

# Your money Your future

FINANCIAL PLANNING NEWSLETTER SPRING 2007

## You're living your life to the full, but are you fully covered?

You can't plan for the unexpected, but you can plan to protect your financial future. Many Australians are drastically underinsured. In 2005, AXA found that, on average, Australians are underinsured by around \$465,000 per adult. This may mean, in addition to the physical and mental trauma of unexpected illness, injury or death, they may also experience severe financial consequences. This is why having sufficient insurance cover should be a part of every quality financial plan. And it should be regularly re-assessed to ensure you and your family are fully covered.

If you're looking for peace of mind regarding your level of insurance, Advice & Answers Financial Services offers a no obligation & no cost consultation to discuss your personal requirements.

Don't put it off, take the time to arrange a discussion by contacting our office on 03 9803 1414.

source 'Estimates of the extent of under insurance in Australia', DEXX&R, June 2005.

## The new super tax

**Following announcements in the May 2006 Federal Budget, changes to superannuation law came into effect on 1 July 2007.**

The changes require you to provide your tax file number to your super fund or accept significant penalties.

If you choose not to provide your tax file number:

- your super fund will not be able to accept any personal superannuation contributions, and
- any employer and salary sacrifice contributions made into your super may be subject to tax of 31.5 per cent in addition to the current contributions

tax of 15 per cent – that's equal to the highest marginal tax rate of 46.5 per cent.

Previously, your employer contributions and salary sacrifice contributions were taxed at 15 per cent, regardless of whether your fund held your tax file number. To ensure contributions made after 1 July 2007 are not eroded by the higher tax, you will need to provide your super fund with your tax file number.

You may have received a letter from your fund about the new tax file number requirements. If you have any questions about providing your super fund with your tax file number, please contact us.



### Advice & Answers Financial Services

*SUPERANNUATION - INVESTMENTS - INSURANCE*

ABN 9602 659 5515

Suite 1 710 High Street Road  
Glen Waverley  
Vic 3150

**Charles Ellul** CFP DipFp

Certified Financial Planner

Authorised Representative

PO Box 203

Glen Waverley

Vic 3150

Phone: 03 9803 1414

Fax: 03 9803 1415

Mobile: 0412 264 606

Email: [advice@aafp.com.au](mailto:advice@aafp.com.au)



Financial Planning

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## 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.<sup>1</sup>

### **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.

<sup>1</sup> TNS Research, Investigating the issue of underinsurance in Australia, August 2005.

## Are there risks involved with investing?

**There is no such thing as a 'risk-free' investment. Whether it is shares, property or bonds, there will always be a level of uncertainty about how each investment will perform. As a general rule, the greater the risk you're prepared to take, the greater the potential return on your investment.**

If you prefer low-risk investments, then products such as a term deposit, cash management trust or online savings account may be more suitable. The risks are generally minimal but, as a result, the return on your investment is also generally lower in comparison to growth assets such as shares.

Alternatively, if you're comfortable with higher risk, you may, for example, invest in the share market where the potential for a higher return on your money is greater over the longer term.

Everyone's tolerance to risk is different. When selecting your investment, you need to strike a balance between the level of risk you're comfortable with and the return you want on your money.

A commonly-used yardstick to help you determine the level of risk you're happy to accept is the 'sleep test'. If you toss and turn at night worrying about the security of your money, chances are you're not comfortable with the level of risk associated with your investment decisions.

Aside from determining your 'risk profile', you also need to take into account other considerations when evaluating the right investment to suit your needs. You'll need to consider issues such as diversification, accessibility of your money over the nominated timeframe, the tax you pay on your investment, and whether your money will grow at a rate faster than inflation.

Your emotions will also have a role to play in whether you can build wealth successfully over time. Investors will often experience a range of emotions that make it difficult to stay focused on long-term goals. For example, it can be difficult to avoid the temptation to switch strategies in response to short-term market movements. That's where a financial adviser can help. An important part of a financial adviser's role is to help you make the right choices at each stage and act as a 'sounding board' during times when you are worried if your current investment strategy is still right for you. They can help you stay the course over time.

For a complimentary no-obligation appointment, call your financial adviser.

