009 and dual-income households are now the norm. Today almost 4.8 million women are in some form of paid employment, with a labour force participation rate of 58 per cent. More than 30 per cent of Australia's small business operators are women. Women hold 36 per cent of senior executive positions and make up more than half of the Australian public service workforce, while in Federal Parliament the position of Deputy Prime Minister is now held by a woman, for the first time in parliamentary history.

Yet while women's presence and influence in the workforce has dramatically increased in the past 50 years, women have not acted to protect themselves and their earning capacity in the same way as their partners, husbands and brothers.

Women's income still vulnerable

Logic suggests that women are no less likely to suffer from illness and injury than men, yet they still don't exercise the option to cover themselves with insurance.

Despite the increased presence of women in the workforce, they typically spend less time in the

workforce than their male counterparts. This is partly explained by taking maternity leave, but women are also more likely to retire early and they're often the ones who take time off work to look after children or elderly relatives.

Less time in the workforce means women accrue less savings, less superannuation and are less able to recover from financial setbacks than their male counterparts. Women also live longer than men on average, so these setbacks can leave women more financially vulnerable over a longer period of time.

Lack of awareness and understanding

Research has demonstrated disturbingly low levels of awareness and understanding among Australians when it comes to life insurance. The Investment and Financial Services Association (IFSA) found that cost is one of the biggest barriers to people taking out life insurance, with over 80 per cent of people saying it is 'too expensive', yet at the same time 61 per cent over-estimating the cost. In fact, the monthly premium for a 35 year old female non-smoker applying for \$500,000 of life cover is generally as low as \$25*.

Australians are not averse to insurance in general: 83 per cent insure their car, but only 31 per cent insure their ability to earn an income†. This is a chronic state of underinsurance, considering Australian Bureau of Statistics reports that more than three in four Australians will be diagnosed with a serious illness in their working life‡, while one third of women and a quarter of men will suffer cancer during their lifetime§.

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What types of insurance should women consider?

- ◆ **Income protection** typically covers up to 75 per cent of your income if you can't work temporarily due to illness or injury.
- ◆ **Business expenses** insurance is vital if you are self-employed or run a business. Should you become ill or incapacitated, you will be able to cover your fixed business expenses, which could include the cost of finding a temporary replacement to carry out your work duties if needed.
- ◆ **Trauma insurance** can help protect you from the costs associated with diseases like cancer, whether you are in the workforce or not. It can pay a lump sum on diagnosis to help cover the costs associated with treatment.
- ◆ **Life and/or Total and Permanent Disability (TPD) insurance** can provide a lump sum to you or your beneficiaries if you die or are seriously disabled. This can be vital if you have a family or a mortgage which relies on your income. Even if your time is spent at home looking after your family, your death or disability may require hiring a nanny or housekeeper to provide the care and services you previously performed.

How to make insurance more affordable

There are several different strategies that may reduce the cost of premiums and it is worth talking to us before you take out insurance to find out whether they apply to your circumstances. For example, income protection and business expenses insurance premiums are often tax deductible.

You may also be able to reduce the effective cost of life and TPD insurance by linking your policy to your super and using your pre-tax salary to pay premiums (however, there may be some restrictions to your benefit in this scenario).

Get the cover you need

Try putting a value on everything you do – not just at work, but at home too. Consider what it would mean financially if you were off your feet for a while. Now consider the cost of any necessary treatment, rehabilitation, or modifications to your house. It could easily run into tens of thousands of dollars. Many of the comprehensive insurance products available these days can provide cover when you need it most.

* Industry Facts Page, LiveWise, IFSA, www.lifewise.org.au.

† Ibid.

‡ Ibid.

§ Cancer in Australia: An Overview 2008, Australian Institute of Health and Welfare, December 2008.

The risk of illness

- ◆ 1.4 million Australians have a disability associated with a cardiovascular condition. ¶
- ◆ 1 stroke event occurs every 12 minutes in Australia. ¶
- ◆ More than 6 million Australians are affected by a musculoskeletal condition. ¶
- ◆ One in four Australian women and one in three men will be diagnosed with cancer by the time they are 75. ¶
- ◆ The number of new cancer cases diagnosed in Australia is projected to rise to 115,400 a year by 2011.**
- ◆ By 2031, it is projected that 3.3 million Australians will develop type 2 diabetes††, the most common form of the illness.

Unfortunately, disease and illness are increasingly common as we enjoy longer lives.

To protect yourself – and the ones you love – make sure you're covered with the right level of insurance.

¶ Australia's Health 2008 (Australian Institute of Health & Welfare)

** Australia's Health 2006 (Australian Institute of Health & Welfare) and Australian Cancer Research Foundation.

†† Diabetes Australia



Taking stock after a turbulent year

The 2008/09 financial year saw unprecedented market turbulence, but ultimately served to reinforce the timeless principles of investing.

The 2008/09 financial year was a rollercoaster ride for Australian investors, who had to endure plunging sharemarkets, volatile asset prices and liquidity issues.

Overall, Australian shares lost 26 per cent of their value* – the fifth worst year on record†. It would have been even worse without a late rally which saw the market recover 28 per cent from its low point in early March to post four consecutive months of gains‡.

Australia wasn't alone, with sharemarkets around the world suffering abnormally large losses as shockwaves reverberated through the global financial system. The credit crisis erupted when the property bubble burst in the US, and borrowers who couldn't afford repayments were left with loans worth more than the value of their homes.

The situation escalated in September 2008 when some well-known financial institutions failed, while others were bought out or even partly nationalised. Global share prices slumped and the problems quickly spread, with some of the world's major economies going into recession. Governments and central banks took early action to cut interest rates and boost their economies, with the Australian Government issuing stimulus packages totalling \$52.4 billion.

A strong regulatory regime and relatively conservative lending practices have helped Australia weather the storm better than most comparable countries.

Timeless lessons

So what can we learn from the tumultuous 2008/09 financial year?

◆ 1 Invest for the long term and avoid chasing short-term returns

Investing requires time and patience. It's difficult not to react when short-term volatility erodes the value of your assets. But those investors who transferred their investments into cash at the height of the market downturn missed out on the substantial gains later in the year. Trying to time when to exit the market is a high-risk strategy and means you could easily miss out on potential gains when reinvesting.

◆ 2 If you don't understand it, don't invest in it

One of the most important lessons of the global financial crisis is that if it looks too good to be true, it probably is. Many of the problems were derived from sub-prime mortgage loans repackaged into various forms of 'securities', often with even more debt, and sold to investors around the world. It wasn't clear where the debt was and who held it. If you don't understand an investment, you can't understand the risks. It is vital to understand the nature of an investment so you can decide whether it meets your circumstances and objectives.

◆ 3 Match your investment strategy to your individual risk profile

Investors who take inappropriate risks can be left exposed in the event of a market downturn. A successful investment strategy is built around individual tolerance to risk. Each investment offers varying potential returns with varying degrees of risk – from defensive assets such as cash and fixed interest to growth assets such as shares and property. Your risk profile will depend on how long you are able to invest. The longer your investment timeframe, the more time there is for your investments to recover from any market downturn.

◆ 4 Diversify to reduce risk

'Don't put all your eggs in one basket' is a proven way to manage risk. Diversification involves spreading your investments across asset classes and industries. This market downturn was unusual in that it affected most types of investment. But investors holding a portfolio diversified across growth and defensive assets remain best placed to take advantage of market opportunities.

◆ 5 Valuation is temporary, value is permanent

Investing with reference to daily share price movements is a high-risk strategy. You need to look at the underlying quality of your investments – individual companies' balance sheets and earnings forecasts, and the longterm trends and economic developments affecting overall asset classes.

If you have any questions about your investments or about the state of play in the investment markets, please call us today for further information.

* All Ordinaries Index

† <http://business.brisbanetimes.com.au/business/wotifyou-could-defy-the-global-financial-crisis-20090701-d51b.html>

‡ <http://www.abc.net.au/news/stories/2009/06/30/2612884.htm>

Salary sacrifice to benefit now... and later

Superannuation is an investment for the long haul, designed to ensure Australians remain financially independent in retirement. However the tax advantages associated with super now make it an even more attractive way of saving for retirement.

One strategy you should discuss with your financial adviser is salary sacrifice – contributing a portion of your pre-tax salary into superannuation, in addition to the mandatory 9 per cent superannuation guarantee paid by your employer.

The key benefit of salary sacrificing is that it generally allows you to pay less tax on your salary. There is a limit to the amount you can contribute, and the government revised these contribution caps in the 2009/10 Federal Budget. However, salary sacrifice still remains an appealing tax-efficient strategy, as Stuart's story demonstrates.

Stuart's story

Stuart, 51, is an experienced hydrogeologist working for an engineering consultancy in Brisbane, where he earns \$90,000 a year. Having paid off his home, Stuart is now keen to build up his super for retirement and wants to work out the best way to contribute an extra \$40,000 to his fund.

When it comes to superannuation Stuart always consults Green Associates. He knows their advice is tailored for his own particular circumstances and after discussing his situation, they outlined two courses of action Stuart could take:

1 If Stuart chose a salary sacrifice arrangement, the \$40,000 contribution would be deducted from his \$90,000 salary before tax. The contribution would be subject to the government's 15 per cent contribution tax on salary sacrifice, bringing his total super contribution down by \$6,000, to \$34,000. However, his gross income for the financial year would be reduced to \$50,000, meaning Stuart would be liable for just \$9,600 in income tax (including the Medicare levy), bringing his net income for the year to \$40,400.

2 If Stuart chose to make a personal contribution to his super, the \$40,000 would be deducted from his income after tax. With a salary of \$90,000, Stuart would be liable for \$23,000 in income tax (including the Medicare levy), bringing his net income for the year to \$67,000. His personal \$40,000 superannuation contribution would not attract the 15 per cent contribution tax, but once deducted, Stuart's net income for the year would fall to just \$27,000.

After comparing the two courses of action, Green Associates recommended that Stuart adopt the salary sacrifice strategy. Under this arrangement Stuart would end up with a total benefit (net income and superannuation contributions) of \$74,400.

In contrast, a personal after-tax contribution would leave Stuart with a total benefit of \$67,000. For Stuart, the salary sacrifice arrangement will be more advantageous than making a personal after-tax contribution. The net benefit of the salary sacrifice option is \$7,400 per annum (ie \$74,400 – \$67,000).

Please note: This case study does not consider the effects of tax offsets, any other income or lump-sum tax upon withdrawal from super. Superannuation Guarantee (SG) contributions are not included in the calculations as it is assumed that SG is paid on the pre-salary sacrifice salary (ie \$90,000) for each option.

To find out more about salary sacrificing or to review your current salary sacrificing arrangements, please make an appointment with us today.

Movember highlights trauma protection

November is now firmly established as Movember – a great way to raise awareness of men's health issues and a timely reminder of the importance of trauma protection.

You know it's Movember time again when strange facial growths start appearing on high streets and in offices around the country.

Movember participants, or Mo Bros, spend November growing and grooming their facial hair – specifically their moustaches. The annual charity event is a great way to raise money and Australia's awareness for men's health issues such as depression and prostate cancer.

Men tend to be less aware of health issues in general and are reluctant to see a doctor about an illness or go for regular medical checkups.

Depression affects one in six Australian men and many sufferers don't seek help*. And every year more than 20,000 Australian men are diagnosed with prostate cancer, with almost 3,300 dying from the disease†.

Case study: Greg's cancer shock

Greg works as a builder in Brisbane. Aged 47, he is married with two children and considers himself to be in the prime of his life.

Two months ago, Greg began to experience problems when urinating. It wasn't until one night when he noticed blood in his urine that he decided to visit his GP for an examination.

His GP explained that while his urine sample was normal, the blood test revealed that he had a high level of prostate specific antigen. Greg's GP referred him to a urologist and he was advised to have a prostate biopsy.

The biopsy results confirmed that he had localised T1c prostate cancer. The cancer was confined within the prostate and had not spread to other tissues.

Greg has now undergone brachytherapy treatment and should make a complete recovery. Fortunately, 18 months before being diagnosed with cancer, Greg and his wife had discussed their insurance policies with a financial adviser. The adviser had recommended Greg purchase a Trauma Insurance Plus Plan with a sum insured of \$300,000.

Greg therefore received a lump-sum payment of \$300,000 when he was diagnosed with prostate cancer. The insurance payment meant he didn't have to worry about taking time off work or paying for out-of-pocket recovery expenses.

Trauma protection – a helping hand

With rapid improvements in modern medicine, many trauma sufferers like Greg can expect to survive and recover to enjoy full lives.

Trauma insurance can help you pay essential bills and maintain your quality of life following a traumatic event.

If you think trauma insurance is something you should consider then please contact us. We can help you determine how much cover you need to provide for you and your family if you're unable to work due to a trauma.

* http://www.beyondblue.org.au/index.aspx?link_id=89.578

Beyond Blue

† <http://www.prostate.org.au/articleLive/>

Prostate Cancer Foundation of Australia



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