INVESTMENT SOLUTIONS

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WHAT'S INSIDE

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KEEP IT UNDER YOUR CAP: DO YOU KNOW THE NEW SUPER LIMITS?

If you're aged 50 or over, a new concessional contribution cap applies to your super this financial year – making it a good time to revisit your super strategy.

The closer you get to retirement, the less time you have to accumulate retirement savings.

For the last five years, the Government has used this logic to allow people over the age of 50 to contribute more into super each year tax-effectively.

But in the 2012 Federal Budget, the proposed extension of the $50,000 transitional cap for people over age 50 with less than $500,000 in super was deferred until 1 July 2014. This means that from 1 July 2012, the concessional contributions cap is $25,000 for everyone, irrespective of age.

WHAT'S INCLUDED IN THE $25,000 CAP?

'Concessional' contributions are generally made to a super fund by your employer (ie paid out of your before-tax income) or if you're self-employed, those made by you for which you claim a tax deduction. Examples include:

- Super Guarantee (SG) contributions
- Salary sacrifice amounts, and
- Any amount allowed as a personal deduction in your income tax return.

WHAT HAPPENS IF YOU EXCEED YOUR CAP?

Any concessional contributions you make above the cap will be taxed at an additional rate of 31.5% (ie 46.5% in total including 15% on contributions). These amounts in excess of your cap will also count towards the 'non-concessional' contributions cap, which may result in further tax consequences.

If you have a salary sacrifice strategy in place, you should review your arrangements with your Financial Adviser now to ensure you don't breach your cap this financial year.

HOW WILL THE LOWER CAP IMPACT YOUR RETIREMENT?

If you've been making less than $25,000 in concessional contributions each year, the new cap shouldn't affect your current strategy.

However, if you've been contributing up to the maximum $50,000, the impact of halving your concessional contributions can be significant.

Even taking into account the Government's proposed change to the cap – whereby those over 50 with a super of less than $500,000 can make an additional $25,000 concessional contributions above the cap each year from 2014/15 – we estimate that a 50 year-old retiring at age 65 would have $233,000 (in today's money) less super at retirement.

These figures are based on 50 year-old who has accumulated $200,000 in super and intends to retire at age 65, and who achieves an earning rate in the fund of 7% pa for the next 15 years. Inflation of 2.5% pa is assumed.

BRIDGING THE GAP

There are ways you may be able to bridge this gap – including taking advantage of the non-concessional contributions cap for after-tax contributions (currently $150,000 per year).

If you and your partner both work, you may also want to look at maximising the concessional contributions of the lower income-earning spouse to take advantage of their contributions cap as well. While not necessarily as effective from a tax perspective, it may still be a worthwhile use of any surplus cashflow.

The first step is to review your current retirement strategy with your financial adviser, ensuring your super contribution strategy is both within your cap, and right for your goals.

DEBT - TAKING CENTRE STAGE
MARKET UPDATE

As debt continues to take centre stage, we talk to Piers Bolger, Head of Research & Strategy about his thoughts on the current economic environment.

GLOBAL OVERVIEW

The gyrations surrounding the European debt crisis continue to weigh on investor sentiment. The June quarter was marked by renewed investor pessimism driven by ongoing concerns about the outlook for global growth as well as the protracted debt crisis in Europe. Whilst recent comments from the European Central Bank (ECB) regarding further bond purchasing programmes have provided some support to the more challenged European sovereigns, there still remains a high degree of anxiety across the Eurozone given the lack of unified support and the lack of clarity around the proposed strategies.

While the debt crisis continues to take centre stage, global economic data is reinforcing a worsening growth outlook. Across Germany and France, the growth outlook has worsened on the back of declining consumer confidence (at its lowest levels since 2009), a stalling manufacturing environment and increasing unemployment. At least seven countries across Europe remain in recession, eroding export demand within the currency bloc, leaving only global export demand as the source of growth for many corporates.

Despite its less dire outlook compared to Europe, the US economy is continuing to slow down. Consumer confidence has fallen, along with weaker retail sales and an ongoing decline in manufacturing and industrial activity from earlier in the year. At the same time, the jobless rate continues to remain above 8%, and is an ongoing source of worry for the US Federal Reserve as it attempts to provide ongoing support for the economy.

However, on a more positive front, the US housing market is showing further signs of bottoming out as it remains a critical component in the ongoing economic growth and a key support mechanism for a sustained improvement in labour markets.

In Asia, the economic landscape continues to reflect other regions. In Japan growth remains weak as its economy remains linked to the global industrial cycle. While Japan can continue to benefit from its internal rebuilding post the Tsunami and nuclear disasters, the strength of the Japanese Yen has impacted export demand, further exacerbating problems for the economy. Within Emerging markets the economic slowdown is also becoming more pronounced. Chinese industrial activity continues to slow reflecting a contractionary environment, while other major emerging market countries such as Brazil and India are also showing signs of a slowdown.

ON THE DOMESTIC FRONT

While the events occurring globally have continued to weigh on market sentiment, coupled with the local impact of lower commodity prices, a more risk adverse consumer, weaker property prices and a higher AUD, Australia (too date) continues to have sound absolute and relative economic growth. However, over the most recent period we have seen the Reserve Bank of Australia (RBA) cut rates by 0.75% (75bps) to 3.50% as a 'protection mechanism'. And while the RBA has maintained that the outlook for the domestic economy remains sound we expect that further interest rate cuts remain likely, particularly if the impact of a further decline global growth impinges on domestic growth.

At the time of going to print, the domestic company reporting season has been all but drawn to a close, and despite still elevated uncertainty and weekly oscillations, the trend in equity markets since the outset of the results period has been broadly positive.

Overall, the ongoing global events continue to highlight the continued fragility in the global economic recovery. While Australia remains relatively well positioned to its global peers, we expect that the offset of external macro factors will continue to impact on both economic activity as well as financial market performance.

Piers Bolger
Head of Research & Strategy
Advice & Private Banks

WHEN AN INSURANCE POLICY BECOMES A LIFE-SAVER

It's hard to truly appreciate the role insurance can play in your life until you need to claim. Here are some real life examples of the incredible difference it can make.

There aren't too many products you buy in the hope that you'll never need them. Life insurance is certainly one of them.

But for those families who have had to claim on their policies, the difference it can make in their lives can be extraordinary.

The following stories come from real claimants – giving you an insight into the real value of taking out the different types of life insurance.

ROB AND SANDY – TERM LIFE

Rob and Sandy were expecting their first child. Rob was diagnosed with primary and secondary cancer and was not expected to live for more than 12 months. This meant he qualified for the Terminal Illness benefit under his Term Life Policy.

His insurer paid Rob over $615,000 which allowed him to spend time with his son for the first eight months of his life, from the first smile to the first words.

Sandy left this moving message for the claims officer after receiving Rob's benefit payment: "All my husband wanted was to make sure his wife and child had a roof over their heads, and this has now been established".

NADIA – LIVING INSURANCE

Nadia, a self-employed mother of two, was diagnosed with a rare form of cancer. The medical reports confirmed that she satisfied all of the Living Benefit Policy terms and conditions, and she was paid over $300,000.

This gave Nadia crucial financial flexibility at a time of great stress. It allowed her to use the proceeds of her claim to meet the costs of the latest cancer treatments, and meant she could sell her business to spend more time with her family.

"This has given me and my family a great new meaning and value on life."

HARRY – INCOME PROTECTION

Harry 35, a project manager, was married with 2 children. He was diagnosed with a blood vessel malformation that put pressure on his lower spinal nerves and reduced his mobility. He needed surgery and physiotherapy, which meant a long time off work to rehabilitate.

Harry's Income Protection Policy paid him a monthly benefit of $6,619 which allowed him and his family to meet their home and living costs during his time off work.

"Overall the claim went through pretty smoothly, the consultants I spoke to were very professional, offered all the help they could and were very understanding."

DEAN AND PAT – TOTAL AND PERMANENT DISABLEMENT

Dean 52, a barrister and Pat 54, a self-employed business analyst were focusing on saving for retirement. After collapsing and suffering a stroke, Dean's core communication skills were affected.

Dean's TPD benefit allowed him to access the best medical and rehabilitation services, and Pat was able to stop work to become Dean's primary carer. With the lump sum TPD benefit, they paid off their remaining mortgage and invested the rest to continue saving for their retirement.

"The claims consultant showed compassion and was understanding, professional and concise which made the process very easy".

IS YOUR COVER UP-TO-DATE?

If it's been a while since you've updated your life insurance, your cover may no longer match your future goals, it's important that you contact your financial adviser who can help you put your protection plan back on track.

Case studies and testimonials are for illustrative purposes only. They are case studies and testimonials of real life examples and people. Names have been withheld but quotes have been reproduced with permission.

WHAT WILL YOUR RETIREMENT LOOK LIKE?

If you've only got a hazy picture of how your retirement plan is going to pan out, it's probably time to re-assess your goals.

When you go on holidays, you don't carry the same map around regardless of your destination. You adapt to each new location by realigning your radar and setting new goals.

So what about your financial plan? Does it reflect where you are in your life right now? Or are you working towards goals that are no longer relevant?

When you get caught up in the whirlwind of everyday life, you don't always get that chance to sit down and re-assess how you're tracking against your goals. Or what you could be doing better.

That's why I encourage all of my clients to arrange a review at least once per year, or more regularly if there are any major changes in your life.

MAKING THE MOST OF YOUR OPPORTUNITIES

Think about how much your life can change from year to year.

Your capacity to put extra money away towards your future may change if you get a promotion. Likewise your wealth protection needs may change as you pay down your mortgage, or as you take on additional family responsibilities.

As well as the changes in your life, legislation around financial products is often changing – particularly when it comes to superannuation.

This can create short-term opportunities for you to boost your retirement savings. And the best way to ensure you're making the most of these opportunities is to arrange a regular review.

ARE YOU STILL WORKING TOWARDS THE RIGHT GOAL?

Most importantly, your financial plan should be working towards a set of individual goals that you set together with a financial adviser.

As your life changes, it's likely these goals will change with it. And left unchecked, you could find yourself heading down a path that's no longer suitable for your needs.

If you think your life, goals, or even your attitude has changed it's probably time to talk to your financial adviser and 'reset' your financial plan.

5 EXPENSIVE BUT AVOIDABLE FINANCIAL MISTAKES

The road to financial freedom has many potholes. Here are some of the most common with suggestions on how to avoid them.

1. Too little too late – The government has deliberately set up our superannuation system to favour those who start early and stay on track. Those who leave it to the last minute often do so at their own peril. Start as soon as possible and map out your road to financial freedom..
2. Pay unnecessary taxes – There are many simple, legal ways to make sure you are not paying more tax than you need. Check with your financial planner or accountant if you are making the most of the tax incentives offered by the government.
3. Fall for investment fads – This probably poses the greatest single danger to your prosperity. Tech stocks in the late 1990s and speculative miners in the late 2000s were very tempting when they were rising fast. Your best weapon against this temptation is to develop a disciplined investment plan and stick with it.
4. It won't happen to me – Wealth management is just as much about protecting your assets as it is about building wealth. Make sure you have a "Plan B" to pay off your house and look after your family if you were to die or be permanently unable to work. Your ability to earn money is actually your most valuable asset, so it's vital to protect that asset with income protection insurance.
5. Fail to plan - As the old adage goes, "if you fail to plan, you plan to fail". If you can articulate your goals and visualise what achieving those goals looks like, you are well on your way to achieving them. Write down your three most important goals and keep them in a safe place to review at least once a year.

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