

Your money Your future

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The super co-contribution carrot

The chorus of voices coming from our Federal politicians is rarely consistent. But on the issue of retirement planning and superannuation, they all seem to agree.

Australians need to take more responsibility to plan, save and invest for their retirement. Fortunately, one of the genuine incentives the Government has provided for people to actively plan for their retirement means they give us money. To be more precise, it involves the Government contributing money into our superannuation fund for use in our retirement.

Known as the Federal Government superannuation co-contribution scheme, it allows those who qualify to receive a

boost to their superannuation fund of up to \$1,500 per annum.

Show me the money!

To be eligible for the maximum Government co-contribution of \$1,500, individuals who have a total income¹ below \$28,000 must contribute \$1,000 to their superannuation fund. Those earning above this amount will have the co-contribution reduced by 5 cents for each dollar of income up to \$58,000.

In 2006/07, generally only individuals who are employees can qualify for a Government co-contribution. However from 1 July 2007, eligible self-employed individuals may also qualify.

¹ Assessable income plus reportable fringe benefits.



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Contributing to super

Depending on your employment status, marital status and other factors, you can make several types of superannuation contributions.

Personal (undeducted) contributions

Undeducted contributions are personal contributions paid into a superannuation fund using after-tax income. No tax deduction is available for undeducted contributions, however, you may be entitled to a government co-contribution of up to \$1,500 per annum.

Undeducted contributions are not taxed when paid into a superannuation fund and are tax-free when withdrawn in the form of a lump sum or as part of an income stream.

Personal (deductible) contributions

If you are self-employed or do not receive any employer superannuation support, you may be entitled to claim a tax deduction for your personal superannuation contributions.

Personal contributions for which a tax deduction has been claimed are taxed at 15 per cent by the receiving fund. Annual limits apply to the maximum tax deduction claimable.

Spouse contributions

Similar to undeducted contributions, spouse contributions are personal after-tax contributions paid by one member of a couple for his/her spouse. No tax deduction is available in respect of spouse contributions, however, the contributing spouse may be entitled to a tax-offset of up to \$540 per annum. For tax purposes, spouse contributions are treated in the same way as undeducted contributions.

Compulsory employer contributions

The Superannuation Guarantee (SG) scheme requires all employers to provide a minimum level of superannuation support for their eligible employees. The minimum level of superannuation support is generally nine per cent of earnings, paid quarterly.

Additional employer contributions

Your employer may choose to make additional superannuation contributions on your behalf. Alternatively, you may choose to make contributions from your pre-tax salary – these contributions are commonly known as ‘salary sacrifice’ contributions. Salary sacrificing means that you forgo part of your salary in return for additional superannuation contributions made by your employer. Salary sacrificing may provide you with an opportunity to make tax-effective superannuation contributions.

To find out more about the rules and tax benefits associated with making superannuation contributions, please contact your financial adviser.

Getting emotional about your investments?

It can be difficult to draw a line between facts and emotion – especially in regard to your hard-earned money. It's the big investment question: how can you spot the opportunity for profit and avoid the likelihood of a loss?

Consider the recent volatility in the Australian and global stock markets. Is this a temporary hiccup in an overall trend towards growth? Or does it forewarn the possibility of a dramatic market crash?

A view of the past

Over the past three years the Australian market has achieved record highs on a regular basis allowing investors to reap the cumulative rewards. As the market rose, volatility was low. This is now changing.

Volatility helps the markets function, but also increases the risk that investors will make bad decisions. Volatility can sweep logic aside and cause investors to make emotional decisions. It's important then, to understand why the market has become more volatile.

Mark Dutton, AXA's Chief Investment Officer, prefers to take emotion out of the equation, "The last three years have produced some extraordinary returns and the reasons for this include record low interest rates in 2003/04 which provided the ground for major economic growth."

"Part of the reason for the record highs was that individuals and companies could borrow money cheaply. This created more demand and helped companies grow their profits.

"That said, we're now witnessing the consequences of the progressive unwinding of this monetary policy, in the wake of the US Federal Reserve raising interest rates. In Australia too, there have been incremental rises in interest rates."

Looking to the future

But Mark remains positive about the outlook for the Australian market, although he does expect some normalisation of investment returns. In his words, "I would expect a return to more normalised earnings growth (around 10 per cent per annum) rather than the double digit returns experienced

over the last three years." Market volatility has been unusually low over the past three years, and will probably increase.

When it comes to making investment decisions, Mark urges a rational rather than emotional approach, "For my investment team, every decision forms part of a rational strategy and is designed to capture returns for our investors.

"Ultimately, the goal is to identify investment opportunities offering genuine returns without being swayed by the emotion of the day."

For more information on identifying investment opportunities, speak with your financial adviser.



Need an insurance check-up?

When it comes to personal insurance, how much is really enough?

It's an important question, but it seems not enough Australians actively monitor or consider their ideal level of personal insurance.

But if something unfortunate were to happen, have you considered:

- Who will be there to look after you and your family?
- How would your family pay off any outstanding debts without you?
- What would be the financial consequences if you suffer a serious trauma incident, such as a heart attack?
- How would your family cope if injury or illness prevented you from earning an income?

The truth is that 60 per cent of Australian families with dependants would run out of money within 12 months if the main income earner died. Even worse, 96 per cent would not have enough lump sum insurance cover to last more than 10 years.¹

Purchase insurance for peace of mind

By having the right amount of personal insurance you can gain some peace of mind about the future of your family and dependants in the event of something unfortunate happening to you.

How much personal insurance is enough?

Your ideal level of insurance is an individual matter that your financial adviser will be able to help you with, using the many tools they have available. Here are some questions that are a good starting point:

1 What's your current level of debt?

Consider not just your mortgage (if applicable), but also any other loans you may have. This might include car loans, personal loans and any credit card debt.

Add up the total and ask yourself whether your current level of insurance is enough to pay off these debts and keep your family/dependants comfortable for the rest of their lives.

2 What's your personal/family monthly budget?

This should include items like mortgage repayments, rent, bills, food, education, entertainment, clothes and a buffer for one-off incidental expenses.

Consider the potential consequence of being off work for more than three months due to injury or illness. Could you continue to live as you currently do?

If you have doubts about the level of your current personal insurance or you're thinking about getting some for the first time, it is a good idea to seek professional advice. Make an appointment with your financial adviser for an insurance check-up and find out what's right for you.

¹ TNS Research, Investigating the issue of underinsurance in Australia, August 2005.

Are you fully covered?

Who will be there to look after your family when you are gone? How can you protect your family from the financial impacts of becoming disabled? What would happen if you suffered a serious condition such as a heart attack ... and survived? How would your family cope if you lost your income?

Given the risks we face 24 hours a day, 7 days a week, 365 days a year, insurance can prove invaluable. Some of the comprehensive insurance products available to you these days can provide cover when you need it most. These include:

- Life insurance – helps your dependants cope financially, after you die. Your lump sum payment can be used to help pay off the mortgage or any other debts, not to mention funeral costs.
- Trauma recovery insurance – can help you cope financially with the effects that a trauma will have on your life. It can help remove the financial stress and pay for changes you may need to make to your

lifestyle. Your lump sum payment can help pay for recovery costs, including rehabilitation, home modifications and a carer.

- Total and permanent disability coverage – provides you with a lump sum payment to help you cope financially with a total and permanent disability.
- Income protection insurance – can help you meet your living expenses if you have to stop work due to sickness or injury. With payment of up to 75 per cent of your income, you can continue to meet your financial commitments and pay for other day-to-day expenses.

- Business expenses insurance – can help your business cope financially with your inability to earn the business an income because of sickness or injury. The regular payment you receive during the agreed period can help pay for employee salaries, business loan repayments and day-to-day running of the business.

So whatever your (and your family's) needs are, it's always a good idea to have yourself fully covered, to protect your financial future.

For more information on obtaining the right insurance, speak to your financial adviser.



Trauma insurance – a helping hand when you need it most

No one likes to imagine a tragic event happening to themselves or their loved ones. But trauma is an unfortunate reality for many Australians. Conditions such as cancer or stroke, and tragic events like major head injury and the loss of limbs, can befall any of us and alter our lives forever.

The expenses associated with such trauma can cause additional problems that compound the situation. While there is not a great deal that can be done to prevent the initial emotional and physical shock, a Trauma Recovery Insurance Plan can ensure you and your family are financially secure.

Underinsured and under-prepared

As a nation, it has been well documented that Australians are not well covered. In fact, only 22 per cent of us have life insurance.¹ When it comes to trauma insurance, the statistics are worse, with only 2 per cent of Australians actually owning cover.² This statistic is particularly low when you consider that in the UK, the provision against trauma is taken up by between 12 and 15 per cent of the population.³

So, why is it that Australians seem unprepared for the possible financial burden of trauma? The answer is multifaceted: some people miscalculate their insurance coverage; others tend to view it a luxury. Interestingly, it has been shown that once people understand the true nature of this risk they are keen to insure themselves adequately.⁴

The right protection for you

Trauma insurance is one of the many personal insurance plans available, including life insurance, income protection, total and permanent disability (TPD) insurance, and business expenses insurance. While there is some crossover between products, each is designed to mitigate certain happenings.

Trauma Recovery insurance provides a lump sum in the event you suffer from a defined traumatic event, such as cancer, heart attack or major head injury. It is designed specifically to help cover the expenses associated with such events. It can assist in paying for expensive recovery and rehabilitation costs; pay to refit your home eg with wheelchair access; enable your partner or family member to reduce their work hours to care for you or pay a professional carer; or can be used to provide an ongoing income stream for you in the future.

Thanks to modern medicine there is no doubt that people are living much longer, even upon diagnosis of a 'life-threatening illness' or after having been involved in a traumatic accident. More than 70 per cent of heart attack sufferers will survive, and 56 per cent of people diagnosed with cancer are expected to live longer than five years.⁵ But, while patients and victims are clearly benefiting from the advancements in medical technology, it is often their financial situation that suffers irreparably.

A helping hand

When tragedy strikes, money is usually the last thing being considered. But in reality, the financial burden of trauma can often magnify the distress and inhibit the quality of life of those impacted. Trauma Recovery insurance provides peace of mind, knowing that even in the event of a tragedy, you and your family will not be unduly financially burdened. To find out more about financial protection products generally and what events and illnesses are covered under each, please speak with your financial adviser to determine which ones are the most suitable for your personal circumstances.

- 1 'Estimates of the extent of under insurance in Australia', (DEXX&R Research, commissioned by AXA Australia, 3rd edition, June 2005).
- 2 'A matter of life and death', (www.moneymanagement.com.au, 27 October 2005).
- 3 'Taking the risk with insurance', (www.moneymanagement.com.au, 15 November 2004).
- 4 'Delivering what they need: A research report on consumer attitudes toward insurance and financial advice' (Blacksheep Research, commissioned by AXA Australia, May 2005).
- 5 National Report on Health Sector Performance Indicators 2003 (Australian Institute of Health and Welfare, Australian Government).

Dr Marius Barnard: pioneering insurance for trauma victims

Dr Barnard spent his working life at the forefront of medicine, saving victims of trauma. In 1967, he was part of the operating team – led by his brother, Christian – that performed the world's first successful heart transplant.

But one thing Dr Barnard consistently noticed, was despite recovering from an initial traumatic event, his patients suffered enormously because of the damage inflicted on their finances. Often, because of escalating medical and rehabilitation costs, patients were forced to sell their homes and other personal assets. This impacted on their health: the ensuing stress and emotional distress of the financial burden inhibited their recovery.

Not satisfied with a medical cure, Dr Barnard turned to insurance as an antidote to the problem. Despite having no industry experience it was a result of his drive and motivation that saw the first trauma policy launched in 1983 in his home country of South Africa. These days, thanks to global insurance companies, Trauma Recovery insurance can be found the world over.

