keeping an eye on finance

# focus

**Issue:** Winter 2008

## Opportunity knocks!

It's happened 8 times in the last 28 years in Australian Equities. One of the best kept secrets of successful investing is taking advantage of opportunities.

**Calculate risk!**

Investing is a confidence game; people by nature generally require convincing to return to the market after an economic downturn. Most people generally wait until the market has rebounded and on to new heights before they build confidence to return to the market. Only then realizing what they missed out on.

**Build wealth!**

Accumulating investments during a down market enables you to profit from the inevitable rebound. Some investments may also offer protection against downside risk by charging a small fee for Capital Protection.

**Be patient!**

Billionaire Warren Buffett's strengths are; having a long term perspective, buying quality investments and sticking to the strategy.

## Will your retirement savings last the distance?

How much you need to enjoy a comfortable lifestyle in retirement will depend on several factors such as the length of your retirement, your accumulated assets and liabilities, and your expectations.

Making extra super contributions and selecting the right investments can have a significant impact on your retirement savings.

### How can you calculate how much you will receive in retirement?

Ensuring adequate income in retirement requires careful forward planning

Your retirement lifestyle will depend on:

- how much you have saved, particularly through superannuation
- your personal circumstances, including unexpected events in your life that may impact your savings capacity, and
- unpredictable external factors you can't control, such as investment market volatility, tax and inflation.

According to a Senate Select Committee report on superannuation and standards of living in retirement, the consensus is that for a person on average earnings, the desirable target

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## Words of Wisdom

'The future belongs to those who prepare for it today.'

Malcolm X (1925 - 1965)

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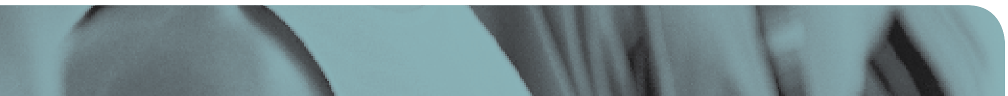


## Will your retirement savings last the distance? (cont.)

for retirement income is 60-65 per cent of gross pre-retirement income.

However not everyone is on average earnings, nor do we all have the same lifestyle expectations. Therefore we all need to carefully consider our personal circumstances and plan ahead.

### How much retirement income is enough?

Although our personal circumstances all differ, a recent study shows that a single person who owns their own home will need at least $36,319 per year to have a comfortable standard of living (to enjoy leisure and recreational activities and occasional international travel, to maintain a reasonable car, clothes and electronic equipment). If you were to spend 20 years in retirement, then this means you will need $726,380 in super, and that's before considering inflation.

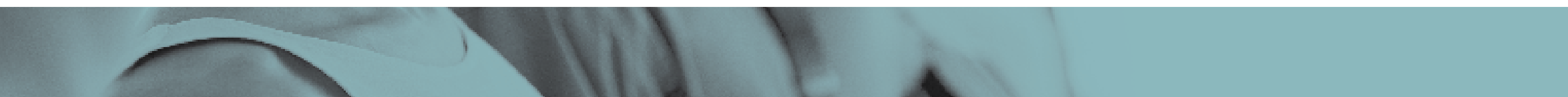
For couples wanting a 'comfortable' retirement lifestyle, the study showed that the cost of living increased to $48,648 per annum.

The income level required for singles and couples unfortunately greatly exceeds the government age pension which at 1 July 2008 was $14,368 per annum for singles and $23,904 per annum (combined) for couples.

The simple message is that to achieve a comfortable level of income in retirement you will need a nest egg to provide additional income.

Have you planned for the retirement that you have dreamed about? Speak to one of our financial advisers today, so we can get you on the right path to retirement.





# Insurance – in or out of super

### Secure peace of mind for the protection of your family and business.

With the average Australian working longer hours and increasing their debt, stress increases and plays havoc with their health. Recently the media has widely reported on the epidemic of escalating obesity and critical illness. For some of these reasons alone more and more Australians are reviewing their insurance needs and looking for more affordable alternatives to suit their needs.

One of the most cost effective ways for Australians to have the right insurance in place is through a superannuation fund.

### What are the benefits of holding insurance in super?

Some of the benefits include:

- cover may be more affordable for individuals with cash-flow issues
- employees can fund premiums with pre-tax salary contributions while self-employed individuals can fund the premiums with personal contributions for which they can claim a personal tax deduction, effectively saving up to 31.5%
- further tax deduction benefit provided by some superannuation funds for the cost of the premium which can provide a further tax saving of up to 15%
- potential eligibility for government co-contributions scheme up to $1,500 per annum where the premium is funded with a personal contribution
- some insurers apply automatic acceptance rules so a medical check may or may not be necessary

Holding insurance through super is a complex area. If you decide to hold insurance inside the super fund, it is important you are aware of any negative impacts. The most appropriate option for you should be discussed with the aid of your financial adviser.

## Getting it together – consolidate your superannuation

During your working life, you may accumulate several superannuation accounts as you work with different employers.

Trying to manage your superannuation like this is hard work. Often you have three or four small superannuation accounts, receiving three or four different reports, incurring several sets of administration fees and making it difficult to determine how much you will have on retirement.

### Keep it simple

It's a lot easier to manage your investments if all your superannuation is in one fund.

Consolidating your super gives you more control to make investment decisions on your total savings. You also have a clear idea of how much super you are accumulating. With one account, there will be less paperwork and one contact number and website to remember.

**TIP** When you commence employment with a new employer, you will usually be provided with a superannuation choice of fund form. The form will advise you of the fund into which your employer will pay your superannuation guarantee contributions unless you specify otherwise. If you have an alternative superannuation fund you should complete that form and return it to your employer, to ensure that your future employer contributions are consolidated into your preferred fund.

**Call your financial adviser to discuss how we can help you to get all of your super together.**

# Saving for your children's education

Finding the money to pay the soaring costs of education is a battle for many Australian families. With no relief in sight, it's time for some serious planning.

## Rising cost of education

Raising a child in the new century looks is more costly than ever. A recent reports indicate the basic cost of raising two children to the age of 21 now exceeds $500,000[1]. Add private education fees and the figure soars. Make no mistake, alongside the mortgage, education is becoming a substantial and sobering cost for families.

Choice magazine regards the cost of education as one of the fastest growing life costs in the Australian community, growing at around 6 per cent a year. To put this into perspective, consider that $1,000 in today's dollars, will be close to $1,800 in 10 years time.

And it's not just for the growing number of children attending private schools.

## Public education is not free

Contrary to common belief, public education is not free. Increasingly, costs at government schools are being passed on to parents who can expect to pay around $800 to $1,200 per child each year on school levies, uniforms, books and excursions. And while the cost of non-government education varies enormously depending on which state and which school, on today's figures, parents can expect to pay between $5,000 and $17,000 per child each year at secondary level.

## Planning for future expense

Education is one cost that can be planned for a long time before children even step foot in the playground. Given the long lead times associated with bearing and raising children, the opportunity is there plan ahead.

A regular investment plan is a good way to prepare for future education costs. It has the benefit of long-term investing and the simple but effective powers of compound interest. A family with a baby due later in the year, for example, might start a regular investment plan using any gifts of money intended for the baby, and then continue to contribute a monthly amount. Over this sort of timeframe, using a cash management trust or managed fund can be better than putting the money into a traditional savings bank account – or the piggybank.

If you've already got children, it's not too late either. The power of compound interest simply warrants getting started as soon as possible.

## Start small, now

There's a misconception that people have to start with a large amount when they're investing money. This is not the case. Even with a small amount, the key is to start now and not put it off, to benefit from long-term investing.

A survey conducted by Newspoll discovered that about half of all parents use their general savings to pay for school fees. Of the other half, around a third use savings from a special education saving account, 28 per cent tap income from specific investments, while 21 per cent take a part-time job to pay the fees and 14 per cent use a personal loan or draw down on their flexible mortgage to meet the cost.

Only 40 per cent of parents are saving for education in advance but almost all admit that their savings fall short, with half of the savers putting aside less than $100 a month.

So like any long term goal, when saving to pay for your children's education it can be as simple as ensuring you start as early as possible.

As always, our financial advisers can assist you to devise an appropriate strategy.

1 AMP.NATSEM Income and Wealth Report, 2007

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