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financiallyspeaking

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Spring clean your finances

Is debt ruling your life?

Student debts, credit cards and personal loans can be a source of unnecessary stress and prevent you from enjoying other things in life.

Clearing your debts doesn't have to be hard work. With the right advice, it's possible to get your finances on track sooner than you think, meaning you can get back to living the good life, guilt free.

Here are some tips to help you get out of debt.

Plan your budget

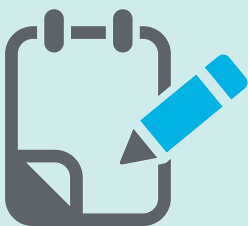
Achieving your goal of being debt free doesn't have to be daunting; a good way to start is with a budget. Keep a diary of your expenses and your spending. This will enable you to track where your money is going and how much spare cash you can use to attack your debt.

Pay extra

Try paying more than the minimum off your debts to bring your loan down faster. Prioritise all your debts by the interest rate you are paying. Try to get the balance down on high interest debts first, as paying these off first will save you more money. You can then use the money you save in interest to pay off your lower priority debts.

Consolidate

Consolidate all your higher interest debts into one lower interest debt. This could be in the form of a low interest rate credit card or a personal loan. This strategy will also reduce your interest repayments.



Ensure you have the right card

Due to the increased level of competition in the credit card space, many lenders are offering much lower interest rates and deals.

When doing your research, make sure you read the fine print, as cards offering low or zero interest rates on balance transfers, do so for a limited time only whereas other cards might offer a low interest rate for the life of the transfer.

Become card free

Once you have selected a low interest rate card to transfer your balance, make sure you don't use that card for any new purchases until you have paid off the full amount from the initial transfer.

Take the first step

If you're having difficulties repaying your debt, take the first step and speak to your lender. If you're open and honest with your lender, you will probably find they are open to review your repayments and look at other solutions to help you out.

Speak to a professional

If you feel that you are struggling with your finances, speak to your financial planner for help with a financial strategy that can get you back on track.

Source: IOOF, January 2013

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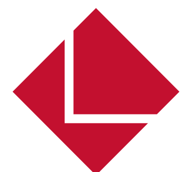

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Aged care fees – what are they and how will I pay?

It's possible that one day you, your partner or your parents may need to move into aged care. Naturally, you'll want the best possible outcome for all concerned.

However, this can be a very emotional time, and there's a lot to consider. In fact, you're required to make sometimes difficult and complex financial decisions which can affect the level of aged care fees to be paid, the pension payments that you or your loved one receive, the timing of any sale of the family home and more. It's important to understand all of the fees associated with aged care and it can help to speak to a financial planner about how you or your loved one will finance their move into aged care.

Aged care options

The type of costs you'll pay will depend on the type of home you move into. If you have simple needs, you'll probably need low level care (provided by hostels). Low level care homes offer accommodation services such as meals, laundry, additional personal care and some nursing care if needed.

If you need assistance with most activities of daily living, it's more likely that you'll need high level care (i.e. a residential aged care facility). These types of homes provide 24 hour nursing care and accommodation. They generally provide meals, toiletries, mobility aids and most medical supplies.

Your care needs will be determined by a member of an Aged Care Assessment Team (ACAT). In fact, you can't enter a home without being assessed and approved by an ACAT member.

Fees and costs

If you are entering a low level care home or a high level care home with extra services, you'll be asked to pay an upfront cost called an accommodation bond.

The amount of the accommodation bond, generally a one-off lump sum, is negotiated with the home at the time of entry, and will vary from facility to facility. Unless you have a large amount of assets you can use to pay for the bond, your next option might be to sell the family home. However, it is important to realise that there can be financial advantages to keeping the home. Your financial planner can help you make the right decision and help you to understand how you will afford your ongoing costs.

There are several types of ongoing costs you might pay, usually depending on the type of home you enter and the services it offers.

For a high level home without extra services, you'll be asked to pay an accommodation charge in lieu of an accommodation bond. Your charge will be negotiated with the home at the time of entry. This is calculated daily and is set upon entry into the home, so it will not change while you're a resident.

A basic daily fee is another ongoing cost payable by all residents for the costs of daily living such as meals, cleaning, laundry and heating. For someone entering care today, the basic daily fee is $44.54 per day (this is indexed twice a year in line with the indexation increases to the Age/Service Pension).

You may also be asked to pay an income-tested fee on top of the basic daily fee. This fee amount is determined by your assessable income and should not be more than the cost of your care.

To give you more flexibility and choice, a number of low and high level care facilities also offer extra services for an additional fee. These services may include a higher standard of accommodation, food and other services.

Making the right financial decisions

If you have sold your home and have an amount of cash remaining after paying an accommodation bond, or if you have other investible assets, there are ways to structure your investments to minimise your ongoing aged care fees and get more from the Age/Service Pension. There are also special investments just for people in aged care, which can deliver a secure income stream, improve pension payments, give access to the Seniors Card and reduce ongoing aged care fees.

The financial aspects to entering an aged care home can be complex. It is wise to always seek professional advice before making any commitments.

Source: Challenger, June 2013

Child cover: The missing piece in many risk portfolios

We all know the importance of protection for adults, but if child cover doesn't feature in the protection mix, you could be left exposed to financial consequences if your child suffers illness or injury.

When putting a protection plan in place, the main focus is naturally to insure against events impacting their own health. But in the case of parents with dependent children, a plan which doesn't address the financial consequences of a serious child illness is incomplete.

Parents with children who suffer severe illness or trauma not only deal with enormous emotional strain but also are likely to suffer severe financial stress. They face unexpected indirect costs of treatment, recovery, time off work – all of which are not covered by Medicare or health funds.

Imagine this...

A professional couple in their late thirties with two young children are committed to their careers and earn good salaries. They have two cars, and a 4 bedroom house in an affluent suburb.

They have a solid protection portfolio in place, the top income protection contract, term insurance with a solid sum insured, own occupation TPD cover and the best trauma insurance available.

If anything happens to either of them, they are covered.

But what if something terrible happened, to one of their children?

The fact is that children can suffer serious traumatic illnesses and accidents. In these circumstances, as parents, we would want to do everything in our power to help them, including being there for them.

The financial implications

Stopping work for months or even years to care for a seriously ill child can have devastating emotional consequences.

Additionally, there is likely to be substantial out-of-pocket costs associated with treatment, travel costs and medicines.

The late thirties and forties are the ages when people are generally at their most exposed financially. ABS figures[1] show that for couples with children under 5, over 93% have household debt, and that for the same people, the average amount of debt is 2.5 times their annual household income. In both cases these figures represent the highest level of indebtedness of any life stage.

Hence, having appropriate life insurance coverage is important.Yet the majority of risk recommendations don't include cover for this type of scenario.

Why child cover is a must. Consider the statistics...

A recent report from the Australian Institute of Health and Welfare (AIHW)[2] revealed that in 2009, an estimated 7 per cent of Australian children had a disability and of these, over half had profound or severe core activity limitations (4 per cent). Compared with other children, those with a severe disability rely more heavily on parents and siblings. In fact, in the period 2009-10, over 57,600 children aged 0-14 used National Disability Association services (majority in their own home).

And did you know that on average, an Australian child under the age of 14 is diagnosed with blood cancer every 36 hours? The average length of treatment time for boys is two years and for girls it is three years[3].

So with the possibility that any parent may need to take time off to support a sick child, why do we tend to overlook this type of cover? It is, after all, widely available and is far from expensive, with $100,000 cover in most cases only costing around $10 per month.

For more information on child cover, contact your financial planner.

1 ABS Australian Social Trends 4102.0, 2009 http://abs.gov.au/AUSSTATS/abs@.nsf/okup/4102.0Main+Features60March%202009

2 AIHW Report 'A picture of Australia's Children 2012'

3 Leukaemia Foundation (2011) 'Fact Sheet: blood cancers in children', Leukaemia Foundation, Australia

Source: Zurich, August 2013

Debunking hedge fund myths

The hedge fund industry is currently worth around $208 billion in Australia alone[1]. But while investors are familiar with the concept of traditional managed funds, there is less awareness of how hedge funds operate, which is the root of many misconceptions. Here we debunk some of the common myths surrounding hedge funds.

What are hedge funds?

The RBA says the term 'hedge fund' is typically applied to "managed funds that use a wider range of financial instruments and investment strategies than traditional managed funds, including the use of short selling and derivatives to create leverage, with the aim of generating positive returns regardless of overall market performance"[2].

In other words, hedge funds aim to 'hedge' or manage the risks of a volatile market by using a variety of investment strategies.

Myth no.1 – hedge funds are only for the very wealthy

This may have been true in the past, but these days, investors can access hedge funds with as little as $20,000.

Myth no. 2 – hedge funds are risky

Most hedge funds are active managers of investment risk with defensive strategies in place.

An index fund, perceived by some as a 'safe' option, is at the mercy of the volatility of the market it tracks; susceptible to fluctuations which aren't actively managed. However, a market neutral hedge fund targets a positive rate of return regardless of the return the market, which means the risk is actively monitored, positions are hedged and exposure to the market limited as required.

Some hedge funds are purely focused on preserving capital (ie. your original investment), so making strong returns over the short term is not their primary focus. Other hedge funds only trade when opportunities arise and have clear investment guidelines which act as a framework for their investment decisions – such as exposure limits, risk management frameworks, stop loss levels, etc.

Before you select a hedge fund, undertake your due diligence – people and processes are critical, as is a robust framework for managing risk.

Myth no. 3 – hedge funds have exorbitant fees

The typical hedge fund fee structure in Australia is 1.5% management fee and 20% performance fee. At first glance, this appears to be high when compared to long-only domestic managers. To see true value for money, however, you need to focus on returns not just fees. If you're paying very low fees but the fund is not performing, this is a false economy.

Performance fees are only payable when the fund outperforms the benchmark, meaning investors pay for the manager's skills and expertise when they're getting a good return on their investment.

Myth no. 4 – hedge funds are illiquid

In Australia, redemption restrictions and high withdrawal fees are rare. There are a number of retail hedge fund managers in Australia who price their fund daily and most have a straightforward redemption process with relatively low withdrawal minimums ($10,000).

Myth no. 5 – hedge funds are unregulated and lack transparency

In Australia, hedge funds are as tightly regulated by ASIC who have recently introduced changes to reporting and increased investment process transparency, which will further improve the current status quo.

Transparency and openness around investment processes, internal governance and compliance controls is critical when assessing hedge fund managers.

myths

Conclusion

Hedge funds play a unique role when teamed with a portfolio of more traditional investment products. They can reduce volatility and increase returns. Next time you're creating a personalised portfolio, consider adding a hedge fund to the mix. Speak to your financial planner today.

1 http://www.basispoint.com.au/hedge-fund-directory/

2 http://www.rba.gov.au/publications/fsr/2004/sep/pdf/0904-2.pdf

Source: Bennelong Funds Management, August 2013

Want to boost your super contributions? See the do's and don'ts

Doing the right thing for your superannuation also means knowing what not to do. It can be easy to get caught out if you are not aware of specific rules and restrictions. Here are 4 tips to help you make the most of super contributions.

1. Do avoid the 'traps of caps'

Contributions over the caps are taxed at 46.5% for excessive non-concessional contributions. Concessional contributions are taxed at 31.5%. This is in addition to the 15% contributions tax that has already been paid by the super fund.

Even if you exceed the caps by making an inadvertent error, you will still generally have to pay the higher rate of tax. If you think this can't happen to you, 65,000 people breached their concessional cap in the 2009-10 financial year, up from 28,000 people the previous year[1].

Ensure you keep records of your super contributions so that you don't risk exceeding the caps.

Contribution caps for 2012-13 and 2013-14

Income Year	Concessional Cap	Non-Concessional Cap
2012 - 13	$25,000	$150,000[2]
2013 - 14	$25,000	$150,000[1]

A higher concessional cap of $35,000 (unindexed) will apply to clients aged 60 or over from 1 July 2013 and clients aged 50 or over from 1 July 2014.

2. Do consider making Non-Lapsing Death Nominations

Don't assume your superannuation will always go to the beneficiaries nominated in your will. In fact, this may only be the case if your estate receives your super death benefit. To ensure your super fund pays according to your wishes, you may be able to make a Binding Death Benefit Nomination or a Non-Lapsing Death Benefit Nomination, which is also binding.

You should also consider the tax implications, bearing in mind that for tax purposes lump sum payments to dependants are tax-free, but taxable components paid to non-dependants will be subject to tax.

3. Do find out how and when you can access your super

Preservation rules mean you can't access your super until you meet a condition of release, including:

- retirement on or after preservation age (see table);
- turning 65;
- reaching preservation age and commencing a transition-to-retirement pension;
- suffering from a terminal medical condition or being permanently incapacitated;
- severe financial hardship as assessed by the trustee or on compassionate grounds as assessed by Centrelink.

The amount you can access may be restricted and subject to conditions.

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 - 30 June 1961	56
1 July 1961 - 30 June 1962	57
1 July 1962 - 30 June 1963	58
1 July 1963 - 30 June 1964	59
From 1 July 1964	60

Source: Australian Prudential Regulation Authority

4. Do review your long-term super strategies regularly

It's important to regularly review your super investment strategy.

Factors such as the effects of inflation, tax and fees on your superannuation account and diversification may change overtime. Spreading your super investments over different asset classes may offer better returns and reduce your investment risk.

While a lower risk strategy may be the safest option, you could be limiting the potential growth of your super balance, particularly if you have plenty of time before you plan to retire.

It's worth speaking to your financial planner to understand what investment options may be appropriate for you.

1 Commonwealth of Australia, Parliamentary Debates, Questions on Notice, Superannuation (Question No 367), Senate, 3 March 2011, (Senator Nick Sherry, Minister representing the Assistant Treasurer, The Hon Bill Shorten MP), Hansard (Proof), pp 102-6, viewed 11 March 2011.

2 The cap for non-concessional (or after-tax) contributions is $150,000 per year, or $450,000 over three financial years if you are under 65 in the financial year.

Source: Colonial First State, July 2013

Why DisabilityCare is no replacement for life insurance

The Government's Budget announcement that it intends to partially fund the national disability insurance scheme, DisabilityCare through an increase to the Medicare levy of 0.5% has generated a lot of interest. One question being asked is 'Why do I still need to pay for life insurance?' It's important to understand what the DisabilityCare covers before answering that question.

A snapshot of DisabilityCare

DisabilityCare is aimed at providing long term, high quality support for people who are born with, or who later acquire, a permanent disability.

Support may be provided if the disablement is permanent or where early intervention can reduce the impact on the individual's ability to function. Participants in the scheme will have a personalised support plan developed and the necessary funding provided. It will include a comprehensive information and referral service, to help those who need access to mainstream, disability and community supports.

Once fully operational, the scheme will provide support to about 460,000 individuals – a fraction of the four million Australians who suffer some type of disablement.

What DisabilityCare is not

	Is it covered?	What the scheme rules say
Day-to-day living costs	No	The scheme will not fund day-to-day living costs that would generally be incurred by the general community such as rent, groceries and utilities.
Income replacement	No	The scheme will not provide support that is for income replacement purposes. The Disability Support Pension will continue to provide this level of support.

The DisabilityCare scheme is primarily concerned with providing necessary funding and support and there are factors that may impact the level of funding received. This includes what it is reasonable to expect families, carers, informal networks and the community to provide. This may mean that those with greater support will receive less funding than those without that level of support.

Why life insurance is still important

1. The scheme will not cover people for loss of income nor assist with day-to-day living expenses.
2. Life insurance is primarily concerned with whether the insured person meets the insurance policy terms and conditions regardless of the level of support available to them.
3. Income Protection can provide individuals with a regular income while temporarily unable to work and may also include payment of rehabilitation expenses.
4. Lump sum insurance benefits can be used to support rehabilitation, pay future medical costs or to provide an income over the longer term.
5. Part of a life insurance benefit could also be used to supplement income that is foregone as the individual is able to gradually return to work at their own pace.

A practical example

John is 53, married to Ann with two high school age children. He suffers a stroke and is unable to work for six months but expects to be able to gradually return to work.

If John has income protection cover he'd receive the full monthly benefit while he is totally disabled and a partial benefit when he eventually returns to work in a reduced capacity provided he met the insurance policy terms.

If John has taken out crisis recovery cover then he would receive a lump sum benefit provided he meets the insurance policy terms. John has control over how he chooses to spend this amount and could decide to take an extended time off work, pay for out of pocket medical expenses or make modifications to his car or home.

If John was relying on support under DisabilityCare, and he was accepted for funding it would only cover things like ongoing physiotherapy and perhaps a motorised wheelchair but would not provide income replacement support or cover other day-to-day living costs.

Impacts to underinsurance

According to RiceWarner[2], for total and permanent disability, the level of underinsurance is over $8 trillion and, for income protection, more than $600 billion.

A 2008 survey by the Melbourne Institute found that more than 235,000 working-age Australians, living as a couple, with dependent children, had suffered a serious illness or injury in the previous 12 months. This same survey found that more than 17,000 of this same group were unable to continue working during the previous 12 months. This emphasises the need for adequate levels of life insurance.

This should not be a choice between DisabilityCare and life insurance. Life insurance allows individuals to take control should the unexpected happen, .

To find out how you and your family can benefit from life insurance, contact your financial planner

Source: AIA, August 2013

1 www.budget.gov.au (Budget Overview - May 2013)

2 Disability, ageing and carers, Australia: summary of findings – December 2010, Australian Bureau of Statistics

China slowdown looms

China's new leaders, President Xi Jinping and Premier Li Keqiang, seem determined to rein in China's investment boom to prevent a speculative bubble and to strike a better balance between growth and social and environmental concerns. In the first year of an expected ten year term, it makes sense that their focus is on reform rather than strong growth.

China's growth is expected to slow to 7.5% this year; the official government target in its 2011-2015 five-year plan is for an average growth rate of 7.0% per annum. Growth is slowing partly because Europe's recession has crimped exports but also because China's central bank is deliberately seeking to tighten credit conditions to stop speculative investment into property and other assets.

China launched a credit-fueled investment boom in 2008/09 in response to the Global Financial Crisis (GFC), which saw total debt rise from 160% of GDP to 210% of GDP according to official figures. While these debt levels are manageable, there is a lingering concern that more debt has been accumulated in the 'shadow banking system' and that property speculation is continuing. Accordingly, the central bank recently moved to tighten credit conditions more aggressively with a particular focus on non-bank financial intermediaries.

Even if growth slows to 7.0%, this is still a significant growth rate considering China's annual GDP is now over US$8.2 trillion, ranking it as the second largest economy in the world (after the US at nearly US$16 trillion and excluding Europe as a region rather than a country).

However, China's growth is likely to be less investment-intensive in the future given investment has grown to over 50% of the economy and China's new leaders aim to rebalance the economy towards consumption.

A slowdown in investment will obviously reduce demand for steel and other building materials, which will impact many commodities like iron ore, coal, copper and alumina – all of which are key exports of Australia. At the same time that China's demand for commodities is slowing, global supply is set to increase, so it is likely that commodity prices will continue to weaken and that Australia's export income will be under pressure.

The rebalancing of China's economy is important for its long term stability and it will remain an important market for Australia; however it is likely that we have seen the end of the global mining boom. We see a long period of lower commodity prices and reduced mining activity ahead.

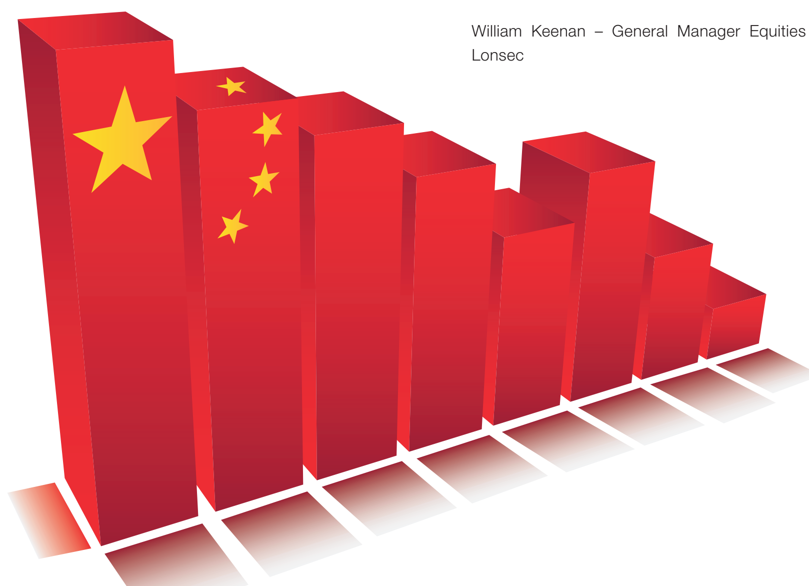
A slowdown in mining will obviously be a drag on Australian growth, particularly in the mining states of Western Australia and Queensland, but surely lower interest rates and a falling AUD will offset the mining slowdown?

In the past, the answer would be a resounding yes, but this time other sectors of the economy – such as retail, housing construction and business investment – are only showing modest signs of recovery. Lonsec believes there are a number of reasons for this including:

1. Attitudes to debt have changed post GFC, with companies, households and government all seeking to increase savings and reduce debt levels.
2. Low business confidence on poor profit growth and burdensome government policy has led to a focus on productivity measures rather than investment.
3. Job insecurity stemming from business and government reducing employees, in a number of sectors, has led to cautious consumer behavior.

These factors are not going to change overnight but falling interest rates, a falling currency and a clear Federal election result should eventually see the broader economy rebound. Accordingly, we expect the Australian share market to retain an upward trend but recommend investors tilt their portfolios towards financials and industrials.

William Keenan – General Manager Equities Research – Lonsec



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