



## How much insurance is enough?

The recent Victorian bushfire disaster highlighted that most Australians don't have sufficient death and disability insurance. While hundreds of lives were unfortunately lost, as at the beginning of June, only 30 life insurance policies had been paid out, with an average claim of just \$166,667.<sup>1</sup>

Depending on where you live, the average mortgage is between \$250,000 and \$350,000. If something unexpected happened to the main bread-winner in the household, many families would be forced to sell their home. Not a very appealing thought. And how would they cope with all the other expenses of day-to-day living? The simple fact is that if you have debts, dependants or both, you are gambling with your family's financial future if you don't have enough insurance.

Working out how much insurance you and your family need is no easy task. It's crucial to sit down with your financial adviser. We have access to a range of insurance solutions and can tailor a selection of insurance policies to fit your individual circumstances. The case study below shows how a Financial Wisdom adviser was able to help a family work out how much insurance they needed.

Ken is 42, works full-time and earns \$70,000 a year, while his wife Ali is 40, works part-time and earns \$25,000 a year. They have two children aged 13 and 10, who both attend a private school. They have a mortgage of \$300,000 and Ken has \$200,000 in life insurance cover.

Ken and Ali agreed if one of them died unexpectedly they wanted to ensure the surviving spouse did not have to sell the house or uproot the children from their school. Ken's insurance would need to be higher than Ali's as his insurance policy would need to pay off the mortgage, cater for the school fees and provide a lump

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sum for the family to meet the other living expenses paid by his salary. They agreed with the adviser's recommendation that Ken needed an extra \$850,000 cover on top of the \$200,000 cover already in place.

They also realised Ali needed life insurance. If she wasn't around, the family would not only lose her salary but Ken would need to employ someone to help look after the children and run the house. They agreed Ali needed \$300,000 in life insurance to cover these expenses.

However, these insurances didn't cover temporary or permanent disability. Their monthly mortgage repayments were \$2,200 a month and the school fees were around \$6,000 a term. Their adviser suggested Ken insure 75% of his income with a benefit period to age 65 and a waiting period of 60 days. This meant the insurance would cover a wide variety of accidents and illnesses for a considerable period of time if the injury was severe. Bearing in mind that salary continuance pays a monthly benefit, their adviser recommended an extra \$150,000 total and permanent disability insurance. This would provide a lump sum to pay for large expenses that may be needed immediately following a disability.

Ken and Ali hadn't really given much thought to their insurance needs, and the input and advice from their Financial Wisdom adviser helped them address a sensitive and emotional issue in a practical manner. They now have peace of mind, knowing if something unexpected were to happen their family would be financially secure.

#### Types of cover

**Life cover** makes sure your dependants can cope with the burden of maintaining living standards or paying off debts if you (or your partner) are not around.

**Total and permanent disablement cover** pays a lump sum should you become totally and permanently disabled through illness or injury.

**Income protection cover** ensures your cash flow needs and loan repayments are met should you be temporarily unable to work because of illness or injury.

**Trauma insurance** pays a lump sum if you are diagnosed with specified medical conditions (eg a heart attack, stroke or cancer). This avoids financial stress during the period of recuperation when home modifications and specialist medical attention may be necessary.

## Super still shining

The Federal Budget may have delivered some surprises to investors, however, superannuation is still a very tax-effective vehicle to save for retirement. We look at the impacts and changes and how it's more important than ever to plan ahead.

### Transit lounge still open

The biggest changes announced in May's Federal Budget that may affect you, and are effective from 1 July 2009, are:

- the halving of concessional (pre-tax) contribution caps to \$25,000<sup>1</sup>
- halving the transitional (pre-tax) concessional cap to \$50,000 until 30 June 2012
- non-concessional (post-tax) contribution cap is set at six times the concessional cap
- temporary reduction in Government co-contribution benefits until 1 July 2014
- extension of the 50% minimum pension drawdown relief for the 2009/10 financial year
- changes to personal income tax rates and thresholds.

If you are salary sacrificing to your super and receive a pay rise or a bonus, you could exceed the new limits. While contributions can still be made, if you exceed the limits you could incur hefty excess contributions tax.

Superannuation is still a very tax-effective way to save for retirement and Transition to Retirement (TTR) strategies continue to be an effective approach to increasing your superannuation savings.

Let's take a look at an example.<sup>2</sup> Judy, aged 55, is earning \$50,000 a year and has a super balance of \$300,000. Her after-tax income was \$41,450. Judy wants to continue working until age 65 and boost her retirement benefit, which looked likely to reach \$485,626 by age 65. After talking to her financial adviser, Judy decided to salary sacrifice \$14,791 as well as draw on her existing superannuation with a pension which pays a minimum of \$12,000. These amounts were set to ensure her after-tax income is still \$41,450. By using this strategy, Judy's super payout is now projected to reach \$532,525 and her after-tax income is unchanged. This is about \$47,000 (or 9%) more than she would have had if she had relied solely on her super guarantee contributions.

The Federal Budget changes will have a greater impact on high income earners aged under 50 from 1 July, who are salary sacrificing because of the lower concessional cap of \$25,000. Pre-tax contributions in excess of this cap will be taxed at an additional 31.5%. If you are earning a high income or were planning on making additional contributions to your super, your financial adviser can review your situation and provide advice on your options.



## Co-contribution changes

The Government wants to ensure co-contributions are made to lower income earners. So the strategy of salary sacrificing to reduce income to the point of being eligible for co-contributions is no longer viable from 1 July 2009.

The co-contribution benefit has been temporarily reduced to 100% matching but, even at this lower rate, there are few investments which offer to potentially double your investment on deposit.

For example, Randall has an income of \$40,000 and receives a bonus of \$1,460 (pre-tax, which is \$1,000 post-tax). Randall is eligible for a part co-contribution and has the choice of:

1. salary sacrificing the money straight into his super from his pre-tax income
2. taking his bonus as cash, then making a contribution which he claims a co-contribution of \$682 on.

By taking the second option, Randall will be eligible for a co-contribution of \$682, taking his total net super contribution to \$1,682. If he took option one the net contribution will be \$1,241.

While some of the superannuation caps have moved, super remains the most tax-effective way to save for retirement. The next step for you is to check with your adviser to make the changes you need to stay ahead in the retirement game.

**If you've been salary sacrificing, talk to us and make sure you're making the most out of the Federal Budget changes.**

## Seniors card to stay healthy

The income test for the Commonwealth Seniors Health Card (CSHC) has changed, but not as dramatically as expected.

From 1 July 2009, the new income test includes income which is salary sacrificed. The good news is that tax-free income from a superannuation pension and lump sum super withdrawals will not be included.

## Pension Bonus Scheme closing soon

The Pension Bonus Scheme, which rewarded those deferring retirement, will close on 20 September 2009. It will be replaced with a new pension income test concession for people of Age Pension age.

The new Work Bonus Scheme will only consider half of the first \$500 of any income earned each fortnight for the Aged Pension income test, meaning up to \$250 of fortnightly income will be excluded from means testing.

If you are already registered, you will continue to accrue benefits. If you reach Age Pension age before 20 September 2009, you should talk to us about whether you should register before this date or consider the new concession.

1 This cap applies to those aged under 50 on the last day of the financial year. Those aged 50 or over on the last day of the financial year are subject to the higher transitional cap of \$50,000, until 30 June 2012.

2 Source: Colonial First State. Assumptions: earnings 7.7% after fees and before taxes with an inflation rate of 3%; using 2009-10 income tax rates. Minimum pension is paid as an allocated pension. Superannuation guarantee contributions are 9% of gross salary before any salary sacrifice. All superannuation contributions and pension payments are made regularly through the year. A change to any of the assumption variables can provide significantly different results. These case studies are for illustrative purposes only. Your individual circumstances have not been taken into account.

# Market update

An update on Australian and global sharemarkets  
by the Investment Markets Research team, Colonial First State

## Australian shares have recovered, but remain volatile

The Australian sharemarket has risen off its early March 2009 lows, driven by signs of stability in the global economy, a resilient Australian economy and a strong Chinese economy.

After hitting a low of 3,111 on 6 March 2009, S&P/ASX All Ordinaries index was trading at around 3,800 points in early July, up by over 20%. In early June the All Ordinaries cracked 4,000 but fell shortly after.

The Reserve Bank of Australia (RBA) has left official interest rates at 3.00% since April. The drivers were the improving global outlook and the already large stimulus provided to the Australian economy.

The Australian economy grew by 0.4% over the March 2009 quarter, avoiding one technical definition of recession. While this is positive, it is important to consider what made up the growth and the fall in national income.

Economic indicators have shown the Australian economy has proved resilient in the face of a global recession. This is good news but raises the question: what sort of recovery is the sharemarket expecting? The falls since mid-June suggest a dose of reality has hit sharemarkets, with a slow and grinding economic recovery more likely over the rest of 2009 and through 2010.

## International shares – global economy is stabilising

International shares have also been on the rise. In early July, the MSCI All Countries World Index was up by around 38% in US dollars and by 12% in Australian dollars from its low on 9 March 2009. A stronger Australian dollar has held back returns.

Most of the gains came in April and May on early 'green shoots' signs of an economic recovery. Consumer confidence rose in the US while home sales also picked up. Oil prices and bond yields also rose with the brighter economic outlook. Global financial conditions improved, with credit markets returning to levels not seen since the collapse of Lehman Brothers in September 2008. Economic data out of Europe continued to be weak.

The global economy appears to have stabilised, but at a low level. For a sustainable recovery, the financial system needs to continue to improve and the US housing market needs to repair. Recent rises in bond yields and oil prices could temper the recovery although let's not forget the large policy stimulus already introduced.

In early July, the Dow Jones was around 8,150, well up from its low of 6,547 on 9 March 2009. The UK's FTSE 100 index rose around 18% off its lows. Globally sharemarkets have fallen since mid-June with investors reassessing as weaker economic data has dampened expectations of a recovery.

Asian markets have also improved. In early July, Japan's Nikkei index rose around 30% from its early March low. The Chinese market is now up by a substantial 129% from its October 2008 lows. Chinese bank lending is strong, the housing market is recovering and manufacturing has picked up. This is good news for sales of our natural resources.

## Currencies – the AUD gains ground

The Australian dollar rose sharply in recent months reaching a high of US82.23c in early June before dropping back to US78c in early July. In early March it was trading at US63c. Since then, the Australian dollar has been flat against the UK pound, risen by 6.3% against the Euro, and is up by 1.6% against the New Zealand dollar. These rises came with an improved appetite for risk and stronger commodity prices on an improved outlook for a global recovery.

Note: Data and market performance figures are current as at 10 July 2009.

Your Financial Wisdom adviser is always available to help you with any questions you may have.

### Important information

This publication contains financial product advice of a general nature only and has been prepared without taking into account your particular financial needs, circumstances and objectives. This information is based on Financial Wisdom Limited's understanding of the relevant law(s) and economic situation as at 21 July 2009. While every effort has been made to ensure the accuracy of the information, it is not guaranteed. You should obtain professional advice before acting on the information contained in this publication.

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