Your money Your future

FINANCIAL PLANNING NEWSLETTER WINTER 2007

Social security changes - 20th September 2007

A testing time for assets – making the most of upcoming social security changes to the assets test.
With the end of the financial year behind us, the financial services industry is now preparing towards another significant date - 20th September 2007. This date heralds the start of two specific social security changes.
As a result of the rules coming into effect, there is a short-term window of opportunity to enhance social security payments.
20 September 2007 – what's changing?
The changes to social security arrangements coming into effect on 20 September are:
1 A reduction in the pension assets test taper rate from $3 per fortnight to $1.50 per fortnight for every $1,000 of assets above the lower assets test threshold.
2 The abolition of the assets test exemption for complying income streams purchased on or after 20 September 2007.
Contact the office today on 03 9803-1414 to discuss the impact of these changes to your personal situation.

Better planning means less worry

We worry too much about our finances, especially when it comes to our retirement incomes.

A recent survey of 1000 people conducted by the Investment and Financial Services Association (IFSA) in October 2006 has revealed Australian investors spend an average of three hours weekly worrying about money, and that for most (41 per cent), managing their finances is more important than having fun (28 per cent).

Financial planning ranks among the top three things of importance in investors' daily lives.

The research also revealed passive investors (with the basic nine per cent Super Guarantee and nothing more) tend to worry more about their retirement than active investors (who make additional contributions beyond their SG).

The fourth IFSA Investor Sentiment study also shows investor trust in the superannuation industry is higher than for any other commercial service or product industry in the country. Additionally, 95 per cent of Australian investors said they were satisfied with their experience with advisers.

People can alleviate their financial worries and anxieties by:

- seeing an adviser regularly
- being more proactive with suitable investments
- saving more than the compulsory nine per cent superannuation.

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Financial Planning

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Is insurance a luxury you can't afford not to have?

The average Australian currently has 29 per cent of the death cover insurance they require and are only insured for 23 per cent of their insurable income with disability cover. Women risk even more. An average female has only 32 per cent of the death cover required, and insures only 14 per cent of her total insurable income with disability cover*.

It is usually in the wake of an insurable incident, when an event occurs that threatens long-term financial goals, that people find out the risks they are taking far outweigh the cost of avoiding those risks.

Many people purchase or increase their insurance when such an event happens to someone close to them.

What are you risking?

People may knowingly be un-insured or under-insured and are prepared, if only psychologically, for the risks.

People may also consider that having some form of insurance, somewhere, is enough.

The latter may be in for a shock when they misjudge the amount needed, or how long what they have will last if they had to live on the proceeds.

A healthy attitude towards risk

In an increasingly modern, urban environment many Australians are not exposed to risks on a daily basis. This is further compounded by the fact that modern support services are more accessible than ever before and self-reliance is increasingly seen as less of a necessity.

The need to take preventative action is understated and can lead to people developing a false sense of security.

In contrast farming communities are more exposed to day-to-day risks such as variations in seasons, bushfire, drought and reduced access to basic support services.

This experience creates awareness and a tendency for people to be more self-reliant as they recognise life's risks as more real and more common.

People living in these communities are more likely to give time, effort and money to things that may help them avoid potentially ruinous events later on.

Is peace of mind a luxury?

Consider your risks and decide knowingly to either take the risks, or to insure against them. Misjudging insurance can occur when you fail to properly identify and define your financial goals and current financial position. Your financial adviser can recommend the most suitable insurance policies for your needs.

* The Risks Australians are taking with Insurance, July 2004 – research report prepared by DEXX&R for AXA Australia

Respond to rate rises – fixed or variable?

With a potential rate rise always around the corner, be prepared by considering the benefits of fixing part or all of your mortgage's interest rate.

With inflation threatening to push interest rates up, borrowers are mulling over the merits of the fixed-rate loan. Mortgages aren't designed to be 'one-size-fits-all'; while fixing your interest rate offers an effective means to combat further rate hikes, there may be other options that better suit your needs.

Fixed vs. variable – what's the difference?
A fixed rate refers to a loan with a pre-determined interest rate set for a given period, usually between one and five years. This differs from a variable rate, which changes according to decisions made by the Reserve Bank of Australia (RBA).

When choosing between a fixed or variable-rate loan there are a number of key features to keep in mind:

Variable rates – Advantages

- generally lower than fixed rates; should market rates go down you may also see a decrease in your monthly repayments
- offer flexibility should your circumstances change; easier to increase or decrease monthly repayments and typically feature a low or no penalty for early discharge of the loan, and
- commonly offer more features such as redraw and 100 per cent offset

Variable rates – Considerations

- less certainty when planning your long-term financial aims and objectives, and
- if interest rates do go up, will you still be able to cover your repayments?

Fixed rates – Advantages

- offer certainty for borrowers who would have trouble managing a higher rate, and
- ideal for those working to a tight budget, as repayments won't change should rates rise.

Fixed rates – Considerations

- typically less flexible, with possible heavy penalties if you pay out early or refinance the mortgage
- no benefit if interest rates go down
- switching to a fixed-rate loan may have associated fees and charges
- not usually available for construction loans, and
- in some cases, the rate offered at the time of application may not be the rate you finally get unless you elect to 'rate lock' (sometimes at an extra cost) at application time.

Best of both worlds – split rates

While both fixed and variable-rate mortgages have their benefits, there is a hybrid loan that lets you have the best of both worlds: the split-rate loan. This divides your loan into a fixed and variable rate component, allowing you to take advantage of the lower variable rate and flexibility for part of your loan, while maintaining the security of a fixed rate for the other component. You can usually choose the proportion of your loan on fixed and variable to suit your circumstances. You may even select more than one fixed-rate term, so that the fixed-rate loans mature at progressive intervals.