



Super shortfall leaves retirees in the lurch

Saving for retirement can seem like a daunting task when you calculate just how much you need for a comfortable retirement and how long you have to accumulate it.

Add to that the factors outside your control which are liable to affect your savings plan and it is immediately apparent just how precarious saving for retirement can be.

Research by Investment Trends reveals the financial crisis hit retirement savings particularly hard in 2009. Its Retirement Income Report shows a widening gap between Australians' expectations for a comfortable retirement and what their superannuation savings will really deliver.

Of almost 3,000 people surveyed aged 40 or more, 56 per cent said recent volatility had a negative impact on their retirement savings and that they would change their plans as a result - mostly spending less in retirement, working longer, or delaying retirement.

Investment Trends principal Mark Johnston says the gap between retirement dreams and reality has become noticeably bigger as a result of the financial crisis and that investors are being forced to make significant changes to their retirement plans.

According to the report, less than one in 10 people have enough super to reach their goal of a \$40,000 minimum annual retirement income. The average income from personal savings by those already retired was less than half that - \$19,000 per annum.

The research suggested that those within five to 10 years of retirement had been hardest hit and were now planning to delay retirement by an average of 3.7 years.

The financial crisis has also heightened awareness that compulsory super will not be enough, with 45 per cent of respondents agreeing that the nine per cent Super Guarantee was inadequate to retire on and should be higher. This concern about retirement savings is reflected in the low super balances of many investors. The median balance for those five to 10 years from retirement was just \$71,000 and \$141,000 for those one to three years from retirement.

So how much is enough? The general consensus is that retirees will need 60-70 per cent of their annual pre-retirement income to maintain a comfortable standard of living. How much you will need to save depends on your personal circumstances, including how much you already have saved and how long you have until you retire.

Taking control of your finances and planning for your retirement early can give you more flexibility and choice when it comes time to retire. To discuss your particular needs as you approach retirement, please make an appointment with our office today.



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Super: the pros and cons of do-it-yourself

Australians are increasingly doing it for themselves when it comes to super.

Self-managed superannuation funds (SMSFs) are the fastest-growing fund type in Australia, with about 410,000 SMSFs representing 772,000 members, or 7 per cent of Australia's total super members.

SMSFs have gone from strength to strength, with each recent month seeing the establishment of around 2,500 new SMSFs. The total value of funds under management increased from \$132 billion to \$332 billion in the five years to 30 June 2009, an annual growth rate of 20 per cent.

But the complexity of running your own super fund means SMSFs are not for everyone – SMSF members tend to be older, have a higher income and larger super balances.

Before switching to an SMSF it's worth asking:

- 1 Is the fund strictly for retirement benefits?
- 2 Do you have the time and skills to run your own super fund?
- 3 Will the benefits be worth the costs?
- 4 How will switching affect your current super benefits, services and fees?

The case for

An SMSF can have a maximum of four members, all of whom act as trustees and are responsible for running the fund, investing assets, paying benefits and meeting compliance requirements.

The great advantage of an SMSF is that you're in control. Asset allocation, tax strategies, insurance options and retirement planning – it's all up to you.

Investments

You have great flexibility over where your super is invested, as long as you comply with regulations and the fund is operated for the purpose of building retirement wealth (also known as the sole purpose test).

When planning an investment strategy, you need to consider your objectives, time horizon, risk tolerance and diversification. You can invest in your preferred combination of assets, across all asset classes – cash, fixed interest, property, Australian shares and international shares.

Tax

SMSF trustees are permitted to lodge their tax returns later than some other types of fund, allowing them to invest a greater percentage of funds under management.



Insurance

You can choose from a complete suite of insurance options, including life and trauma insurance.

Retirement

Your investment strategy can incorporate a transition to retirement strategy using a non-commutable allocated pension.

So what can't you do? You can't use an SMSF to fund the purchase of a business, holiday home or golf club membership. Generally, you can't acquire assets from a related party, borrow money or allow in-house assets to exceed five per cent of the total fund assets.

You also need to be wary of schemes to withdraw your super early. The Australian Taxation Office is handing out heavy penalties for those who illegally withdraw from schemes early.

The case against

Costs

SMSFs can be expensive, with the annual costs of running a medium-sized fund estimated at \$2,000.

Your fund needs to be substantial enough to make this worthwhile. An SMSF is usually not advisable if the fund assets are likely to be less than \$200,000. It's not surprising therefore that the average annual member balance is \$454,000 – more than six times the industry average of \$70,000.

Administration

Most people find it hard enough keeping up with their current super, let alone running their own fund.

When establishing the fund, you need to draw up a trust deed setting out trustee powers, benefit payments and exit strategy.

You also need to create a separate bank account, keep accurate paperwork, produce annual operating statements, keep copies of annual returns and appoint an approved auditor.

Many SMSF owners choose to outsource some administration functions to reduce the amount of paperwork they need to complete themselves.

Help is at hand

With greater control comes greater responsibility, but the right financial advice and support can make it easier. Fortunately there is more help out there than ever before for Australia's growing number of SMSF enthusiasts.

If you're interested in setting up your own super fund, please contact our office. We can help set your fund's investment strategy based on your investment objectives and individual circumstances.

Covering all bases

The death of a family member is a tragic event and the grieving process can be long and emotionally demanding.

A death in the family can also present an immediate financial difficulty for family members and other dependants, especially if the deceased person was the main income earner.

While financial protection such as life insurance won't relieve the sense of loss if tragedy strikes, it can ease some of the stress and help ensure that financial worries do not add to your family's emotional burden at a time when they are least able to cope.

What is life insurance?

It's a common misconception that insurance only covers against death. Insurance companies also offer a variety of policies covering injury or illness and the resulting loss of income.

Life insurance basics

1 Life insurance – pays a lump sum on your death or the diagnosis of a terminal illness.

2 Trauma insurance – pays a lump sum in the event you suffer a specific illness including heart attack, cancer or stroke.

3 Income protection insurance – provides a replacement income of up to 75 per cent of your income if you are unable to work due to illness or injury.

4 Total and permanent disability (TPD) insurance – pays a lump sum if you become disabled and are unable to work.

5 Business expenses insurance – covers the ongoing costs of your business if you are self-employed and cannot work due to illness or injury.

How much do you need?

There is no right or wrong answer – what is important is to understand how much insurance is right for you.

Following a traumatic event, an adequate level of insurance can help you to pay off the mortgage and other debts, provide for your children's education and allow your family to maintain their lifestyle.

We can help you structure your insurance in the most tax-effective way. If you take out life, TPD or income protection insurance through your superannuation fund, all premiums are paid from your pre-tax contributions.



Having adequate life insurance is an essential part of your ongoing financial wellbeing. We can help you determine how much insurance you need by looking at the needs of your financial dependants, how much you are likely to earn over your lifetime, and your current financial obligations. Please contact us to discuss your financial protection needs.

Good versus bad: battle of the debt

Sometimes a little financial re-arrangement can make the world of difference to your overall financial situation. It sounds simple, and it is.

You may have heard of 'good' debt and 'bad' debt. Basically, good debt is debt that's being used to help you increase your overall wealth (eg a loan for investment purposes) and bad debt is debt on items that decrease in value, such as a car. Credit card debt also falls into the bad debt category.

Another indicator of good or bad debt is tax deductibility of the interest payments. For example, while in many ways your home is good debt (it will generally increase in value over time), the interest is not tax deductible. So, can you turn your good debt into 'great' debt? Yes.

Pay off your property

A mortgage on your home is generally considered good debt as you have a tangible investment (asset) and somewhere to live. However, it is still a large debt and the sooner you pay it off, the less interest you will pay. What's more, interest on a home loan is non-deductible, ie there are no tax advantages.

Early repayment of your home loan, through extra repayments, may save you thousands

of dollars off the overall cost of the loan. Be careful though – some lenders charge early repayment fees.

While extra repayments are all very well in theory, if you're already stretched there are a number of other strategies that can help you beat bad debt.

Make money from recycled debt

If you have equity in your home, or other assets, you can borrow against the value of these to purchase investments such as managed funds. The interest charged on these types of loans may be tax deductible. This strategy is commonly called gearing and can help with reducing tax and generating income. There is risk involved in borrowing against your home and risk associated with investing, therefore it's important you consult your financial adviser before making any financial decisions. Gearing strategies may be appropriate if you have a high risk tolerance, a long term timeframe and regular disposable income.

If you have equity in your home you could also redraw against your home loan to pay off other debts such as credit cards, personal loans and car loans. This can help make repayments more manageable, and also substantially reduce interest payments as loans tend to have lower interest rates than other forms of credit.

Recycle your tax savings

The interest on investment loans is tax-deductible (as long as you use the loan to earn assessable income on investments). Once you've received your tax deduction, you can recycle it by making extra payments on your loan.

Debt consolidation

A number of providers now offer debt consolidation loans, where you roll all your debts into one loan with a lower repayment. By carefully choosing the right loan, you can substantially reduce repayments, put some money back in your pocket and make long term savings over the life of the new loan.

However, if you are taking out a debt consolidation loan, it's important to continue to pay as much as possible each month off the balance of the loan, otherwise you could still be paying your debts off for many years to come.

Wanted: suitable care for aged parent

Do you have an elderly parent or relative who is finding it hard to manage at home?
Have they been ill, developed a disability, or recently lost their life partner?

Taking on the responsibility of finding and arranging suitable care for elderly relatives is a difficult and emotional task at the best of times, without the added complexities of Australia's aged care system.

"Many people initially feel that a change in their accommodation or care needs means that they are losing their independence, but quality of life is driven by more than just physical health," says Derek McMillan, Group Executive of Australian Unity Retirement Living. "It's important to consider equally the all-round benefits of additional support services."

To make the transition easier, start researching available options in advance and ensure you involve your loved one in choosing the right mix and level of support services. There is a variety of options: everything from a little help around the house to maintain independence at home, to high-level care in a purpose-built facility.

Help staying at home

For people who are largely independent and want to stay in their own home, there are a number of community care programs available to help with basic tasks such as shopping, bathing, meals, home maintenance and home nursing.

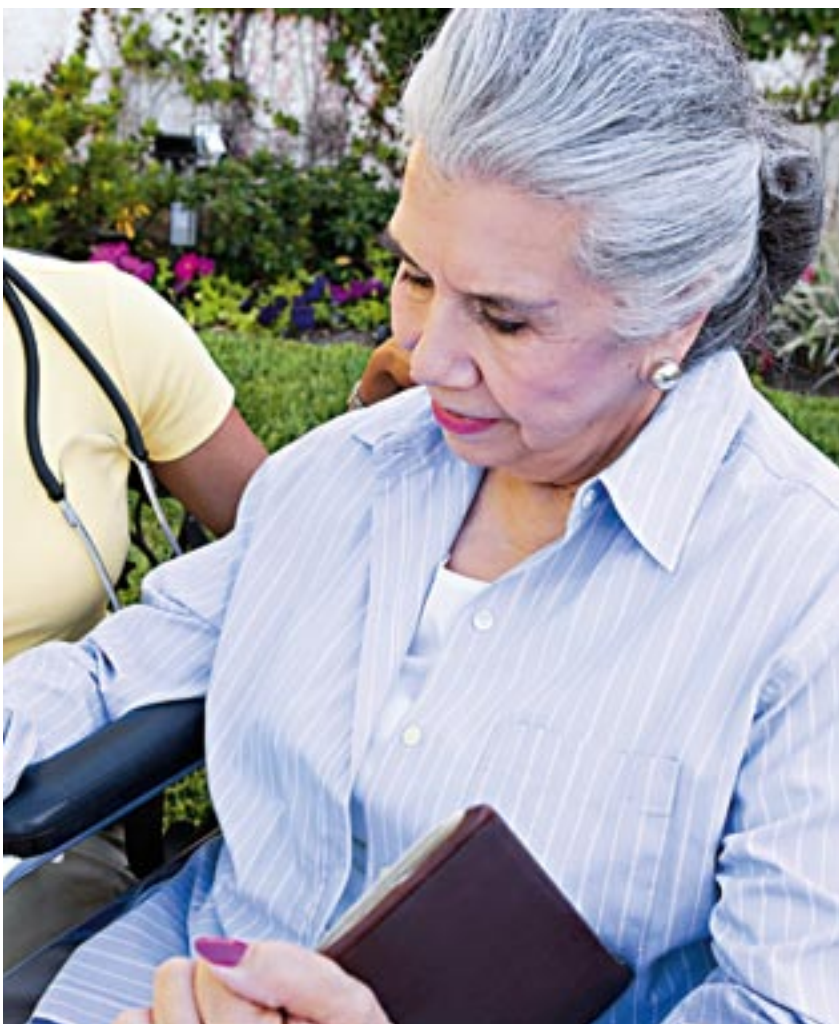
Short-term care

The two main types of short-term care available are:

- **Respite care** – If you're caring for a parent or relative and need to take some time off to look after your own affairs or have a holiday, then respite care can give you a break while your parent or relative receives the care they need.
- **Transition care** – If your parent or relative is in hospital following an accident, illness or operation, you may need to take some time to decide what level of care will best suit their needs in the future, especially if those needs have changed. Transition care, which requires an assessment, typically lasts for eight to 12 weeks in a hospital, aged care home or their own home.

Aged care homes

Residential care homes are available across Australia for older people who can no longer live at home and need long-term accommodation and care. The first step towards moving into an aged care home is to organise an assessment by an Aged Care Assessment Team (ACAT).



What is an ACAT assessment?

To access most government-funded community care services and aged care homes, your parent or relative will need to be assessed by ACAT. As part of the assessment, an ACAT professional – usually a doctor, nurse, social worker or other health care professional – will come and talk to your parent or relative about how well they're coping in day-to-day life and their general health. After assessing their needs, ACAT will provide more information on the services available in your area.

ACAT assessments are provided free to older Australians with complex needs and are usually required for all aged care services, with the exception of the Home and Community Care program and the National Respite for Carers Program.

How much will aged care cost?

If your parent or relative needs care in an aged care home, the government may contribute to the cost of their accommodation and care. The amount that they will need to pay will depend on their assets and income.

The financial considerations for aged care services and facilities will be different for everyone. Whether you want to help your parent with the transition, or would like to factor such costs into your own financial plan, we can develop a strategy to suit your needs. Please call our office to make an appointment.