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financiallyspeaking

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All I want for Christmas is to survive it debt free

With the holiday season fast approaching, it's tempting to throw out the year's careful planning and budgeting to splurge in the name of Christmas. But getting into the Christmas spirit doesn't mean you have to get into debt. Follow these tips on how you may be able to emerge in the New Year debt free.

Set a budget

First take some time out to review your current finances. Determine how much you can realistically afford to spend without getting into the red. Remember to include gifts and entertainment as well as all the small things that come with the season like cards, stamps, decorations, food and travel. Next make a list of everyone you plan on giving a gift to and decide how much you want to spend on each person. Finally check that the total figure you want to spend is not beyond your budget. You may need to reduce the amount you're able to spend on each person or reassess the number of people on your list.

Inside this edition

Adviser fp

Creating, managing and protecting wealth

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Start early

Before you know it, Christmas will be upon us. In fact, the department stores have already started spruiking their Christmas wares. By shopping early, you can look out for sales and great deals for later in the year. You also have time to comparison shop rather than last-minute shop; where your panic to pick up something (anything) will usually mean spending more.

Look for savings and incentives

If you choose to use your credit card, look for any rewards or discounts that may be available through your credit provider.

Also try to shop online first as you're less likely to impulse shop and can easily compare prices across various websites.

There are plenty of online retailers that offer savings across a number of product categories such as fashion, skincare, make up, fragrances, books and electrical appliances. You can also find discounts through online community classifieds, auctions and daily deal sites.

Remember who you're shopping for

When you're shopping for family and friends, it's very easy to find things which will be just perfect for you. This is a very common mistake which is sure to break your budget. Christmas shopping isn't a 'one for you, one for me' deal. Don't buy it. If you really need to have it, wait until after the holidays when it's more likely to be on sale.

Stick to your budget

Remember that a deal is not a deal if you can't afford it. Once you reach your budget limit, stop.

Save early

Get off the overspending merry-go-round by saving early for next year. As soon as the holiday season is over, determine next year's Christmas budget and set up automatic direct debits into a dedicated Christmas savings account. You'll be all set by the time the department stores bring out their tinsel again.

Source: IOOF, October 2014.

If you'd like more advice on how to manage debt and build a savings plan, speak to your financial planner today.

Australians need a little help to battle the bulge

If you've been keeping up with news lately you'd hardly be surprised to notice that Australia is facing a preventable health crisis with two in three of us currently overweight or obese. In Australia, while chronic disease is the leading cause of death and disability, these health challenges affect all sectors in Australia, including the provision of financial advice.

Given these statistics, one might assume that Australians would be working overtime to improve their health, but sadly this does not appear to be the case. Many of us, when faced with a decision about whether or not to eat a fruit salad over a sweet treat, often decide to take the short-term reward of enjoying a tasty treat, despite the long term health consequences that may result from doing so.

So, what can we do to get Australians more motivated to improve their health, particularly with the festive season fast approaching – while a significant time for Australian families to celebrate, it's also ultimately a time that many put on weight.

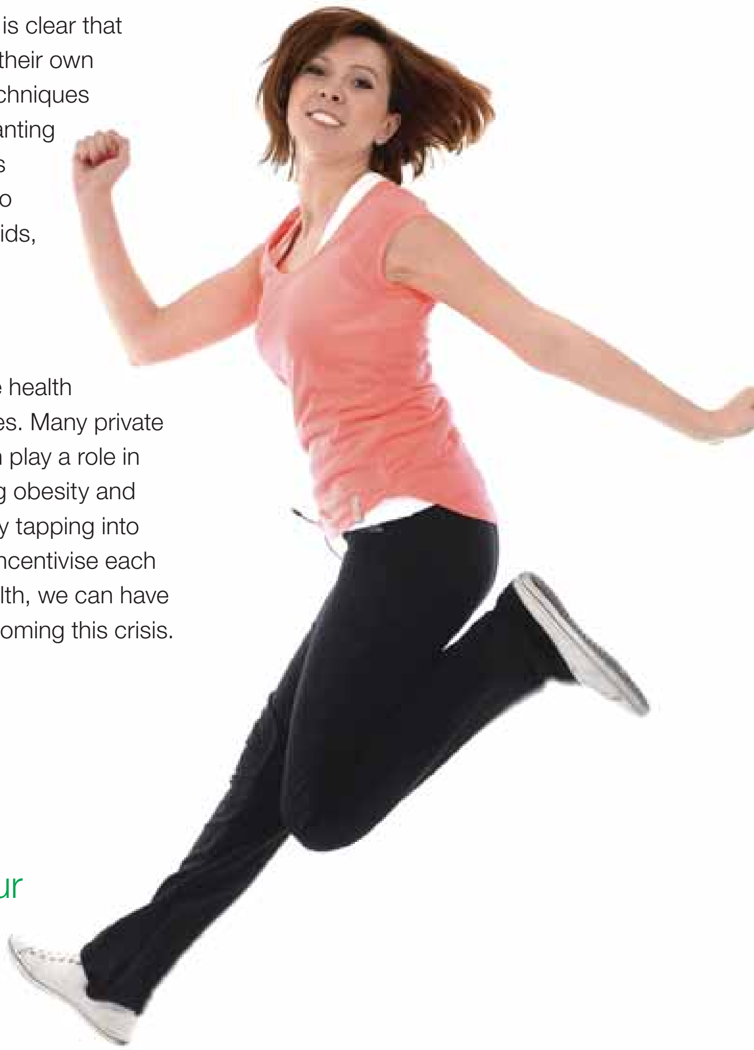
AIA Australia conducted a survey of 1,300 Australians aged between 25-45 years to find out what it is that 'turns us on' and also prevents us from improving our health, including exercise and eating well. The research revealed that nearly 90 per cent of us wish we were more motivated to create and sustain a healthier quality of life, but that crucial willpower alone is not enough to sustain healthy habits.

Three-quarters of Australians found that rewarding themselves when reaching their fitness goals successfully motivated them to get off the couch. Eating something tasty, as a reward after a workout session, was the most popular source of exercise motivation, favoured by 40 per cent of both men and women.

Looking at the results, it is clear that Australians need to find their own personal motivational techniques to get healthier. From wanting to look good at a friend's wedding, or being able to keep up with the grandkids, everyone has a different motivator that needs to be harnessed.

No one is immune to the health challenges Australia faces. Many private sector organisations can play a role in helping solve our soaring obesity and chronic disease rates. By tapping into what can motivate and incentivise each of us to improve our health, we can have a better chance of overcoming this crisis.

Source: AIA, October 2014



Speak to your financial planner to discuss your health insurance options.

Back to basics – the foundations of risk and return

Risk is integral to investing. This can be a frightening thought, but risk shouldn't necessarily be feared, as without it there is less opportunity for reward. Quite simply, the higher the return you want from your investments over a particular period, the more short-term volatility (or risk) you have to accept in the value of your investments. Granted, if you're happy to receive the bank deposit rate, you can put all your money in the bank, safe in the knowledge that the account balance will rise a small amount every day. But if you want higher returns, you'll have to take on more risk and consider other investments, such as shares, fixed income, commodities and property.

Accepting short-term volatility for higher returns

Why do some investments offer higher returns than bank deposits? Each investment has different characteristics and offers varying potential levels of return. For example, a share's return over a particular period is uncertain as the company's profits are unpredictable, therefore share owners require a greater return than they would accept from bank deposits. What share investors are implicitly saying is "I want a higher return, but understand that I have to accept volatility in returns over the short term".

Looking at risk from a longer-term perspective

Risk is the possibility or probability of loss. But if you're talking about one of those frequent falls in a share price on a particular day, is that really an important loss? Firstly, it's only a loss if you sell the investment. Secondly, most of the time these 'losses' are temporary and prices soon bounce back; this is the usual volatility of the share market. The reason this is important is that the financial industry has defined an asset's risk as the extent to which its price fluctuates; in other words, risk is the likelihood of an asset not achieving its long-term expected return over a short period.

Perhaps the risk that you should really care about is the possibility of an asset not achieving its expected return over the long term, rather than over the short term. In the case of equity share, such a situation might arise if the company in question goes out of business. So important risk relates to permanent loss of capital, not day-to-day losses of which the vast majority are temporary.

Instead of thinking of volatility as a risk (and therefore something to be concerned about), think of it as the cost of the longer-term return. And, if you're able to ignore the fluctuations in the value of your investments from day-to-day and month-to-month, it's a cost you won't notice.

Diversification is a fundamental principle of investing

Avoiding permanent loss of capital requires careful analysis of the investment in question. But, if a company does go out of business, you can reduce the impact by having diversified your portfolio across a number of companies and even asset classes.

For example, a simple multi-asset portfolio could include shares, government bonds, corporate bonds and cash. Given each asset class has its own expected return, they can be combined in different ways to target a particular return. If we assume that bank deposit rates are 0 per cent, the expected return from bonds is 5 per cent, and that from shares is 10 per cent; to aim for a return of 5 per cent, you can either invest the entire portfolio in bonds, or split the portfolio 50/50 between shares and bank deposits (or one of many other possible combinations).

Everyone will have a different attitude to risk and, therefore, the returns they require. By adjusting your combination of investments you can control the level of risk and affect your potential returns. This is known as asset allocation and is essential for effective portfolio management.

Source: Aberdeen-Asset, October 2014

Speak to you financial planner to find out more about your investment options.

Neglect SMSF liquidity at your peril

In this article, we look at the liquidity risk associated with holding fixed property in SMSFs, as well as some of the factors to consider when investing in these types of assets.

Fixed property holdings in SMSFs can have distinct advantages:

- Capital appreciation of the property is taxed at an effective rate of 10 per cent, with a reduction to zero if the realisation occurs during the pension phase.
- Over recent years, the progressive relaxation of borrowing restrictions inside SMSFs also means that SMSF fixed property investments can be geared in certain circumstances – an attractive prospect for many investors.

Potential liquidity risk – and solution

The fallout from holding illiquid assets in an SMSF can be severe if a member dies or becomes totally and permanently disabled. This is because, in many cases, the property assets may need to be liquidated in order to pay the required benefit to the member or their family from the fund – which could not only take time to resolve, leaving the member and their family in limbo, but a 'fire sale' could result in a lower than market price for the property.

Liquidity protection insurance enables a benefit to be paid to the member, or their beneficiary in the case of death, while enabling the SMSF to retain the property.

However, the question often arises about why conventionally structured life insurance would not be appropriate. In this situation, life insurance payouts are simply provided to policy holders or their estate - no provision is made for other members of the SMSF.

Thinking about compliance

Liquidity protection insurance is often an attractive option for SMSFs holding property. However, this is a relatively new area, and there is uncertainty about the best way of structuring these arrangements – particularly around the compliance and tax requirements.

It's important to understand how liquidity protection insurance is seen under the Superannuation Industry Supervision Act (1993), best known as SISA.

When considering liquidity protection insurance, the following compliance issues should be considered:

- Does it meet the sole purpose test? Liquidity protection insurance lies within the parameters of both the core and ancillary purposes, and therefore should meet the sole purpose test requirements.
- Does it meet investment strategy requirements? Liquidity protection insurance will usually contribute to satisfying these requirements, which obligate trustees to address liquidity issues when setting investment strategies.
- Does it meet the requirement to allocate premium expense on a fair and reasonable basis? While this can be a grey area, age and health issues of the members need to be discussed openly and objectively up-front.

Equally, in the event of a claim, payments must be allocated on a fair and reasonable basis. To avoid possible dispute, the allocation methodology should be agreed and documented.

Tax considerations

It is necessary to consider tax deductibility of the premiums, the tax treatment of the claim proceeds, and whether or not the strategy could create reserves which may be treated as taxable contributions when appropriated for the benefit of members.

Action plan

This 10 step guide may help SMSF trustees deal with liquidity risks:

1. Complete an asset and liability review.
2. Consider other strategies to eliminate liquidity risk – e.g. payment of benefits in pension form only.
3. Identify the cover required if the insurance option is chosen to mitigate liquidity risk.
4. Select the methodology for allocating premiums and claims proceeds.
5. Review the SMSF trust deed to ensure that insurance in the proposed format is permitted.
6. Brief the SMSF auditor on your proposal.
7. Hold the trustee meeting to approve the strategy. Ensure that the outcome of this meeting is minuted.
8. Ensure that the statement of advice (SOA) prepared by your planner is consistent with other documentation.
9. Once agreed, ensure that the insurance is properly disclosed in annual member statements.
10. Review the insurance annually and update it where necessary.

Source: TAL, October 2014

For more information, speak to your financial planner today.

Living long – living well?

Australia's population is an ageing population. In 2007, 13 per cent of Australians were aged 65 and over and by 2056 this figure will be close to 23 per cent – nearly a quarter of the larger populace[1].

Add to this the reality that many of us are going to outlive our savings, and the age we qualify for the Government pension is rising, then it's no surprise that aged care and estate planning are hot topics for government, financial planners, and families alike.

So what are the important things to consider when looking to plan your life, or that of a loved one, after retirement?

Five core issues

1. The costs

Establish entry fees and bonds and ongoing costs of nursing homes and hostels. For residential care make sure you understand the costs are for things like daily care fees, and income-tested fees.

2. The family home

Consider if someone will continue to live there, or should it be sold or rented out? You might consider options such as a reverse mortgage.

3. Social security

Find out how to maximise your age pension entitlement by structuring your assets in the most effective way.

4. Tax

Look at what special tax offsets may be available when living in residential aged care.

5. Estate planning

Have you or your loved ones sorted out a power of attorney or enduring guardianship?

Government help

In July 2014, the Australian Government launched the Let's talk about changes to aged care campaign (myagedcare.com.au). The changes included:

- greater support to stay independent and in your own home and community with more home care packages to meet your needs
- older people being asked to contribute to the costs of care, if they could afford to do so
- increased flexibility in ways to pay for accommodation in an aged care home
- Centrelink providing income testing for people receiving home care, and both income and asset testing for people receiving residential care.

Estate planning

A huge part of aged care planning is estate planning. At its most basic, estate planning is about working through what you want to do with your assets when you die. It's much more than just a Will. Effective estate planning is about protecting your assets and empowering you with the information and knowledge you need to make informed, conscious choices so that your family is not left stranded or your assets eroded or exposed to systems, processes and challenges that you may not be aware of or have even considered.

Financial planning

Whatever your preferred choices are for aged care there is a need for preparation and sound financial planning.

Source: BT Financial, October 2014

Speak to your financial planner to prepare your financial position ahead of retirement.

1. http://www.humanrights.gov.au/news/speeches/reflections-age-discrimination-price-we-pay-growing-older-2011 Reflections on age discrimination: The price we pay for growing older. Speech by Elizabeth Broderick

Five super traps pre-retirees should avoid

Is your retirement just around the corner? Then it's time to make your super work harder by avoiding these common super traps.

1	**Outdated investment strategies** As you approach retirement, you should revisit your investment strategy. But that doesn't necessarily mean putting all your money into defensive assets like cash. Diversification is the key to smoothing out the inevitable bumps when economies, sectors and assets rise and fall. A well-diversified portfolio includes a good mix of asset classes — such as cash, fixed interest, property and shares.
2	**Over-insurance** Just as your investment needs change, so will your insurance requirements. For instance, if you've eliminated or significantly reduced your debts, you may not need as much life insurance or income cover as you once did. And, if you're an empty nester, you're insurance needs are likely to be very different to those of a young family's sole breadwinner. Your lifestyle might have also changed over the years — for example, you may no longer engage in high-risk work activities or leisure pursuits like skiing. So make sure your cover matches your needs.
3	**Missing out on tax benefits** Before the end of your career, it may be worth considering a transition to retirement (TTR) strategy. This involves drawing a pension from your super savings while you're still working, which you can start doing once you've reached your preservation age (currently age 55). This pension income is likely to be taxed at a reduced rate or be tax-free. At the same time, you can boost your super contributions through salary sacrificing, with any contributions of up to $35,000 taxed at just 15 per cent. This can give a valuable boost to your nest egg during the crucial pre-retirement years. That's why it's worth consulting a financial planner to find out the best TTR strategy for your situation.
4	**Inadequate estate planning** Although it's probably not something you like to think about, it's important to consider what will happen to your estate when you pass away. When it comes to super and insurance, this means nominating who you want to receive your super savings and any payable insurance benefits. The tax implications for your beneficiaries can vary depending on their age, their relationship to you and whether the payments are classified as a lump sum or as an income stream. When you're getting your affairs in order, it's a good idea to seek professional estate planning advice.
5	**Going it alone** Everyone's circumstances are different, so your super strategies should be too. Talking to a financial planner is the first step in getting the most out of your super.

Source: MLC, October 2014

To find out more, contact your financial planner today.

Economic update

The third quarter of 2014 saw markets continue to recover from their early weakness at the beginning of the year, despite a flat start in July. North American and Asia Pacific share markets experienced strong quarters, however regional geopolitical tensions and un-inspiring data depressed investor sentiment in the Euro-zone. Commodity markets had a mixed quarter as weak August data out of China and the Indonesian export ban weighed on metals, while sensitivity to the Russia-Ukraine conflict was reflected in wheat pricing. Crude prices declined steadily throughout the quarter, reaching a two year low by the end of September and the AUD was the second weakest G10 currency in September due to weaker China data and rising global growth concerns. Global bond yields were helped higher by abating geopolitical concerns, and the US Federal Reserve delivering a modestly upbeat assessment of the US economy whilst indicating that normalisation of interest rate policy was more data dependant.

In Australia, the Reserve Bank of Australia (RBA) left cash rates on hold at 2.5 per cent throughout the third quarter of 2014. In July, RBA Governor Stevens enhanced their efforts to talk the currency downward. Australia's terms of trade worsened as the drop in export prices exceeded the drop in import prices. August saw the Governor discuss currency intervention, noting that it was an option on the table, despite the fresh talk of intervention from the head of the RBA, solid domestic data kept AUD well supported throughout the month. However, disappointing reads on the Chinese economy, concerns over the current global geopolitical climate and improving US domestic data in September, saw a dramatic fall in the AUD of -6.4 per cent.

The European Central Bank (ECB) left their key interest rates unchanged through July and August, however President Draghi increased the likelihood of additional ECB policy easing at the August FOMC meeting, acknowledging the sharp drop in inflation expectations. Market commentators are concerned with the economic impacts of geopolitical tensions in Ukraine on the Euro-area and the likelihood of downside risk to growth. At the September meeting the ECB cut all the key rates by 10 basis points. They also announced a purchase of asset backed securities and covered bonds, with details to come in October.

The Bank of Japan (BoJ) left its monetary policy stance unchanged at their July meeting, maintaining their monetary policy statement's positive outlook for both growth and prices. Monetary policy stance remained unchanged through August, but a larger-than-expected drop in GDP growth in response to the consumption tax hike and a further widening in the trade deficit increased pressure on the BoJ to revise its outlook. By September slowing domestic data prompted concern around further BoJ easing, and expectations of impending Government Pension Investment Fund reform, contributed to a weaker JPY which tested levels not seen since 2008.

Source: BlackRock, October 2014

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