Connect
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Consultum Financial Advisers

Financial pearls of wisdom

As we approach retirement, some people start to panic a little wondering if they are truly looking forward to the time of their life when they no longer have to work. All of a sudden something they have been pining for starts to seem real! Instead of worrying, have a read of the following tips and if necessary, act now. After all, it's your future – and it could be here sooner than you think.

1. What do you want and how will you get it?

What are your goals and objectives for your retirement? Write out a plan that sees you enjoying the fruits of your labours. Then make sure your finances can achieve your goals. If not, do something about it now while you still have time. Be realistic and set achievable timeframes.

2. It's not just about returns; remember the risks

Every investment has some degree of risk. Cash is considered the safest as there's a good chance your money will still be in the bank when you need it. The downside is that it pays the lowest return; it isn't tax effective; and doesn't tend to keep pace with inflation. To achieve higher returns and make your money work harder, you need to take appropriate risk. Understand the differences between cash, fixed interest, shares and property and make your decisions wisely.

3. Share it around

To help reduce risk, share your investments across several asset classes and within those asset classes as well. The right balance will depend on your financial objectives, the amount of time you have available to invest, and your risk tolerance.

4. Don't forget super...

Superannuation will be your bank account when you are no longer working so you should be considering ways to boost your superannuation balance prior to retirement. But be aware the tax benefits are not always equal so make sure you have a balance of inside-super and outside-super investments.

5. ...or tax

Tax is the trickiest area of all. Always make sure you get good advice on tax-effective investments. A simple restructure of an underlying asset, investment vehicle or ownership structure can help you to minimise the amount of tax you pay and maximise your after-tax return.

6. Retirement can last another lifetime

With medical technology and improved lifestyles, we are living much longer than our previous generations. The older you get, the longer you're likely to live. If you've managed to survive early risks, such as accidents or illnesses, your life expectancy actually increases. Be prepared for a longer retirement than your parents. This means that your money must last longer, so don't be too conservative with your investments.

7. Stay cool

You are in this for the long term so when markets fluctuate and investments unexpectedly fall in value, don't panic and sell. Sit down with your adviser, review your portfolio and stay focused on your long-term goals and objectives.

8. Keep learning

You are never too old to learn. Financial advisers have an important role in giving you tailored guidance, but you still need to make your own informed decisions about your financial plan. Make sure you understand your plan and if not, ask questions or do some research.

Source: Zurich, October 2014

Speak to your financial adviser today to prepare your financial position ahead of retirement.

Did you know:

An average person will spend 25 years asleep

Source: www.did-you-knows.com

Cut the cost of insurance

Many of us often look at what we pay for our insurance cover over a year and wonder if there are ways we can reduce the various premiums without jeopardising the cover. One option is to facilitate the insurance cover via your superannuation fund.

Mike's case

Mike and Terri are both aged 38 and have three children under six. Mike earns $100,000 a year and Terri and the children rely on his income. They have a $300,000 mortgage and know they are taking a big risk not having life insurance. However, they rely on every dollar Mike earns and don't think they can afford the premiums.

They discuss their circumstances and needs with a financial adviser and agree that ideally they need about $1.6 million of cover. This would include funds for Mike's medical and funeral expenses if he got very ill and died, paying off the mortgage and providing an income for Terri and the children. Mike is charged a premium of about $3,500 in the first year.

Their adviser shows them how they can afford the premiums by arranging the cover in superannuation and salary sacrificing the premiums. The table below shows their expenses are $40,000 a year and they have a very small surplus at present (insufficient to meet the insurance premium). Mike would need to salary sacrifice $4,117 (to allow for the 15 per cent tax in superannuation). This would not only reduce the amount of income tax he pays, but allow him to maintain some of the surplus and allow him to pay for the necessary life cover.

	Current	Proposed
Income	$100,000	$100,000
Salary sacrifice	$0	$4,117
Taxable income	$100,000	$95,883
Tax	$26,447	$24,862
After tax income	$73,553	$71,021
Mortgage	$30,000	$30,000
Expenses	$40,000	$40,000
Surplus	$3,553	$1,021

Total and permanent disability

Since 1 July 2014, super fund trustees can only offer insurance that pays benefits in circumstances comparable to the statutory superannuation conditions of release: death, terminal medical condition, permanent incapacity or temporary incapacity. Only term life, 'any' occupation TPD and income protection (IP) policies may now be offered through super. Whilst existing policies can be retained, no new 'own' occupation TPD and trauma policies can be taken up within super and any claims made are likely to be classified as preserved until the beneficiary satisfies a condition of release.

My Super

Under the 'My Super' arrangements, if you have not exercised choice of fund then the default super accounts must include a minimum level of Life and TPD cover on an opt-out basis.

The need for review

This case is based on Mike and Terri's circumstances today. What if they had another child or received an inheritance? Next year the premiums will be higher because Mike is a year older – will they still need the same level of cover? Mike's employer will be paying into superannuation for him and as his account grows he may need less cover.

Before making the decision about whether or not to hold your insurance in super, it's important to seek professional advice – as you can see, not only is some insurance treated differently within super, but there are a number of issues to consider.

Source: Zurich, October 2014.

Speak to your financial adviser today about your insurance options.

Can anyone challenge your Will?

It's easy for a disgruntled family member to say "I'm going to challenge the Will". However, there's only a few limited ways in which a Will can be 'challenged'.

The most common way for a challenge to be made is under family provision legislation. This allows certain people to make a claim on your estate. Each State and Territory has its own legislation and there are significant differences between the States and Territories.

All States recognise that a spouse (married, de facto or same sex) or a child (of any age) is eligible to make a claim.

Some States have broader definitions than others. For example, the definition is very broad in Victoria where a neighbour was successful in a claim. In NSW there was a case where a son who lived in Victoria was able to make a claim in NSW against the estate of his mother who lived and died in Malta. He was able to make the claim because his mother owned real estate in NSW.

What assets are subject to a claim?

Any asset that forms part of your estate is subject to a claim.

In NSW, the court has even broader powers in relation to assets which normally don't form an asset of your estate. These include jointly owned assets as well as superannuation. The court has power to deem such assets as 'notional estate' and use them to provide a benefit to a successful eligible person.

If someone can make a claim, should you bother making a Will?

Yes, you should definitely make a Will. The courts respect and uphold the right of a person to make a Will, distributing their assets as they've instructed. Just because a person is eligible to make a claim doesn't mean they will be successful. The courts will generally only favour applicants who can prove they have a genuine need, and that the deceased has failed to provide for them either during the deceased's lifetime, or through their Will. In some cases, the poor conduct of an applicant may be the reason why the Willmaker wishes to disinherit them.

What can you do to minimise the chances of a claim being made, or being successful?

Unfortunately, you can't stop challenges from being made, however, you can take steps to minimise the likelihood of a claim being made. A professional qualified in the area of Wills and estate planning can help you plan for the possibility of a claim. In some States or Territories this may involve a review of the way in which you have your asset ownership structured. Courts in all States and Territories are able to accept into evidence statements from the deceased. An estate planning specialist can also assist in preparing a statement (or affidavit) whereby the Willmaker (after their death) can give their evidence to the court. This may include details of the provision which the Willmaker may already have made in favour of the potential claimant, and also details of the conduct or behaviour of the potential claimant which the Willmaker believes is sufficient to justify excluding the potential claimant from inheriting a part of the estate.

Top five tips for preparing a Will:

1. **Get professional advice** – consult a solicitor, estate planner or trustee company that specialises in estate planning.
2. **Choice of executor is vital** – an important role of the executor is to communicate with the beneficiaries and also distribute the assets according to your wishes (as outlined in your Will). Ensure your executor is someone you can trust and will be reliable in carrying out your wishes.
3. **Once prepared, your Will should be kept in a safe place** – you should inform your executor(s) or family members where you keep your original Will.
4. **Your Will should be reviewed whenever your personal circumstances or structure of asset ownership change** – for example, in South Australia, marriage revokes a Will unless that Will was prepared in contemplation of marriage.
5. **When including an organisation in your Will, it is essential to get the name of the organisation correct** – if an organisation is incorrectly described in your Will, it is possible that it may end up not receiving the benefit or there may be significant legal costs incurred before it does.

Source: Australian Executor Trustees (AET), October 2014.

If you would like to make a Will or update an existing one, please speak to your financial adviser.

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Portfolio position and the Australian dollar

The sharp fall in the value of the Australian dollar (AUD) has been a major topic of discussion in financial markets since early September. The AUD has predominately fallen due to the relative strength of the US dollar (USD) but also due to prolonged weakness in commodity prices and mounting concerns over the growth outlook for China.

In terms of the Australian economy, few would argue that a falling AUD isn't absolutely necessary to help offset the impact of falling commodity prices and to stimulate other key areas of the economy including education, domestic tourism and what remains of our manufacturing sector. Despite the recent decline in the AUD from US$0.93 to around US$0.88, the Reserve Bank of Australia, in its commentary post the October board meeting, is still of the view that the currency "*remains above most estimates of its fundamental value*". The statement reiterated that the currency remains high and that "*it is offering less assistance than would normally be expected in achieving balanced growth in the economy*".

Within the small cap universe, a falling AUD is typically a positive for:

- miners, as commodities are typically priced in USD
- those companies which have material offshore earnings (translational impact)
- domestic tourism and education providers, and
- for those companies which compete with imports.

On the flipside, it is negative for net importers, such as JB Hi-Fi or The Reject Shop, which source much of their product offshore in US dollars.

One of the investments in the small cap universe with the largest leverage to a falling AUD is Select Harvests (SHV). SHV grow, package and sell almonds to both domestic and international buyers, with all sales (including domestic sales) based on international reference pricing. The benchmark Californian pricing for almonds has been increasing in USD terms, which compounds with the weakening AUD to result in a greater increase in the AUD pricing. On the other side of the equation, SHV has almost all its expenses denominated in AUD which will result in increased margins. For example, a one per cent increase in the AUD almond price could result in as much as a two per cent uplift in profit before tax (before accounting for increased costs of fuel/chemicals etc, the price of which may escalate in a weaker AUD environment).

We expect the currency to stabilise around its current level (US $0.88) in the near-term as a number of competing factors offset each other. Ordinarily the currency could be expected to remain under pressure relative to the USD as the terms of trade continue to decline and as key commodities, notably iron ore, remain weak. However, recent strength in the USD and weak overseas growth has Federal Reserve officials concerned that the US economy could slow and inflation drop below the Fed's two per cent objective. As a result, US interest rates are now not expected to rise until late 2015. This development ought to help the AUD hold around its current levels in the near-term.

Source: OC Funds, October 2014

Speak to your financial adviser today to discuss your investment options.

To lose weight, should you avoid foods with carbohydrates?

No! Carbohydrates are the main fuel for your muscles, brain and many other organs in your body. There are over a dozen hormones dependent on carbohydrates entering your body.

In addition, foods containing carbohydrates such as fruit, breads and cereals, some vegetables, legumes and dairy are very important for good health.

So, if you remove carbs you are not only starving your body of a large fuel supply, but you are also eliminating a huge number of vitamins and minerals crucial to good health.

Healthy weight loss can be achieved through balanced healthy eating and changing your lifestyle behaviours to reduce weight.