Investment Solutions

AUTUMN 2012

Welcome to the Autumn edition of Investment Solutions.

With the end of financial year fast approaching, it's an important time to review your current financial position and consider the opportunities that might be appropriate for you before and beyond 30 June 2012.

In this edition, our feature article focuses on some super strategies – looking at ways to help you boost your retirement savings tax-effectively. Our insurance article explores the advantage and disadvantages of holding insurance inside and outside super. We also talk to Felix Stephen, Manager Strategy & Research at Advance about his thoughts on the month's events.

If you'd like to discuss anything in this edition of Investment Solutions, or you'd like to arrange an end of financial year review, please don't hesitate to give me a call.

What's inside

Market commentary – A helping hand

As central banks around the world coordinate monetary policies, we talk to Felix Stephen, Manager Strategy & Research at Advance for his thoughts on the month's events.

Starting at home

As was expected, the RBA kept monetary policy unchanged at 4.25% following its March meeting. However, the RBA did caution that whilst the domestic economy has grown at close to its average pace over the past year, it was weaker than it had expected a year ago with uneven growth.

Our overall expectation for the Australian economy over the coming year is for it to grow around its potential rate of 3.5%.

The two speed nature that has characterised the economy so clearly over the past year will continue as mining sector investment gathers momentum. We believe inflation will remain within the 2–3% target band. Under this scenario, it is likely that the RBA will keep policy unchanged for the most part. If the global environment does deteriorate, we expect to see quick action from the RBA.

The US economy seems to be gaining in strength. Is this set to continue?

Most data showed that activity is continuing at a modest pace and whilst this is good news, uncertainty remains as to whether or not it will be enough to bring about a sustained recovery in the labour market, which is instrumental in supporting a stronger economy.

Over the coming year, we anticipate the US economy will expand by 2.1%, still below trend, but an improvement on the 1.7% pace of 2011. We note, however, the continued presence of downside risks possibly emanating from fiscal consolidation, the Presidential election, and the Euro crisis.

Can we be optimistic about the Eurozone?

The anticipated fallout from the continuing crisis in the Eurozone became a reality with the release of the December quarter 2011 GDP data, which confirmed that the economy contracted for the first time in two and a half years. Had it not been for relatively good performances in France and Germany, the regions two largest economies, the outcome would have been much weaker.

Our outlook for the region remains uncertain. The sovereign crisis is complex and fluid and will continue to play havoc with markets for some time, and will inhibit the growth potential of the economy over the coming year. We expect GDP to grow by only 0.5% over the coming year, and see further issues arising from Southern Europe. Accommodative monetary policy will be offset by fiscal austerity measures.

What impact has this activity had on financial markets?

The risk asset rally continued in February as further moves to stabilise the European economy were realised with the announcement of the debt swap for Greek bond holders and the conclusion of terms allowing the next €130bn bail out for Greece.

Modestly positive macroeconomic data for the US and further cuts by the Chinese authorities to the RRR helped sustain the equity markets momentum move higher. Risk sentiment has eased back from its January highs but remains positive as volatility generally fell further across asset classes.

Making life matter: What it takes to turn your dreams

Money doesn't always bring happiness. But knowing you're making smart decisions about your finances can

As your household income rises, it certainly makes it easier to afford the shiny new car and the designer kitchen. But what do those pay rises actually do for your happiness levels?

A recent report called 'What makes us happy' based on a decade of research found that the happiest Australians are wealthy people who are married, or living with a partner, in a country town. But before you load the family into a van and head out bush to make your fortune, it is worth reflecting on how much money is enough. The answer may surprise you.

"Feelings of happiness increase up to a household income of about $100,000, but beyond that level there is no systematic increase in happiness," says Robert Cummins, Professor of Psychology at Deakin University, one of the authors of the report.

In fact, the more people have, the more it takes to increase their happiness. About 20 per cent of households have income of more than $100,000. For this group, the purchase of a car, a yacht or an overseas holiday may only provide a momentary frisson of happiness.

Planning for happiness

If you are serious about turning dreams into reality and living an authentic life, you need to plan. Mapping out a financial plan to help realise your goals and wishes can also aid your general sense of wellbeing.

There are many common milestones in life that benefit from financial planning: buying your first home, getting married and starting a family, paying for a child's education, retirement and leaving a financial legacy for your family.

Once you know what those goals are, you have to make sure they're matched

A year end boost for your super

30 June is the deadline for a number of key super strategies – making now a good time to boost your super tax-effectively.

The tax advantages of super make it an attractive investment option for anyone looking to grow their savings for retirement.

One of the main reasons for this is the lower rate of tax many people may pay on their investment earnings inside super.

For example, if you earn between $80,000 and $100,000 per year, your marginal tax rate in 2011/2012 is 39.0% (including the Medicare and flood levies).

Inside super, a maximum of 15% tax is payable on investment earnings. And once you commence a pension from your fund, the earnings in the fund will be tax free.

If you've been thinking about giving your super a boost this financial year, here are three strategies you might want to consider before 30 June:

Strategy 1 – Utilise your contributions caps

Each financial year there's a limit on how much you can contribute to super tax-effectively. This is known as your contributions caps, and there are two types:

- **Concessional contributions** are generally those made to a super fund by your employer (eg super guarantee (SG) contributions and salary sacrifice amounts).
- **Non-concessional contributions** are personal super contributions which you've made from your after-tax income.

If you're not currently using all your super contributions caps, it may be worth considering making additional concessional or non-concessional contributions to your super.

What are the contributions caps in 2011/12?

Concessional cap – under age 50	Concessional cap – age 50 or over	Non-concessional cap
$25,000	$50,000	$150,000 pa (or if you were under 65 years of age at 1 July 2011, your cap may be increased to $450,000)

The penalties for exceeding your contributions caps can be harsh, so you should seek professional advice before you make additional contributions to super.

Strategy 2 – Start a salary sacrifice arrangement

If you're an employee, and you have room in your concessional contributions cap (see Strategy 1), you may wish to set up a salary sacrifice arrangement for 2012/13.

The main benefit of a salary sacrifice arrangement is that you're making super contributions from your before-tax income. This means the amount sacrificed will be taxed at 15% inside your super fund, rather than you being subject to tax personally at your marginal tax rate.

There are two main types of salary sacrifice arrangements:

1) Sacrifice your year-end bonus as a one-off
2) Sacrifice a regular amount from your pay each week

Whichever option you choose, you need to act soon. You can only salary sacrifice income you haven't earned yet, and most employers need a few weeks notice to set up salary sacrifice arrangements for next financial year.

Strategy 3 – Make the most of your Self Managed Super Fund (SMSF).

If you have a SMSF, you have greater control and flexibility over the types of assets you invest in. That opens up some valuable opportunities to optimise the tax-effectiveness of your investment portfolio.

For example, you can now borrow to invest in residential property inside a SMSF – which can be a tax-effective way of investing in direct property.

Get smarter with super before 30 June.

If you think you could be doing more with your super, talk to your financial adviser today. They can arrange a review of your super before 30 June, and help you make the most of the opportunities and strategies that are appropriate for you.

into reality

certainly help you sleep a little easier.

by your financial advice. Saving and planning might not sound like the path to happiness, but there is evidence that our wellbeing depends on it.

"People can lead happy lives as they get older provided they have sufficient financial resources. If you have paid off the house and don't have any medical conditions that are expensive to treat then ongoing expenditure is reduced," says Cummins.

Estate planning

An important part of any good financial plan is working out how you want to distribute your money and possessions when your die. In fact, if you are looking for an example of how money, relationships and values intersect, for better and for worse, then you need look no further than estate planning.

Having your financial affairs in order with a valid Will is an act of love for the people you leave behind. But a lack of planning or a poorly thought out estate can lead straight to the courts and heartache.

If you'd like some help with your financial plan, or your estate planning measures, talk to your financial adviser.

Source: Australian Unity 'What makes us happy', November 2010

How do you hold your insurance?

Some types of life insurance can be taken outside or inside superannuation. So how do you know which ownership structure is right for you?

For most people who have a family and other responsibilities, the decision to hold life insurance should be a relatively straight-forward. Somewhat less straight-forward may be the question of *how* you hold it – ie inside or outside your super fund?

There are some important advantages and disadvantages of each ownership structure that need to be considered when you're setting up your life insurance. These can also depend on your circumstances, which is why it's so important to get a regular review of your cover.

Inside super

1) **You might have some already.** If you're an employee, you may already have some death and total and permanent disability (TPD) cover in your super fund. This can be an easy and cost-effective way to get basic cover without the usual medical tests.
2) **You can pay premiums using super.** Super funds can claim a tax deduction for some insurance premiums paid inside the super fund. This means your insurance premiums may be effectively paid with pre-tax dollars. This can help you take a higher amount of cover and use the tax savings to cover the additional premiums.
3) **You can salary sacrifice.** If you want to pay your insurance premiums inside super but don't want to reduce your retirement benefits, you can top-up your super by setting up a salary sacrifice arrangement. However, if you do this you need to keep an eye on your concessional contributions caps (see below).

Outside super

1) **You can protect your income tax-effectively.** Income protection premiums are generally tax-deductible outside super – meaning there's no tax benefit to holding this cover inside super.
2) **You can use your concessional contributions caps for super, not insurance.** There's a limit to how much you can contribute tax-effectively to super each financial year. Currently, the limit is:
    - $25,000 per year if you're under age 50, or
    - $50,000 per year if you're age 50 or over (this is a transitional cap that applies until 30 June 2012).

   If you have sizeable insurance premiums inside super and you need to make additional contributions to pay them, you could be limiting how much you're able to put away tax-effectively for your retirement.
3) **Your benefit is easier to access.** Outside super, you are the owner of the insurance policy, and any benefits are paid directly to you or your beneficiaries.

Inside super, the super fund owns the policy and your super account receives any benefits. To get that money out of super, you then have to satisfy a 'condition of release'. If you don't, you may have to wait until your retirement age to get this money out of your super account.

A good time to get smart with your insurance

With 30 June approaching, it's a good time to review your insurance needs to make sure you have the right cover in place, and that you're making the most of the strategies available.

For advice specific to you and your family, talk to your financial adviser today.

More information? For further information on any issue discussed in this publication or on any financial matter, please contact your financial adviser.

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