



## Live long and prosper

### Early planning can help you enjoy the benefits of increased longevity and live the life you want in retirement

Australians are living longer and enjoying more productive retirements than ever before.

Australian men can expect to live until the age of 79, while the average Australian woman lives until 84.\* This puts Australia up there with the most advanced societies in the world – our life expectancy is the fourth highest for men and third highest for women.†

Getting on top of your superannuation early and formulating a long-term savings plan will see you best placed to prosper in your retirement.

#### Changing face of retirement...

By 2041, one in five Australians will be over 65 years of age and 7 per cent of the population will be over 80, representing the fastest growing sector of the population.‡

As we live longer, many of us are opting to retire earlier than ever. In 2007, the average age of retirement was 47 for women and 58 for men, which means we may end up spending as long retired as we did in the workforce.§

And the nature of retirement is changing. It's now a reward for hard work – a chance to develop new hobbies or travel the world. But do you have enough saved to fund your retirement dreams?

#### ...and the workplace

Living longer is set to change the way we work. We are more likely to move between

jobs and opt for multiple career paths during our working lives.

Older workers offer years of experience, valuable skills, and tend to be highly motivated. Companies will need to develop more part-time and contractual positions that suit older people.

An ageing population will also spell public policy challenges. By 2047 there are forecast to be only about 2.4 working-age Australians for each retiree aged 65 and over.¶

The government will need to remove any benefit or pension disincentives that act as roadblocks to participation in the workforce, as well as reduce pressure on the public purse by lifting the pension age.

#### The goal – a comfortable and fulfilling retirement

As we retire earlier and live longer, we will need a bigger retirement nest egg to keep pace with inflation and see us through. In order to achieve a comfortable retirement a couple needs an estimated \$53,565 a year.\*\*

The days of relying on the age pension are long gone and we are increasingly expected to fund our own retirements.

Planning is key. The earlier you start saving, the more likely you are to enjoy a comfortable and fulfilling retirement.

\* [http://www.aihw.gov.au/mortality/life\\_expectancy/trends.cfm](http://www.aihw.gov.au/mortality/life_expectancy/trends.cfm)

† [http://www.aihw.gov.au/mortality/life\\_expectancy/compares.cfm](http://www.aihw.gov.au/mortality/life_expectancy/compares.cfm)

‡ <http://www.wesleymission.org.au/publications/ageing/introduction.htm#Australian>

§ <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4102.0Main+Features50March%202009>

¶ <http://www.aph.gov.au/library/pubs/BriefingBook42p/17SocialPolicy-ImmigrationandPopulationAging/Population.htm>

\*\* <http://www.superannuation.asn.au/mr100628/default.aspx>



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## Chasing a rainbow: how to miss the pot of gold

When investors read the financial press and hear commentators analyse the best performing companies or asset classes, they might be tempted to move their investments around to capture better returns.

And when the share market produces negative returns – and 2008 saw the worst returns Australian investors have faced – a common response is to talk about moving out of shares into something less risky and with reliable returns; perhaps cash or fixed interest. After all, cash and fixed interest produced much better returns than shares in 2008.

It is easy to understand the lure of the ‘if only’ argument: ‘If only I had invested in cash

last year ...’ or ‘If only I was in property in 2000 ...’ We have all heard this chatter, even if we haven’t said the words ourselves.

But, take this path and you risk falling into the trap of becoming a ‘chaser’, potentially reducing your chances of financial success. While it might seem like a normal response to go after the best, in this case it can lead down a road with some very big potholes.

So, what is a ‘chaser’ and what difference does it make to your wealth if you are one, compared with being a stable investor with a long-term plan who sits tight in tough years?

### The past – a forecast of the future?

Comparing the performance of the major asset classes between 1987 and 2009 shows that the best performing category usually varies from year to year. As a result, when investors move between asset classes to chase last year’s best returns, it usually means they miss out on a better year in a different category. It reminds us – yet again – that past performance does not guarantee future returns!

The table to the left covers a 23-year period and it tells a sad story for chasers – as well as a cautionary tale for those who may be tempted to join them.

**Notice that 1987 was a terrible year for Australian shares but a great year for bonds. Typically, the chasers shifted to bonds in 1988 ...**

**... unfortunately for the chasers, Australian shares bounced back in 1988 while the return on bonds dropped by half, so ...**

**... the chasers went back into Australian shares in 1989. But oops! While Australian shares did quite well in 1989, international shares did so much better, therefore ...**

**... they chased international shares in 1990, an asset class that fell by 15% that year. Ouch!**

It’s true that this response does work sometimes: the table shows chasers ‘won’ in 1998–99 if they had jumped into international shares after it topped the table in 1997; and again in 2001–02 if they moved into Australian property after it led returns in 2000. But four winning years out of 23 is not a great score!

### Discipline – the essence of successful investing

It’s important to define your investment goals, know the level of risk you can happily live with, diversify your investments to help smooth out the ups and downs that happen from year to year in each asset class, and think long term for optimum results. This is the best way to avoid the trap of becoming a ‘chaser’.

That does not mean that you ‘set and forget’, and never change your investment mix. Review your investment portfolio every year and adjust the balance of your portfolio as necessary. If you have any queries about your investment strategy please contact us.

**Table: Historical Asset Class Performance:  
Major Market – Calendar Year Returns, 1987–2009**

| Year         | Australia     |               |              |             | International Shares |
|--------------|---------------|---------------|--------------|-------------|----------------------|
|              | Shares        | Property      | Bonds        | Cash        |                      |
| 1987         | -7.9%         | 5.7%          | <b>18.6%</b> | 14.2%       | 7.5%                 |
| 1988         | <b>17.9%</b>  | 16.1%         | 9.5%         | 13.2%       | 4.5%                 |
| 1989         | 17.4%         | 2.3%          | 14.4%        | 18.6%       | <b>26.6%</b>         |
| 1990         | -17.5%        | 8.7%          | <b>18.1%</b> | 15.9%       | -14.3%               |
| 1991         | <b>34.2%</b>  | 20.1%         | 24.4%        | 11.0%       | 21.1%                |
| 1992         | -2.3%         | 7.0%          | <b>10.2%</b> | 6.7%        | 5.3%                 |
| 1993         | <b>45.4%</b>  | 30.1%         | 16.5%        | 5.3%        | 24.6%                |
| 1994         | -8.7%         | -5.6%         | -6.7%        | <b>5.3%</b> | -7.6%                |
| 1995         | 20.2%         | 12.7%         | 22.8%        | 8.0%        | <b>26.5%</b>         |
| 1996         | <b>14.6%</b>  | 14.5%         | 13.0%        | 7.6%        | 6.6%                 |
| 1997         | 12.2%         | 20.3%         | 12.2%        | 5.6%        | <b>41.7%</b>         |
| 1998         | 11.6%         | 17.9%         | 9.5%         | 5.1%        | <b>32.6%</b>         |
| 1999         | 16.1%         | -5.0%         | -1.2%        | 5.0%        | <b>17.5%</b>         |
| 2000         | 4.4%          | <b>19.7%</b>  | 12.1%        | 6.1%        | 2.6%                 |
| 2001         | 10.3%         | <b>14.7%</b>  | 5.4%         | 5.2%        | -9.4%                |
| 2002         | -8.1%         | <b>11.0%</b>  | 8.8%         | 4.8%        | -26.9%               |
| 2003         | <b>15.9%</b>  | 8.8%          | 3.1%         | 4.9%        | 0.0%                 |
| 2004         | 27.6%         | <b>32.0%</b>  | 7.0%         | 5.6%        | 10.8%                |
| 2005         | <b>21.1%</b>  | 12.5%         | 5.8%         | 5.7%        | 17.6%                |
| 2006         | 24.7%         | <b>34.0%</b>  | 3.2%         | 6.0%        | 12.3%                |
| 2007         | <b>18.0%</b>  | -8.9%         | 4.0%         | 6.4%        | -1.7%                |
| 2008         | -40.4%        | -55.3%        | <b>16.5%</b> | 6.7%        | -24.9%               |
| 2009         | <b>39.6%</b>  | 9.6%          | -2.0%        | 3.3%        | -0.3%                |
| <b>Best</b>  | <b>45.4%</b>  | <b>34.0%</b>  | <b>18.6%</b> | <b>5.3%</b> | <b>41.7%</b>         |
| <b>Worst</b> | <b>-40.4%</b> | <b>-55.3%</b> | <b>-6.7%</b> | <b>3.3%</b> | <b>-26.9%</b>        |

**Denotes highest return in that calendar year**

Shares = S&P/ASX All Ordinaries Accumulation Index

Property = S&P/ASX 300 Property Trust Accumulation Index

Bonds = Australian Commonwealth Bank All Series/All Maturities Accumulation Index

Cash = RBA Cash Rate

International Shares = MSCI World Accumulation Index (\$A) unhedged

## Taking care of business



There are almost two million small businesses in Australia, and while 61 per cent have sole proprietors, the rest employ almost 4.8 million people or 48 per cent of private sector employees.<sup>1</sup> Small business is really big business!

But what happens when a key person in a small business dies or can no longer work?

It's estimated there's a 52 per cent chance that if there are two male business partners both aged 35 then one will die or become permanently disabled before age 65. If there are four partners this risk rises to 77 per cent, and to 89 per cent if the business has six partners.<sup>2</sup>

That's why all small businesses need insurance which allows the business to keep operating should the owner or a key employee become incapacitated. The smaller the business, the greater the impact can be.

### Keeping the wheels turning

The main insurances protecting business owners are buy/sell and key person insurance. While each type assists the business to continue operating, they are separate options that complement each other. A business needs to maintain an effective continuity strategy.

Key person covers the company for loss of revenue or capital should a key player die or

become incapacitated. While that person may not be a shareholder in the business, their knowledge and expertise is considered vital. This insurance provides the business with a lump sum to help keep the business afloat until a replacement is found.

Buy/sell insurance is not about cash flow but business succession, helping the remaining partners or shareholders fund a buyout if a partner dies or becomes incapacitated.

Without buy/sell insurance, surviving partners may be thrust into business with the spouse of their original business partner, regardless of their availability, skills or interest. The results can be devastating: surviving partners running the business single-handedly but having to share the profits, or locked in dispute with the new partner over key decisions. A buy/sell agreement lets the surviving partner buy the business, and sets an agreed sum in place so that the business is not sold for an unreasonable amount.

All businesses need an exit plan from day one, so why not talk to us about how your business can plan for and survive the unexpected.

<sup>1</sup> <http://www.innovation.gov.au/Section/AboutDIISR/FactSheets/Pages/SmallBusinessFactSheet.aspx>

<sup>2</sup> AXA Australia Family Business Research Unit, Monash University

## News bites

### People prefer advisers in the end

Who do you prefer to discuss your retirement plans with? Your spouse? Your friends? Your adviser?

According to new research, the propensity of Australians to consult financial advisers increases in line with age and level of family responsibility.

The findings are part of the 2010 Retirement Scope survey, which canvassed the thoughts of Australians on a number of topics related to retirement and the preparations and perceptions that surround it.

The study found that workers with the added responsibility of children or grandchildren were more likely to use an independent financial adviser (49 per cent) than those without (33 per cent).

And while most workers said they reviewed their retirement plans with their spouse or partner first and adviser second, by the time they reached retirement their preference changed.

By retirement 51 per cent of respondents said they reviewed their retirement plans with an independent financial adviser, with that number rising to 67 per cent for middle income earners.

### First home saver account

Getting onto the property ladder is increasingly difficult for younger Australians, so it's important to take advantage of any help on offer.

A first home saver account is a great way to start saving for a home deposit, with the benefit of concessional tax treatment and special government contributions.

First home saver account interest is taxed at a concessional rate of 15 per cent, instead of the usual marginal tax rate. The government contributes 17 per cent on the first \$5,500 deposited each year over four years, which means account holders can qualify for up to \$3,740 in government contributions.

To qualify for the benefits, account holders must make a minimum personal after-tax contribution of \$1,000 a year over four financial years with total account balances limited to \$80,000.

Withdrawals can only be made to purchase or build a first home, or to transfer into super if a home is not purchased.

### Avoiding the Christmas credit max-out

With Christmas coming up, the temptation to splurge is greater than at any other time of the year. So how can you keep credit card debt under control during the festive season?

One of the best ways is to set and stick to an affordable budget, in conjunction with some specific cost-cutting measures, such as a Kris Kringle-style Christmas.

You could also consider alternative gift giving. A registered charity like karma currency allows you to purchase tax deductible gift vouchers, which the recipient can use to make a donation to their favourite charities.

When it comes to food and beverages, you can help reduce the cost by planning ahead and buying general-use items in bulk, and asking family and friends to bring along a 'plate' or a bottle of wine.

Remember you don't have to use debt to have a good time at Christmas.

## Working smarter – a super future

**If you are over 55, there may be a quicker way to build up your nest egg while you access a generous concessional tax-free income stream at the same time.**

Or, if you are a little nervous about retiring completely in these turbulent times, how about the opportunity to make a gradual transition into retirement while continuing to work part time and build your super?

Both these options are available right now through a special retirement income plan called a non-commutable allocated pension (NCAP). And the best thing about it is that you don't actually have to retire to start one. Anyone over 55 can commence an NCAP from their superannuation fund and draw a tax-advantaged income stream from it, yet continue to work full or part time and make ongoing super contributions out of their salary.

### How does it work?

If you are over 55, you can elect to convert all or part of your super into an NCAP, which is a pension fund that, like a super fund, offers you a choice of portfolios. You then nominate and draw an income stream from your pension fund each year. Your age determines the minimum drawdown you must make. If you are under 65, for example, the minimum withdrawal is normally 4 per cent of your account balance.\* This income is tax free if you are aged 60 or over and attracts a 15 per cent tax offset if you are aged between 55 and 59 (inclusive).

You are entitled to keep on working full or part time while receiving the income from your NCAP, so you can continue making superannuation contributions to a super fund from your salary. That means you can reduce your taxable income while continuing to build your nest egg. It is quite possible to receive the same amount of money to live on from your combined NCAP and salary as you were before starting an NCAP, and at the same time make larger super contributions through salary sacrifice.

If you're looking for a way to boost your retirement savings without cutting your living standards, speak to us today to see if an NCAP strategy could give your superannuation a boost this year.



### Sarah's story

Sarah, aged 55, is an engineer and plans to retire at 65. She earns \$110,000 per annum and has \$450,000 in super. She wants to maintain her disposable income while increasing her super account balance.

To achieve these objectives, Sarah commences an NCAP while salary sacrificing a larger pre-tax portion of her income into super.

The NCAP's tax advantages work for Sarah to reduce her personal income tax: the investment earnings and growth on her pension account are tax free, plus her NCAP income is taxed at a concessional rate. Using this strategy, Sarah can salary sacrifice to boost her superannuation by around \$64,000 by the time she is 65.†

\* The minimum drawdown has been reduced by 50% for the 2010/11 financial year.

† Assumptions: The projections in this strategy are based on various assumptions, including, but not limited to: maximum pension payment = \$32,237 in year 1; salary sacrifice = \$40,100 in year 1; no change in take-home pay before/after strategy; no change in risk profile; estimated investment return (Growth portfolio) = 6.4% pa (super), 7.3% pa (pension); all investment earnings figures are after tax and after fees; no change in Super Guarantee contributions, ie 9% of \$110,000; administration fees and charges are not included.

Note that taxable pension income from an NCAP qualifies for a 15 per cent tax offset if aged 55-59. The payment is tax free if over age 60.