

# Financial Lifestyle Managers

## A WARNING: SALARY SACRIFICE

If you salary sacrifice money into super, you may be affected by changes introduced by the government for the 2009/10 tax year. The amount of concessional contributions has been reduced from \$50,000 to \$25,000 for people under 50 and from \$100,000 to \$50,000 for people 50 and over. **And that includes the 9% superannuation guarantee contribution (SGC or employer contribution).** Any contributions over these caps will attract a **further 31.5% tax**, on top of the 15% tax which super contributions currently attract. So if you are salary sacrificing it pays to keep a close eye on your contribution levels, and contact us immediately if you think you will exceed these limits, or if you have any questions about this issue.

## You get what you pay for

As the financial world becomes more complex, so does the need for Australians to seek out expert advice on all of their financial planning needs, from superannuation to wealth creation to personal (ie risk) insurance to retirement planning. The following research is disappointing, to say the least, and proves, once again, the old adage that you get what you pay for.

CoreData's research\* has suggested that Industry Funds Financial Planning (IFFP) advisers come up short in engagement and service skills when compared to their independent or bank-aligned colleagues.

According to CoreData's Industry Funds Financial Planning Shadow Shop Report, IFFP planners were less likely to convert prospects into clients, and less likely to be capable of servicing at a high level if they did.

The report compared the client experience of IFFP businesses to independent financial advisers and bank-aligned financial planners, with IFFP advisers coming up short.

- IFFP advisers fell behind both independent advisers (by almost 10 per cent) and bank planners (by almost 5 per cent).
- The research said while IFFP advisers were "good at the basics", they showed "a limited ability to meet

individuals' planning needs and cater to situations that differed from the norm".

"The IFFP model appears to be restricted and limited both in terms of the solutions its advisers can offer and also around the notion of an ongoing service proposition," CoreData said. Furthermore, IFFP advisers particularly lacked the "softer engagement skills" evident in other advisers, CoreData said. "IFFP advisers were deemed to be extremely honest, yet despite this, IFFP advisers trailed [independent and bank planners] in rapport-building skills," the group said.

Part of that was a failure to demonstrate "keenness" for business, as well as having only a "limited follow-up procedure, almost as if the advisers were happy for clients to take it or leave it".

CoreData managing director Andrew Inwood said the economic crisis had highlighted some "shortcomings within IFFP's current capability", adding that the group's potential customers were "underwhelmed by the experience".

"In uncertain times, clients want a higher level of service and they want reassurance. The [report] indicates that IFFP's advisers have some way to go to even match the rest of the industry."

We believe it is imperative that our planners not only have the technical skills but also the understanding of our clients' needs and objectives to enable them to stay on track and weather the occasional heavy market volatility.

We can do this because of our years of experience in the financial planning industry and a genuine concern for our clients' long-term financial success.

*\* The research was based on 480 shadow shopping events conducted by more than 200 people, covering 19 dealer groups between November and December 2009. The participants were aged between 45 and 60 years and were between 2 and 20 years from their expected retirement date. The shadow shoppers were also people who were actively seeking advice or looking to change their adviser, and held more than \$150,000 in investable assets or superannuation monies.\**

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**Investwell with  
Financial Lifestyle Managers Pty Ltd**

Level 2, 552 Lonsdale Street,  
Melbourne, Victoria 3000  
Phone: 03 9642 1266

plan@investwellfp.com.au  
www.investwellfp.com.au

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You need to Invest Well to be wealthy.**

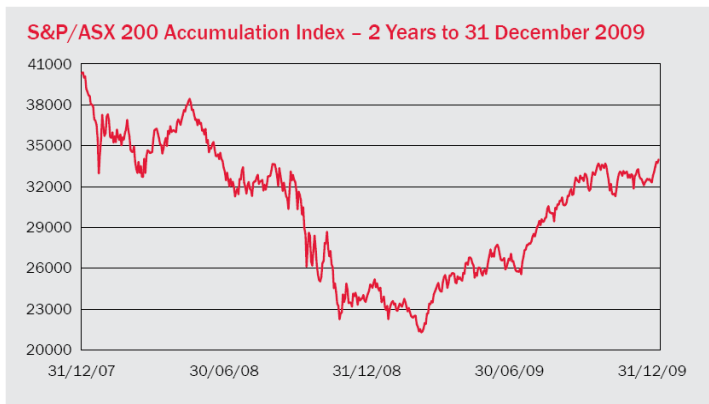
# Why super is still super

Superannuation returns have struggled in recent years and this has prompted many investors to question the validity of investing in super at all. But when you look past the numbers, you'll find that there are still plenty of reasons why super remains the best savings vehicle for your retirement.

## The recovery of super

Over the past few years, the volatility in financial markets has had a negative impact on superannuation balances. This is because super is generally invested in shares in Australian and international companies, listed property, cash and government bonds, with the amount invested in each type of asset depending on your investment options. So when financial markets around the world started to fall, so too did the value of your super.

But as we've seen following past major market events like the Wall Street Crash of 1987 and the Tech Wreck of 2002, bear markets don't last forever. Since March last year, the local market has gained 60% as the effects of the crisis ease and economies regroup, and this has helped to restore order to super balances. The chart below illustrates the market's steady climb since early 2009. It's important to keep in mind



Source: Bloomberg

that superannuation is an investment vehicle – not an asset class. The negative performance of super funds in recent years is a reflection of the performance of investment markets in the wake of the global financial crisis. It was not a reflection of the Australian superannuation system.

## A long-term investment

For most, superannuation is a long-term investment; sometimes 40 years or more. Any time you invest for the long-term, it's inevitable that there will be a greater number of market ups and downs that will impact on your balance.

For example, we know that on average (taken over 100 years) the Australian share market has five good years for every bad year. 2008 was a bad year. 2009 was a good one. We don't know when the next bad year will be but it's more than likely that your super will experience more ups and downs over your working life. On balance and over the long-term, though, the good years should outweigh the bad ones.

## The tax breaks

Very few investments can top super in terms of tax breaks. Generous tax concessions apply during the accumulation phase when you're trying to grow your savings, and later in life when you start to withdraw from your fund. Importantly, investment returns within super are taxed at just 15%, which is much less than the top marginal tax rate of 46.5% that can apply to investments held outside super.

Moreover, growing your savings through salary sacrifice, that is, making super contributions from pre-tax salary, can deliver considerable tax savings. Deductible (pre-tax) contributions are taxed at 15%, a rate that may be well below your personal tax rate. And as salary sacrificed super contributions reduce your taxable salary, you actually pay less tax on your take home pay.

Additional tax incentives are provided through the spouse super rebate. Add a contribution to the fund of a low income spouse, and you could be entitled to a tax rebate of up to \$540 annually. But the real plus with super is that withdrawals from your fund are tax-free from age 60. And if you convert your super to a pension at retirement, you don't pay any tax on investment earnings at all.

## Insurance

We know that superannuation is designed to provide you financial security for life after work, but it can also provide you financial security while you work. Insurance options within super can provide immediate financial protection without affecting your everyday cash flow since premiums are deducted automatically from your super balance.

Not only that, it's often a cheaper alternative than buying insurance outside super since most super funds have the power to negotiate lower rates for their members. In addition, purchasing insurance within super can be tax-effective since you pay your premiums with pre-tax dollars from your employer super contributions.

## Super is always evolving

There is no denying that the government is forever altering the super rules. With the Henry Review of the Australian tax system delivered to the Government in December, and the Cooper Review of superannuation underway, it's very likely that more changes are on the way.

But here's the interesting thing. Australia's population aged over 65 is projected to more than double in the next 40 years, meaning that the government needs to act in order to make super more attractive to workers. The upshot of this is that any future rule changes are likely to make investing in super even simpler – not harder.

## Super and dollar cost averaging

Dollar cost averaging is a smart and simple investment strategy. Essentially, dollar cost averaging means you invest a set amount of money on a regular basis over a long period of

### Why super is still super (cont'd)

time. The intended effect is to lower the average price paid for the investment. Put another way, it lets you buy fewer units when the price is high and more units when the price is low.

You may not have realised it, but the regular contributions that your employer makes to your super fund is really just dollar cost averaging at work.

Consider the following example: imagine you contributed \$100 each month to a managed fund that had an initial unit price of \$10. Over the next few months, the market falls – causing the fund's unit price to drop – before it recovers its original value. At the end of five months you have 65 units now worth \$10 each, so you have \$650. You invested \$500, so

your profit is \$150 even though the unit price is the same as when you first invested.

### Speak to your financial adviser

The fallout from the global financial crisis has clearly had a negative impact on superannuation returns in recent years, but there is little doubt that super remains the best investment vehicle for your retirement.

Talk to your financial adviser about how you can make the most of your super. Your adviser has the strategies to help you build your super and the strategies to help you protect your wealth and income through your super. ✱

# Tackling the underinsurance crisis -

## WE DEBUNK SOME COMMON MYTHS

Many people wouldn't think twice about insuring the full value of their car or home. But when it comes to life insurance, 60% of families with dependant children do not have enough insurance to cover household expenses for a year if the family breadwinner was to die.<sup>1</sup>

Even today with an over-abundance of information available, people are still relatively uneducated on the topic of insurance. They believe they have enough insurance in their super, they don't need insurance or think it's just too expensive. Isn't it time to debunk some of these common myths?

Despite the fact that almost every working Australian has some life insurance within their superannuation, Australia has proved to be one of the most underinsured nations in the developed world.<sup>1</sup>

Take a look at these statistics:

- 50% of individuals are underinsured by \$100,000 for life insurance<sup>2</sup>
- 74% of individuals are underinsured by \$100,000 for Total and Permanent Disability (TPD)<sup>2</sup>
- 45% of individuals are underinsured by \$1000 per month for income protection<sup>2</sup>
- Australian families with dependant children need life insurance between the value of 10 to 13 times the combined annual income<sup>3</sup>
- only 4% of Australian families with dependant children have adequate levels of insurance cover<sup>3</sup>
- the default amount of life insurance in super is on average only 20% of what is actually needed<sup>3</sup>

It's quite a serious situation considering:

- 81% say life insurance is too expensive, however 61% overestimate the cost<sup>4</sup>
- 41% say life insurance is too complicated and one in four don't know where to start<sup>4</sup>
- more than 50,000 people were hospitalised due to transport accidents with over five days in hospital (81% of these were of working age)<sup>5</sup>
- over 1,400 people die on Australian roads every year<sup>6</sup>
- more than three in four Australians will be diagnosed with a serious illness in their working life<sup>7</sup>
- one third of women and a quarter of all men will suffer cancer at some stage in their lives – over half of whom will live for longer than five years after diagnosis<sup>8</sup>

When you consider these sobering statistics, there's really no excuse to not put protection first.

Wealth protection is an integral part of any wealth creation strategy. Because no two people are the same, your financial planner can put together a protection package that is tailored to suit your individual needs. ✱

<sup>1</sup> IFSA/TNS Protection Gap research, 2005

<sup>2</sup> AIST Media Release, Tuesday 3rd June 2008

<sup>3</sup> Analysis of Insurance needs – Rice Warner Actuaries, May 2005

<sup>4</sup> ING Australia's Attitudes Towards Life Insurance, December 2008

<sup>5</sup> AIHW Injury Research and Statistics Series No. 42, 2005-06

<sup>6</sup> Australian Government, Road Deaths Australia 2008

<sup>7</sup> ABS Statistics, 2007

<sup>8</sup> Cancer Council: ([www.cancer.org.au](http://www.cancer.org.au)), Cancer in Australia: an overview, 2008 Australian Institute of Health and Welfare (published December 2008)

# New year's resolutions . . .

## for your financial health

Join a gym, eat healthier, drink less...If you made a new year's resolution for 2010, it's probably a resolution to help you become healthier and happier. But what about becoming wealthier? Here are six ideas to get your finances into shape this year.

### 1. Reconnect with a friend

Speak to your financial planner. The start of a new year is often an ideal time to meet with your planner to reassess your situation and to ensure your investment strategy is still suitable for your risk profile and financial goals.

### 2. Lose weight

Consolidate your super. Consolidating multiple accounts can cut out unnecessary paperwork, and cut down on multiple account fees. Speak to your planner about combining your supers into one account, but be sure to check your insurance cover before moving your money out of a super fund.

### 3. Plan for more time with family

Retirement might be years away, but how you set up and manage your super now could determine how long you need to keep working before you can retire. Ask your planner about the appropriateness of salary sacrificing or government co-contributions to grow your super balance.

### 4. Cut your stress levels

Protect yourself and your family with the right level of insurance. Your planner can help you decide on the right level of Salary Continuance Insurance, Total and Permanent Disablement and Death cover to suit your situation and income needs.

### 5. Break a bad habit

If your investment pays distributions, consider reinvesting them instead of spending them. Automatically reinvesting your distributions can help you grow your investment more quickly and you'll also benefit from 'compounding' – the snowball effect of your investment earning interest, and then your interest earning interest and so on.

### 6. Spend less, save more

Consider setting up a Regular Investment Plan. Your planner can help you set up regular payments into your investment, which is a great strategy for building your wealth without having to work out the best time to invest - taking the worry out of timing the market. ✱

### AUSTRALIA IS IN GOOD SHAPE

Twelve months ago, talk of a recession in Australia dominated news headlines. And there was good reason for this. The global economy had slowed to a crawl, unemployment was on the rise and company earnings had fallen sharply. But despite all the evidence to the contrary, the Australian economy proved to be remarkably resilient, even managing to avoid what's known as a technical recession, after recording positive growth in the March quarter.

The Australian economy is now widely regarded as one of the strongest in the world.

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**Securitor Financial Group Ltd** ABN 48 009 189 495 AFSL No 240687  
 Level 7, 530 Collins St, Melbourne VIC 3000

