Your money Your future

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Are you a super woman?

Are you one of the many women who have merely half the accrued super of their male counterparts? If so, you can choose to take charge!

According to the Association of Superannuation Funds of Australia (ASFA) and the Household, Income and Labour Dynamics in Australia survey[1], most women do not have enough super when they retire.

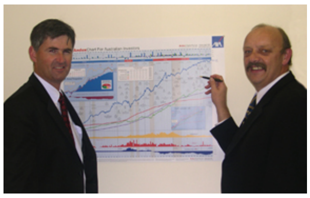
Women retiring at age 60 have, on average, half the super of men retiring at the same age. The current average super balance for women is $43,000, while men have $78,000. And, while 1 in 6 35 to 44 year-old men have super balances of over $100,000, only half as many women do – 1 in 12 women have super balances exceeding $100,000.[2]

Women's relatively low super savings are further depleted by their tendency to hold multiple superannuation accounts, which generate higher aggregate costs.

By consolidating superannuation accounts and obtaining the advice of your financial adviser, you may be able to supercharge your retirement account before it's too late. Call your adviser and find out how easy it can be to make the most of your time in the work force.

1 A Commonwealth Government panel study which began in 2001.

2 ASFA Research Centre, 'Why can't a woman be more like a man', November 2004.



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Financial Planning

Do you invest with your head or your heart?

One of the most surprising facts when it comes to investing is that the difference between success and failure is not necessarily what happens in the market. It turns out that one of the big differentiators is how investors perform, not how markets perform.

Independent US research conducted by DALBAR Inc found that:

- between 1985 and 2005 the US S&P 500 Index delivered average annual returns of 11.9 per cent, and
- the average share fund investor over the same period earned just 3.9 per cent.

Why did so many investors fail to achieve even average investment returns?

The answer is simple. People buy and sell investments at the wrong time. That is, they move their money out of low-performing share funds just before a recovery in performance and move into high-performing funds just before a fall.

Irrational investing and the fear of losing money

But why do people make poor buying and selling investment decisions?

According to Daniel Kahneman and Amos Tversky, who studied the emotional impact of investment loss and profit, the answer is people's natural fear of losing money. In fact, they found the pain of loss was roughly twice as great as the pleasure of an equivalent gain.

Instead of investing rationally, people make emotional decisions based on short-term market happenings that can end up costing them long-term investment returns. And, by being risk-averse, these investors:

- seek to avoid short-term regret; hence, they fail to take calculated investment risks and end up negatively impacting their portfolio returns, and
- hold losing investments too long – to avoid the regret of crystallising the loss, investors hold losing investments too long, hoping they'll come good, which inevitably leads to greater losses.

Research conducted in Australia in 2007 similarly found that the most significant factor holding back many people's financial ambitions with their retirement savings was the fear of losing money. In fact, 58 per cent of Australians said they should be doing more with their retirement finances but more than two thirds of respondents said they didn't have the confidence to invest for greater investment growth.

Profiting through long-term planning

Fortunately, your financial adviser can be a great source of objective and independent investment advice. They can help you avoid making emotional investment decisions and provide a systematic approach to building a long-term and rational investment plan that is based on your personal risk profile.

For more information, make an appointment to speak us today.

Tracking your investments

For most investors, the name of the game is to make money. To give yourself every chance to achieve your aim, you need to track your investments – be it shares, managed funds or property – on a regular basis. It can be disastrous to buy shares and forget about them until you need some cash.

There is no hard and fast way on how often you should review your portfolio — it really comes down to the type of investor you are. If you are an active investor, you will probably be in and out of the market a lot, so you will be measuring the performance of your portfolio on a short timeframe — daily or weekly. Similarly, if you are a long-term investor, you may measure more infrequently — quarterly or for many people, yearly.

It is important that you always refer back to your initial investment strategy. Many investors make a habit of glancing at the finance pages in their daily newspaper. However, a lot of investors only look at their portfolio around tax time or following major economic or world events. This can often be a misleading time to review investments, as market volatility may cause investors to make rash decisions.

When assessing your investment, think about what you originally wanted to achieve. It is important to refer back to the factors that initially convinced you to make that investment. If these factors remain the same, then it may be suitable to hold on to it, if not, it may be worth considering an alternative solution.

Your financial adviser can assist you in monitoring your portfolio and ensuring your investment decisions suit your investment objectives.

Your life insurance is too valuable to take lightly

Are finances tight just now? Thinking about saving some money by cancelling your life insurance?

Before you go ahead stop and think about what you're actually giving up.

What benefits does my life insurance provide?

Life insurance provides a lump sum to help your loved ones cope financially in the event of your death. They might use the money to pay off the mortgage or other debts, to reimburse funeral costs, pay for child care or home help, or as an income source.

If I let my policy lapse, what will happen?

If you don't pay your premiums and your policy lapses, if it's for less than a month you will generally be able to reinstate your policy with no questions asked.

But if your policy lapses for a month or more you will probably find that your insurer will want you to take further medical tests to see whether or not you are in good health.

Based on new information about your health, you may be asked to pay a higher premium or even worse, you may not be able to get your insurance cover back. If the medical examination found you had suffered serious injuries or illnesses during the period you were covered, then the insurer may not be prepared to accept the risks this time.

I'm already covered for life insurance through my super – so why do I need another life insurance policy?

A number of super funds automatically provide you with some level of insurance. But many people find the level of cover offered is not enough to meet their needs.

In fact, recent research commissioned by AXA has measured the amount of under-insurance in Australia at $468,000 per person (including insurance for life, income, trauma recovery and total and permanent disability).*

I just can't afford the annual premium at the moment – is there any way I can manage the cost?

If you are currently paying yearly, you could consider moving to quarterly or monthly payments.

Or, you could review your insurance cover as you may find circumstances have changed to the point where you don't need your current level of cover. By reducing your cover you can also reduce your premium.

Where can I obtain more information?

The best place to go for more information is your financial adviser.

* DEXX&R data expertise & research, "Estimates of the extent of under-insurance in Australia" July 2004

Income insurance – agreed value or indemnity?

Income insurance pays you a replacement income stream if you are unable to work due to sickness or injury. The income stream, usually paid monthly or fortnightly, is designed to help you pay for day-to-day expenses.

'Agreed value' and 'indemnity' are two common types of income insurance policies which differ in the way the benefit amount is calculated at the time of claim.

How 'agreed value' calculates your benefit amount

Agreed value income insurance calculates your benefit amount on an agreed amount (based on your income) at the time you take out the plan. Most plans increase to match inflation – this offers peace of mind as your benefit amount increases even if your income drops after you take out the plan.

How 'indemnity' typically calculates your benefit amount

Indemnity income insurance calculates your benefit amount based on the lesser of:

(a) the agreed amount (based on your income, less business expenses but before tax) at the time you took out the plan (plus any CPI increases); and

(b) 75 per cent of your average monthly income (less business expenses but before tax) over the two years immediately prior to the claim.

Any drop in your income (prior to becoming totally disabled) will be reflected in your benefit amount payable. Because of this, indemnity insurance is generally cheaper than agreed value.

However, with both indemnity and agreed value plans, an income increase well above CPI will not be reflected automatically in the plan. To have a pay rise taken into account, you need to reapply for insurance based on your new income.

If your income increases steadily at about the same rate as CPI, buying indemnity income insurance will benefit you with lower premiums over your lifetime for the same level of cover.

However, if your income drops during your lifetime (for example, you become unemployed or decide to take a lower paying job), agreed value income insurance is probably better. The amount you receive will remain as you agreed when you took out the plan regardless of drops in your income.

In all cases, the most important thing to remember is to review your insurance annually with your financial adviser to ensure it reflects your situation accurately.

What type of retirement do you want?

You may have been saving for your retirement for some time, but have you ever thought about what kind of lifestyle you would like to have when the time comes to retire?

Perhaps you wish to maintain your current lifestyle, or you may be happy to live more modestly. Your idea of what retiring 'in comfort' means will be unique. You may plan on travelling overseas, pursuing new hobbies, or settling down to a quiet life. It is important to be specific about your lifestyle requirements so you can work out how much you need to save now, to support your needs later in life.

How much you'll need to save in the future will depend on a range of issues, including your current age, how much you have already contributed to your superannuation and other savings, the age that you expect to retire, and whether you plan to retire fully or remain in the workforce part-time.

One approach to determine how much you'll need in retirement is to aim for about 70 per cent of the income that you earn immediately before retiring. This takes into account some expenses decreasing or disappearing (for example, mortgage and life insurance costs), and others, such as medical expenses, increasing.

Another way of looking at how much you will need to fund your preferred lifestyle is to review the Australian benchmark for retirement. This standard estimates the annual budget needed by Australians to fund a modest retirement lifestyle compared with a comfortable retirement lifestyle.[1]

A modest lifestyle in retirement is defined as better than the Age Pension but still only able to afford fairly basic activities. A comfortable lifestyle would enable a healthy retiree to be involved in a broad range of activities (including travel), to have a reasonable car, private health insurance and participate in modest social activities and entertainment.[2]

The table below illustrates the total amounts required to fund both modest and comfortable lifestyles.

For more information on how much you'll need to save today to fund the lifestyle you want in retirement, please contact us. We can model savings and retirement projections for your situation and goals.

Budgets for Australian households and living standards – June 2007

Lifestyle standard	Weekly budget	Annual budget
Modest lifestyle – single	$357	$18,654
Modest lifestyle – couple	$501	$26,154
Comfortable lifestyle – single	$693	$36,141
Comfortable lifestyle – couple	$927	$48,374

1 The Association of Superannuation Funds of Australia Limited 'Retirement Living Gets Costlier', Westpac Media Release, 29 August 2007.

2 Ibid

Why does your financial adviser ask more questions than your mother?

We have all been asked probing questions from one person or another including your financial adviser. This may sometimes feel like an interrogation. So is it really necessary?

Yes, it is. Here are some examples why a financial adviser might ask some common questions.

Q **How much income would you need in your retirement to meet your annual living expenses?** You might be 20 years away from your retirement date and you may think this is irrelevant. Your financial adviser needs to know what income you will need in retirement to determine how much you need to save so you have the funds available to support your retirement income goal.

Q **What are your income and expenses?** The income and expenses question is probably one of the most important questions your financial adviser will ask. This information is useful for a number of reasons. Firstly, your financial adviser will use this information to work out your cashflow. The cashflow will indicate whether you have an annual surplus or deficit. Your financial adviser will get you thinking about budgeting and help you to save more. Saving is the key to any financial strategy.

On a more serious note, you will also be helping your financial adviser meet their legal obligations. The law requires the financial adviser to know the client's situation and needs before any kind of financial advice is given.

So, now you know why you feel as though you are under the spotlight. There is really no need to feel uneasy or break out in a sweat next time your financial adviser asks you for more details. Put your feet up and get personal. At least you will know your information is in safe hands and will help you in the long run.