Taking Control

Lifestyle Financial Services Pty Ltd
Authorised Representative 243030 of
Financial Wisdom Limited
ABN 70 006 646 108
Australian Financial Services Licence No 231138

Lifestyle

Suite 9 Level 10, 809 Pacific Highway
PO Box 5245 Chatswood West NSW 1515
t 02 9410 6000 f 02 9410 6010 invest@yourlifestyle.com.au

Achieving Financial Independence

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Important Information

The following general advice has been prepared without taking into account your personal objectives, financial situation or needs. You should therefore consider the appropriateness of the advice in light of your own objectives, financial situation or needs before acting on the advice.

The information contained within is given in good faith and has been derived from sources believed to be accurate. However, Lifestyle Financial Services does not accept any responsibility for it.

This document contains a lot of information. It is a financial planner's role to assist you to identify your needs and then to implement what you need, simply.

Many people go through life without having any structured plan to help them achieve their financial goals. If you don't have a plan to achieve something, chances are you will not achieve it!

Getting started – why would I need a plan?

For most of us the major financial goal is to retire "comfortably" – i.e. to have enough money to enjoy life, travel and have fun.
But what are the implications for us today?

As with many things in life, we sometimes lack the discipline to stick to our plans without the assistance of a "coach".

Also, unless you are an expert in a certain area or you are prepared to dedicate a **lot** of time to doing your own research, how do you know if you are doing the right thing? Are you maximising your opportunities?

Fundamentally, we all need to invest for our futures. Because of Australia's compulsory super system most of us are already doing this, but is your super working as hard as it could or should be and will it be enough?

There are so many conflicting ideas about the best way to invest. Should you be in property or shares? Which super fund is best? Should you have an active or a passive investment strategy? Should you be "self managed" or be in a wholesale, retail or industry fund? Do you need money outside of super? The questions are endless!

One thing is certain; you must take control of the situation and ensure you are in the best position possible. The best time to do this is now, as the younger you are, the more opportunity you have to maximise your benefits. You may also be missing out on certain government benefits, or paying more tax than you need to.

There is also the important aspect of protecting yourself and your family in the event that you can't work due to an illness or accident; or if you die. Insurance can be a tricky area. It's important to have it structured properly to make sure you get the benefit you need if and when you need it, and that you are maximising the tax benefits, while not paying too much in premiums.

The aim of this booklet is to assist you in working towards achieving financial independence and to help ensure you and your family and loved ones are protected along the way. It should help you to:

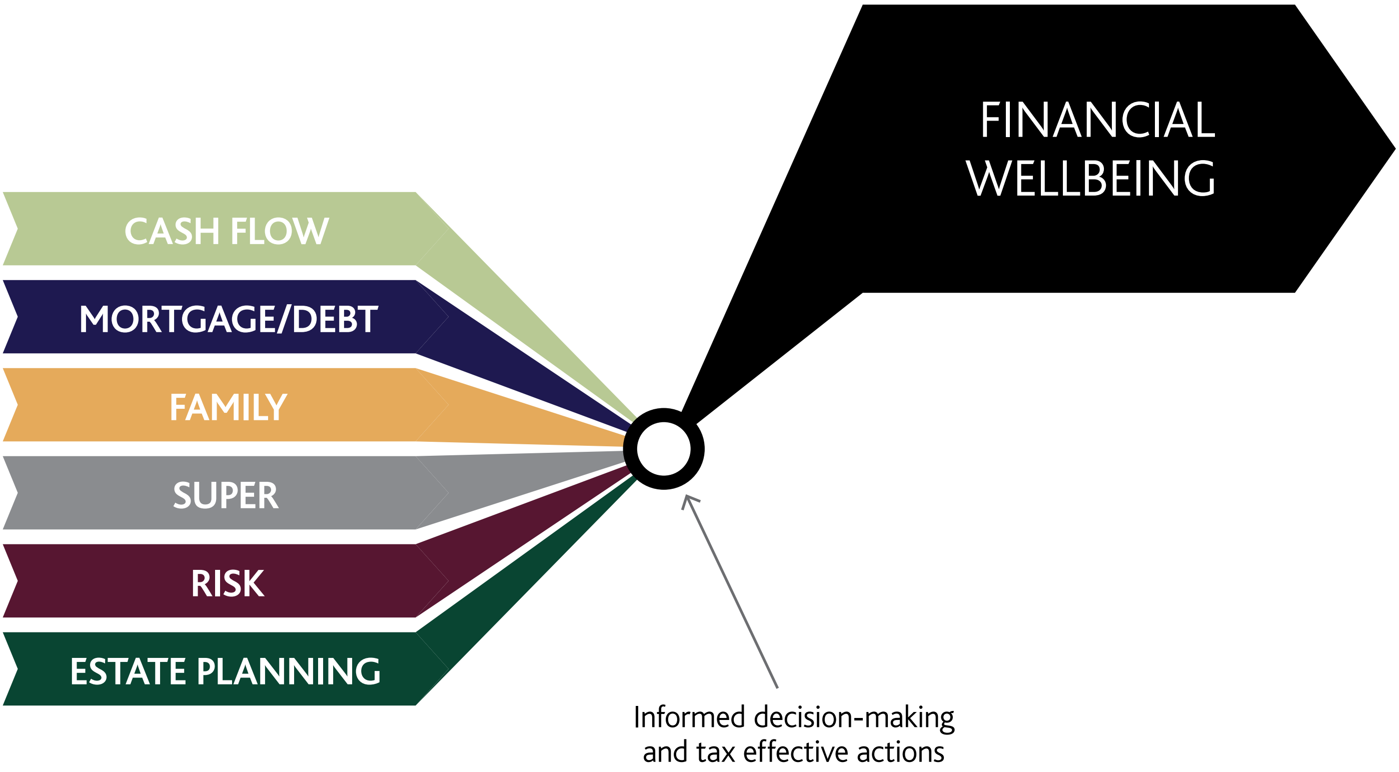
- Understand your own requirements for retirement savings and insurance.
- Understand the fundamentals of investing.
- Be able to do the financial "basics" yourself.
- Know what to look for if you choose to work with a financial planner.

Apart from this booklet, a useful website which provides practical tips and tools to help you make the most of your money is MoneySmart, which is an initiative of the Australian Securities & Investments Commission: **www.moneysmart.gov.au**

Your financial wellbeing

There are many aspects of your life that need to be taken into consideration to help you achieve your financial goals and that you need to manage so that you are in control of your financial wellbeing.

Overlaying all of this is the fact that you need to make informed decisions along the way and ensure that any actions you take are made in a tax effective way (if applicable). This idea is illustrated in the following diagram with each different factor discussed further in the booklet.


CASH FLOW
MORTGAGE/DEBT
FAMILY
SUPER
RISK
ESTATE PLANNING
FINANCIAL WELLBEING
Informed decision-making and tax effective actions

However, as our individual financial goals will vary during the course of our lives, each of the above factors will have a greater or lesser importance as we progress through life. Saying that, some basic financial objectives will generally apply to most people at different stages of life.

What stage of life am I at?

STARTING OUT

The first financial objective is protection against risk, in two ways. The first is to protect against the risk of the unexpected by accumulating emergency funds. The second is to protect against risk by purchasing an adequate mix of insurance that will cover death, disability, health and property.

You may not be able to afford additional super contributions as there will be other financial priorities, but at least you can ensure your super is invested for maximum long term growth, and that you have appropriate life and disability insurance in place within your super fund.

FAMILY LIFE

The second financial objective is to provide financial security for yourself and your family, if you have one. This may include providing partial or full financial needs for education, purchase of home, cars, and other basic needs.

The objective is to provide adequate financial security without placing undue stress on your resources (i.e. make sure you earn more than you spend so you still have the capacity to save). You may still not be able to afford large additional super contributions, but your super should still be working hard for you and providing insurance benefits.

Generally the goal is to get the mortgage under control and build up some equity; you may subsequently be able to use this equity for investment to start creating some wealth in assets outside of super. This is usually the time when your costs are at their highest, so appropriate life and income insurance is critical. You must also ensure you have a will in place.

CONSOLIDATION

You might now want to have some of the added luxuries of life such as vacations, memberships in clubs, and time to pursue other interests.

At this stage you are probably at the peak of your career and should be maximising your contributions to super and other investments to ensure you have a comfortable retirement and can have a similar standard of living to the one you enjoyed during your working years. You may be able to decrease insurance and focus on investment outcomes and maintaining good health and fitness.

RETIREMENT

Time to enjoy the fruits of your labours! Draw down on your super and other savings, spend time with the grandchildren and do all the things you always wanted to do; but work got in the way. Focus on health, wellbeing and other interests.

How do I start planning?

The answer to this question will be different for everyone, and a lot will depend on what stage of life you are at, but the starting point for everyone is: "What am I trying to achieve?"

'Setting your goals'.

Step 1 is setting your goals. Think about what you want to achieve and when you want to achieve it.

You cannot have a plan unless you know what you are planning for. Your goals need to be specific, set at a certain time and with the knowledge of what they will cost. You can always adjust goals as time goes by, but they need to be clear from the outset.

Examples of some potential goals might include:

- Starting a family in 2 years, and having 2 children about 2 years apart, sending them to private schools and university. Cost $1,000,000 over 20 years.
- Purchasing a new car for $45,000 in 12 months, moving to a bigger house at a cost of $250,000 in 3 years time, then consider downsizing for a "sea change" at age 55 in 20 years time.
- Having a holiday in the South of France and Italian Riviera for 6 weeks when you get your long service leave in 5 years time. Budget of $30,000.
- Paying off the mortgage by age 55.
- Retiring at age 60 with an annual income of $70,000 increasing at 3% every year, and assuming you live to be 90.

'Situation analysis'.

Step 2 is to understand the factors that will impact on the achievement of your goals. You will probably need to know all of the following:

1. **How much am I earning?**

   Get this information from your pay slips, etc. Make a note of it in our cash flow section on page 9.

2. **How much am I spending?**

   Track your expenditure. There are lots of ways to do this. A great place to start is by completing a budget planner. We have included one on page 10 or refer to the MoneySmart website previously mentioned.

3. **How much can I afford to save?**

   Generally this should be the surplus between how much you earn and how much you spend. Hopefully this is a positive number! (If there isn't a surplus you really only have two options; spend less or earn more).

4. **Which home loan structure is best for me?**

   There are many home loan options on the market these days and ensuring that your loan is the most appropriate (this does not always mean the cheapest) could save you thousands of dollars over the term of the loan.

5. **What about the cost of educating the kids?**

   Education costs can be huge, particularly if you are considering private education. They need to be planned for. Page 12 may assist with this. Also knowing when these costs will start reducing is very helpful.

6. **Why is super so important?**

   It's important to consider your super and what it will mean to you. Looking after it through your entire working life will help to provide the best outcome in retirement. Our super section begins on page 13.

7. **How much income will I need in retirement?**

   Once you know your budget you can estimate what income you may need in retirement, bearing in mind that hopefully by that time you won't have a mortgage, and financially dependent children. Don't forget to allow for any "one off" expenses. Our suggestions on page 16 may assist.

8. **What "levers" do I have to improve my retirement savings?**

   You may not be able to afford to save more for retirement, but this doesn't mean you can't improve your position. The things you should be considering are discussed on page 17.

9. **Should I consider other investments?**

   Super is arguably the best investment for retirement savings; however with limits on how much you can contribute many Australians may have to consider other investments to make sure they have enough. It's also a good idea to hold some assets outside of super. Our investment fundamentals section on page 19 looks at the pros and cons of different investment options.

10. **What would my family require if I were to die?**

    Calculating insurance needs can be difficult. Our insurance section on page 24 provides a general guide to insurance and allows you to work out what cover you may need and how it might be best to structure this cover.

11. **Do I need a will, or other legal instruments?**

    Having a legal and current will is very important. It helps to ensure your assets do not end up in the wrong hands when you die. In most cases instructions you give to your super fund override your will, so it's important that these are current. We also discuss the uses of a power of attorney and guardianships on page 26.

'Strategy development'.

Step 3 is to see if you can reasonably expect to achieve your goals with your current income and expenditure. (You may need some assistance here as you may not be aware of all the options that are available to you).

Smart financial planning is about using the limited resources you have in a smarter way. It is about taking advantage of all the concessions and opportunities available to you. **It is about being active.** Remember, the easiest way to make money is to **pay less tax** – legally of course.

Generally we find that most people follow one of three financial strategies which we have termed 'Passive', 'Active' and 'Active Plus':

Passive:	Generally, this means all excess cash flow going into the home loan with redraws for renovations, holidays etc, and minimum super contributions.
Active:	Paying the home loan, committing to extra salary sacrifice contributions to super and, maybe, saving for goals such as children's education.
Active PLUS:	As for active, but adding investment gearing to the plan (borrowing to invest in shares, managed funds or property). This could include debt recycling, which means as you repay your 'bad' debt you redraw the monies and invest, creating more 'good' debt.

As an example, simply paying off your mortgage at a slower rate and using the extra cash flow to contribute to super can improve your financial position in retirement by over 30%[1]. With the addition of a neutral investment gearing strategy, your financial position can be further improved.

Step 4 is to modify your goals to fit in with the outcomes you have achieved in steps 2 and 3.

There is little point in having goals you can never hope to achieve, but you may be surprised at what you can achieve if you choose to make changes.

You may have to reduce your spending on unnecessary luxuries; or commit to study to improve your income. If you don't have a plan you will not know what you need to do to end up where you really want to be.

Step 5 is to put your plans into action, and then to monitor your progress toward achieving your stated goals. For example, if you are saving for a $6,000 holiday in 3 years you might like to open a separate bank account and deposit $167 a month so you know the funds will be available to you.

It may also be a good idea to share your goals with someone close to you that you trust, as they can help to keep you on track. Of course a good financial planner would fulfil this function for you, with regular reviews.

[1] Assumptions used: highest marginal tax rate of 45% plus 1.5% Medicare levy, mortgage $300,000, investment return 7.5%, salary sacrifice contributions $10,000 pa, period 25 yrs.

Cash flow

To determine how much you can save (i.e. what your surplus income is), you need to understand your budget position (understand both what you earn and how much you spend). The vast majority of families do not run a budget and accordingly either spend every cent they earn or worse, spend more than they earn.

A budget will allow you to understand and track where your money goes and may show where there are opportunities to reduce spending in order to free up cash for saving or investment.

1. Your current income

Description	You	Your partner
Gross salary (regular income less any super salary sacrifice contributions)	$	$
Bonus / commissions (irregular income)	$	$
Investment Income / Interest	$	$
Total	$	$
Tax	$	$
Net income (what you receive in the bank)	$	$
Total household income	$	

2. Your expenses

Fixed costs	Total pa
Mortgage/rent	$
Home expenses	
Home maintenance	$
Council rates	$
Water/gas/electricity	$
Telephone/mobile/internet	$
Groceries/weekly shopping	
Food	$
Household supplies	$
Transport	
Public transport	$
Car loan/lease payments	$
Petrol	$
Car service	$
Car registration & insurance	$
Insurance	
Home and contents	$
Personal insurance	$
Private health cover	$
Other fixed costs	
Medical/dental	$
Childcare	$
Education	$
Other fixed costs	$
Controllable costs	
Home expenses	
Home improvements	$
Gardening	$
Electrical appliances/furniture	$
Personal	
Clothing/shoes	$
Cigarettes/tobacco	$
Alcohol	$
Donations	$
Lotto/gambling	$
Hair care/cosmetics	$
Bought lunches & pleasure "junk" food (e.g. chocolate)	$
Entertainment & Lifestyle	
Holidays	$
Pay TV	$
Union/membership fees	$
Sports/hobbies/gym	$
Takeaway meals/eating out/restaurants/bars	$
Christmas/birthday gifts	$
Movies/concerts/theatre	$
Taxis	$
Newspaper/magazines/books/subscriptions	$
Other controllable costs	$
Total household expenses	$
Total household income	$
Less total household expenses	$
Surplus income for savings or investment	$

Action items:

□ Determine what your total household income and expenses are and what surplus income you have to use towards achieving your goals.

□ Review your current expenses to see if you can increase your surplus cash to at least 10% of your total household income.

Home loans

For most people their home is their largest asset, and to buy this asset most people take a loan from a bank. But which home loan is right for you?

There are many home loan options on the market these days and ensuring that your loan is the most appropriate could save you thousands of dollars over the term of the loan. Generally the best place to start is the loan with the lowest cost, however it is also important to consider what other features or benefits the loan provides. For example, facilities like offset accounts can help to reduce the interest you pay as any money held in this account offsets your loan balance.

Some of the features that you should consider when choosing your loan are detailed below.

Types of loans

Generally, most lenders will provide total loans (home loan plus investment loan) up to 80% of the property value without mortgage insurance. These loans can then be structured as either:

Principal and interest – Most home loans are 'principal and interest' which means that your repayments not only pay your interest expense each month, but also pay off the principal amount of your loan over a set period, such as 25 years. Making extra repayments or increasing the frequency of your repayments will reduce the term of your loan and therefore reduce the overall interest cost.

Interest only – Interest only loans provide the advantage of having smaller repayment amounts (as you are not repaying the principal), but the disadvantage of never reducing your debt.

Line of credit – Line of credit loan structures allow access to your loan limit at any time. They provide maximum flexibility but require self discipline to ensure the loan is repaid.

Portfolio loan – Portfolio loans are a loan structure that provides multiple loan accounts within an overall loan limit, so accounts can also be established and used for business or investment purposes. Accounts are usually in the form of a line of credit. You can also include fixed and variable loans within the one structure.

Interest rate

As mentioned above, looking for the lowest interest rate is always a good place to start when looking for a loan. You also need to be aware of any likelihood that the rate may change and the loan becomes more expensive. Many banks are notorious for offering specials on their interest rates such as discounts on the first year that then revert to a rate which is quite expensive for the remaining 24 years of the loan.

Rather than just looking at the current rate, another way to compare loans is to look at the discount that the bank is offering off their standard variable rate. This becomes important as loan terms are generally 25 or 30 years, so getting the best discount over the full term of the loan may provide a better overall outcome than just a 12 month discount.

Of course we have no control over changes to official interest rates so you need to allow for possible changes to ensure you can afford the repayments, or choose a fixed interest rate loan, or part fixed and part variable.

Variable rates are generally lower than fixed rates, but it may be better to choose a fixed rate if you think that long term interest rates will increase, or if you need certainty in your repayment amount. This is often a difficult decision to make.

Fees

The fees and charges on a loan can have a significant impact on the overall cost of the loan. Making sure that these are competitive, and that you are not paying additional fees for additional features which you do not need or use, is extremely important.

Additional features – redraw and offset accounts

Most home loans allow redraws of capital if you make extra repayments, and for many of us this is a good source of emergency funds. Saving extra cash within your home loan or in your offset account reduces your interest cost.

Offset accounts can help to reduce the interest you pay as any money deposited in the offset account reduces the loan balance on which your interest is calculated. For example if your loan balance is $300,000 and you have $5,000 in your offset account, then the interest the bank charges you is based on $295,000.

Obtaining the right mortgage is important as it needs to reflect what you are going to use it for, and provide the features and flexibility that you will require. In addition, you also need to ensure that the person giving you advice is an accredited credit representative and has the experience and expertise to provide you with the most appropriate advice. At Lifestyle, our credit representatives are licensed through Australian Finance Group Ltd (AFG), Australian Credit Licence No. 389087.

Action items

☐ Review your current home loan and make sure it is appropriate for your needs, and is not costing you more than necessary in interest and fees.

☐ Consider if you could be using an offset account to reduce your interest bill.

☐ Seek further information and advice from an accredited credit representative.

Family

Having a family is one of the most joyous aspects of life. However, it is also one of the aspects of life that people do not really think about financially.

It is becoming more common that kids are staying at home longer and/or returning to the nest after they have married and have had kids of their own. Grandparents are also taking on the carer role of their grandchildren to help their own children save on child care costs and allow both parents to return to work.

At the other end of the spectrum is the emotionally and financially traumatic costs of ending a relationship or helping one of your own children deal with this event.

When working out your financial goals and how you are going to achieve them, have you considered how some of the life events that having a family may impact you, such as:

- Lost income from having and then caring for children as one spouse stops working.
- Providing for your family if you lose your job.
- Child care, education and extra-curricular activities.
- Adult children returning home to live for a period of time.
- Weddings.
- Helping your children buy a house.
- Looking after grandchildren.
- Separation and divorce.
- Helping your children manage through separation and divorce.

While it is impossible to cater for all of the above, planning for some may help minimize the impact to your financial situation.

Action Items:

□ Determine if any of the above life events will be relevant to your situation (such as paying for your daughter's wedding) and start planning how you are going to achieve it.

□ Consider what actions you could take now which might help reduce the impact of a life event).

□ Seek further advice on how to manage through a particular situation. This can be either from a qualified financial planner or, as a start, from other sources such as **www.moneysmart.gov.au/tools-and-resources/life-events**

Funding children's education

Children's education can be one of the largest costs faced by families of children attending private schools.

Parents of private school students point to smaller class sizes, special tuition, extracurricular activities and better facilities as the main reasons for choosing a private school. The downside is the financial burden of the fees and the additional costs such as school uniforms, text books, excursions, those extracurricular activities and the dreaded building fund. This may necessitate the need for both parents to work full-time and to possibly delay the achievement of their own financial security (through paying off the mortgage and building a retirement nest egg).

Let's look at some numbers. Educating 2 children at a top private school at around $15,000 per year from Year 3 to Year 12 would cost around $300,000 at today's rates. However, it will cost a lot more if you assume an 8% increase in fees per year, as has been the experience at a lot of private schools. At 8% current fees will double in around 9 years' time.

Funding this expense is the challenging part. An option is to use an educational savings plan or scholarship fund. These usually work like a regular savings plan, invested for a period of 10 to 12 years. The attraction is that you are forced to save in a specific fund that has only one purpose...your child's education. The downsides are the significant penalty clauses if you choose not to continue or decide not to send your child to private school after all.

If you want maximum flexibility, it is hard to go past a simple savings plan into a managed fund or high yield interest account. Alternatively, it may be more appropriate to simply pay off your mortgage as quickly as possible and then pay for school fees out of your future cash flow or by redrawing on your mortgage.

For more tips, log onto **www.moneysmart.gov.au** under **Managing my money/Savings/Saving for your children's education**

Super

Why is super so important? At the time of writing this document, the government's Age Pension income for a couple is around $30,000 a year. According to research by Westpac and ASFA, this is around half the suggested amount required for a comfortable retirement. You may therefore need to fund your own retirement, or at least to have another source of income in addition to the Age Pension.

At Lifestyle, we find that most people do not spend a lot of time thinking about super as it is considered 'out of their control' or they 'cannot access it' until some time in the distant future. In reality, a little time spent 'getting it right' now could make a significant difference when you do eventually reach retirement. It could be the difference between a comfortable lifestyle and just basic subsistence. Super also has great tax benefits and is the government's preferred retirement savings vehicle. It is so good that serious penalties apply if you contribute too much.

While super may seem complicated, in reality it is just like any other investment, with its own specific rules. Because the rules change quite often, and many of the figures change each year, we have attached a flyer to this document which outlines the current regulations.

The following outlines the different types of contributions that you can make to super. Which one is right for you? For many people a mix of the following contribution types will provide the required result.

Personal contributions

Personal contributions (or non – concessional contributions) are those made from your after tax income, and can be paid to your super fund either by your employer or directly by yourself. When these are received by the super fund, there is no further tax deducted. The maximum you can contribute each year is outlined on the attached flyer.

Salary sacrifice

Salary sacrifice contributions are deducted from your salary before income tax is deducted. These contributions are treated in the same way as employer contributions and counted as concessional contributions. They are taxed at the rate of 15% upon contribution to your super fund; therefore the higher your marginal tax rate, the more tax effective these contributions are. The maximum you and your employer can currently contribute to super is detailed on the attached flyer.

As an example of the tax benefits of salary sacrifice, let's say you earn a $10,000 bonus for the year and your employer gives you the option of taking it as salary OR salary sacrificing it to super. Let's compare what you end up with after paying the tax man.

	Salary taken as cash			Super
Tax rate (incl. Medicare)	47.0%	39.0%	34.5%	15.0%
Salary	$10,000	$10,000	$10,000	$10,000
Tax	$(4,700)	$(3,900)	$(3,450)	$(1,500)
Amount after tax	$5,300	$6,100	$6,550	$8,500

Tax rate	Benefit of contributing to super vs. taking cash
47.0%	60%
39.0%	39%
34.5%	30%

Spouse contributions

You may be able to claim an 18% tax offset on super contributions of up to $3,000 you make on behalf of your non-working or low-income-earning spouse (see attached flyer for income thresholds). This will provide a tax offset of up to $540.

Government co-contributions

Government co-contributions are paid into your super on an annual basis if your adjusted taxable income is less than the amount specified by the government each year (see attached flyer) and you have made a personal contribution into super. The level of allowable contribution and co-contribution are also shown on the attached flyer.

Contribution splitting

Super contributions splitting allow people to split certain super contributions with their spouse. It means that single income families can share their super benefits in a similar way to dual income families.

Due to the recent reductions around contribution limits, it is now more important than ever to consistently get money into super over your lifetime rather than leave it until later. **You need to be active to take advantage of the concessions every year,** however remember that you cannot access this money until retirement.

In most cases your super fund will allow you to choose where you invest your money. It is important to think about this choice and to actively choose where you are invested, because a small extra return on your super each year can add up to a massive difference in the amount you retire with, and therefore your retirement income. Generally speaking, the younger you are, the more aggressive you might be with your investment choices; however you have to understand the impact of your choices and whether they are appropriate to your needs.

Action items

- □ Find out how much is being contributed to your super each year.
- □ If your income is less than $49,487 per year you may be eligible for the government co-contribution if you make a personal, after tax, contribution to super.
- □ If your income is over $180,000 per year you can save 32% tax by sacrificing salary to super – but beware of the contribution limits.
- □ Is a spouse contribution, or contribution splitting, a good idea?

Super consolidation

The first question is: Do you have more than one super fund? If the answer is no, you have no more to do.

However if you have multiple funds you might want to consider combining them all into one.

The advantages of doing this may include:

- Saving money by removing duplicated fees.
- Easier management as your super is all in one account.
- Removing duplicated, unnecessary insurance premiums.
- Knowing where all your super is and not losing track of it.

With many Australians changing their employers on a regular basis, losing track of small super accounts is becoming more and more common. There is over $12 billion in lost super accounts – could some of this money be yours?

If so, overleaf are a few useful contacts that could help you track down any lost super.

Once you have tracked down all your super accounts, you need to decide which fund best suits your personal circumstances. You can then complete a rollover form for each fund you want to consolidate. We have included a rollover form on the attached flyer (which can be photocopied if required) for your convenience. It's also necessary to include proof of identity (such as a certified copy of your driver's licence) with each form you send off.

Things to consider before rolling over your funds:

- What are the current fees and charges on your account?
- Will an exit fee be applied to your account?
- Will you be cancelling insurance when you roll-over? You may be able to maintain the insurance cover if you need it, however once it's gone, it's gone.
- Which fund is best suited to be your ongoing fund? Your current employer fund may well have significant discounts when compared to a retail fund.

Lost Super – are you missing something?

Under Government legislation, all super funds are required to transfer lost accounts to the ATO by 30 April and 31 October each year.

Super funds will identify an account as "lost" if the following applies:

- The balance of the account is less than $2,000
- No contribution or rollover has been received within the last 12 months
- Two pieces of written communication have been sent out by the fund to the member's address and returned unclaimed

Important: Any existing insurance coverage within the super fund will be cancelled upon the transfer of your super monies.

Tracking down lost super

SuperSeeker

The ATO's SuperSeeker online service **(www.ato.gov.au/superseeker)** can assist you in locating unclaimed super. By inputting your name, date of birth and Tax File Number (TFN), you may be able locate the details of an unclaimed super account that ATO is aware of. Once an account is identified, you can fill in a form to have this account transferred to your current super fund.

Eligible Rollover Funds (ERF's)

Eligible Rollover Funds (ERF's) are essentially holding funds for small or unclaimed accounts which have been transferred by other superannuation funds. These funds have limited investment choices and offer no insurance coverage to their members.

Action items

□ Determine the most appropriate super fund (remember, like mortgages, cheapest is not always best). Your current employer fund may well have significant benefits over other funds.

□ Find out what the current fees and charges on your account are and how these compare. Be aware of possible exit fees.

□ Track down any old super accounts and consolidate them into one.

□ Find out if you will be cancelling insurance when you roll-over. You may be able to maintain (and possibly roll-over) insurance cover if you need it, however once it's gone, it's gone.

Below is a list of commonly used ERF's and their contact details:

Fund	Phone number	Website
AusFund	1300 361 798	www.unclaimedsuper.com.au
Australian Eligible Rollover Fund	1800 677 424	www.perpetual.com.au/super-funds-aerf.aspx
AMP Eligible Rollover Fund	1300 158 587	www.amp.com.au/erf
Colonial SuperTrace	1300 788 750	www.supertrace.com.au

How much super is enough?

The first step in planning for your retirement is to know (or work out) how much income you will need to live on once you stop work. Based on the Westpac ASFA Retirement Standard Survey, a couple will need around $58,000 pa in retirement to have a comfortable lifestyle, which is significantly higher than the $33,500 pa that they estimate for a modest lifestyle, and which is still higher than the full Age Pension of approximately $30,000 pa at the time of writing.

Once you know what income you might like or need in retirement, the next step is to see if you are going to have enough super to provide it.

Please remember that if you are not going to have enough, NOW is the time to do something.

Setting goals

To work out how much you will need to fund your retirement you will need to know the following information.

- Your current salary (before tax and salary sacrifice contributions to super).
- Any additional salary sacrifice contributions to super that you make (pre tax).
- Your current super balance.
- The income you want in retirement (in today's dollars).
- The age you want to retire at.

Please note that you should also take into consideration your partner (if you have one) and their salary, super and income requirements.

A very good calculator that can then be used to determine if you will have enough super is the **"Calculate your super at retirement"** calculator located on our homepage at **www.yourlifestyle.com.au**

By entering the above information into the calculator you will see if you are on target, or if there is a shortfall.

Please note that the calculator assumes that you run out of money at your life expectancy, so this should be viewed as an absolute minimum goal. It also does not take into account any lump sums that you might need for special purposes in retirement such as a new car, big holidays or home renovations.

If you are planning something that will require a large lump sum payment, then you will need to add these costs to the amount of super that you will require for your income. Don't forget to allow for inflation when estimating these costs.

For example:	
Calculator result (desired balance in retirement):	$
Lump sum retirement expenditure e.g. car upgrade/purchase caravan:	$
Holiday on retirement:	$
Other expected expenses at retirement (hips, knees):	$
Total super required in retirement (in today's $)	$

A major concern for retirees today is what is called "longevity risk". This is the possibility that they will outlive their retirement savings and be **forced** to rely on the Age Pension for their income. So, better to have too much than not enough!

How do you best fund a shortfall?

The best options for most people may include:

- Setting a budget to ensure you can afford to save more; and/or,
- Retiring later, or reduce your retirement income expectations; and/or,
- Increasing contributions to super; and/or,
- Setting an investment strategy to help increase your returns; and/or,
- Considering other investments outside super.

Levers to improve retirement savings

The first things to consider, as ways to improve the outcome from your super, are:

- Am I in a low cost super fund?
- Am I paying unnecessary fees? (You may have more than one fund too).
- Am I invested in options that suit my profile, provide an appropriate return and as good a return as possible?
- Am I eligible for the government co-contribution?
- Can I sacrifice some salary to put more into super?

Once you have completed the calculations in the previous section and know where you are heading, and any gap that may exist, you can then consider what may be the best way to fund a shortfall.

The obvious option is to increase your super contributions. However the next step in becoming more active to fund your shortfall is to look at things like:

Investment returns

It is important that you invest within your own "risk/return" tolerance. (See our "risk vs. return" section on page 21). You wouldn't want to be invested entirely in volatile growth assets and have trouble sleeping if the value of your portfolio falls. However as these asset types provide superior long term returns you may need to include more growth assets in order to reach your goal. There are also internally geared investment options available in most super funds, so you can "gear up" your super for greater potential performance; remembering that this will increase volatility and magnify investment losses too.

Minimise your fees

Minimising the fees you pay improves your investment performance, so it is important to ensure you are in a low cost fund. Generally speaking, company or corporate super funds are low cost funds, as discounts are often negotiated on behalf of all members.

It's also probably not sensible to have more than one super fund as this will duplicate fees, so you could consider consolidating all your funds into one. We have some information and documents to assist you to do this in the previous section and the ATO rollover form is included as part of the attached flyer.

Spouse accounts are available in many corporate super funds. The fees in a spouse account reflect the discounts received by all members of the fund and this can represent a significant saving in many cases, particularly for non-working spouses.

Moving other assets to super

As you approach retirement, you must give careful consideration to which investment vehicle will best suit your needs throughout your retirement. Please see the retirement section for more detail.

How do you best fund a 'shortfall'?

Investments outside of super

In most instances, if you have a mortgage you should pay it off as soon as possible. You should probably not be pursuing an investment strategy if it has the effect of significantly slowing down the rate at which you are paying off your home. The reason for this is that the interest you are paying on your mortgage is not tax deductible. Likewise, the interest you save by directing any surplus funds you have into your mortgage is not assessable. It is tax-free!

You are effectively obtaining a guaranteed tax-free return equal to your current mortgage interest rate if you "invest" surplus funds in your mortgage.

However, if it is likely that you are not going to achieve your goals then you need to explore other options such as making additional super contributions or using the equity in your home to help improve your overall financial position. This is generally achieved by redrawing on your loan and investing it into other assets that will generate income and capital growth at a higher rate than the interest cost. See our section on investments on page 19.

Action items

- □ Set your retirement goals.
- □ Understand if you are "on track" or not.
- □ Consider if you are in an appropriate super fund (remember, like mortgages, cheapest is not always the best).
- □ Ensure your investment choice is appropriate to your risk profile and goals.

Retirement

For many, retirement is seen as the "destination"; time to "put your feet up" and enjoy the fruits of so many years of labour. Many clients tell us that they are so busy in retirement they don't know how they ever found time to work!

Financial management is still very important in retirement, as most of us are now drawing down on assets and not adding to them. There is a popular perception that you can and should become much more conservative when you retire. To an extent this is true; however one of the largest issues facing retirees today is longevity. We are all living longer, and we need to make sure our money lasts as long as we do, so it must still be working as hard as it can for us in retirement. We are fortunate in Australia to still have a social security pension to fall back on, but you would certainly not want to rely on it alone.

Transition to retirement

Transition to retirement is a strategy, which the government has endorsed, that allows you to commence drawing income from super once you have reached your preservation age (refer to "Additional information" sheet), even if you have not retired. The idea behind this is that you may want to change your lifestyle and reduce your working hours prior to permanently retiring; however you may need to supplement your wages to maintain your lifestyle. A transition to retirement pension may enable you to do this.

An even more productive application of this strategy is that it can allow you to sacrifice more of your salary to super before income tax is deducted, and you can replace the salary you have sacrificed with a tax advantaged super pension income, therefore reducing your overall tax bill. This strategy has become less effective since the Labor government dramatically reduced the amounts we can contribute to super, but it is still worthy of consideration.

Retirement planning is obviously very important. The goal is to ensure you never run out of money and that you continue to take maximum advantage of any and all benefits that are available to you. Cash flow management is crucial. Making sure you obtain access to any relevant social security benefits will supplement your income which will help you to retain your capital longer.

Tax free income from super pensions enables retired Australians to effectively live in a tax haven. Currently, all income or lump sum payments received from super upon retirement after age 60 are completely tax free. It just doesn't get any better than that. Even the investment income earned within super pension funds is tax free, and ALL your funds are accessible if you need to draw down lump sums. This is why it's important to get as much money into super as you can throughout your working life.

Compare this outcome to the income and capital gains tax you would continue to pay on income from other potentially less liquid investments, like rental properties, and it is clear that you will generally get a better result from super. It might therefore make sense for you to move assets into super before you retire.

Strategies to do this need to be carefully considered and implemented to ensure tax is also minimised during the process. In many cases assets can be moved after retirement, which can dramatically reduce the impact of capital gains tax. Monies can be contributed to super until age 65, even if you have ceased working, and until age 75 if you continue to work.

Super pensions are super accounts which enable you to draw an income stream in retirement. To set up a super pension, you must first have funds in a super account and then roll them over to a pension. The benefits of a super pension include:

- You are able to select your own investment portfolio (This is in comparison to a complying annuity where the assets are allocated by the life insurance company issuing the product).
- The full balance of the pension account will be transferred to your beneficiaries on your death.
- You are able to nominate the level of income that you will receive each year during the term of the pension (subject to minimum drawings).
- Earnings made in super pensions are tax-free hence the fund can grow more rapidly than other investments and it does not attract personal income tax and capital gains tax liabilities.

You can access some or all of the money at any time by making a partial or full commutation of your pension. After age 60, any withdrawals are tax free.

The disadvantages of super pensions that you need to be aware of are as follows:

- The government may change rules governing super pensions at any time.
- The minimum income that you will receive is determined by the government.
- The capital is not guaranteed and the longevity of the pension depends on the investment return and the income draw down.

Action items

☐ Consider if "transition to retirement" is right for you.

☐ Are you structured to pay less tax in retirement?

Investment fundamentals

It's very helpful to have a basic understanding of investing, whether you are investing inside or outside of the super environment. While investing can be a very complicated area to understand thoroughly, a fundamental knowledge can assist you in making decisions to improve your financial situation.

We have discussed super in some detail, however super itself may not be sufficient or appropriate in some cases, so other investments may be required.

There are two basic things you need to understand when investing:

1. the type of asset classes you can invest in
2. the risk and return that is expected from those asset classes

Fundamentally there are four asset classes that you can invest in (although there are thousands of different options within these asset classes). The four asset classes are cash, fixed interest, property and shares.

As the risk you take on as an investor increases, so should the return. The trade-off for a greater return on your investment is therefore the volatility of your asset value and the potential loss of part (or in extreme cases, all) of your investment capital.

The four fundamental assets

Cash is effectively "money in the bank". It is the lowest risk investment class and is generally the poorest performing of all investments over the long term. You are not likely to lose any of your capital if you invest in cash (although most cash investments are in fact not capital guaranteed) and you are not going to see your investment shrink due to negative returns. Cash is therefore deemed to be a defensive asset.

Fixed interest is also a defensive asset. A fixed interest investment provides a set return on your capital over a set period (like a term deposit). Governments and businesses raise capital by issuing bonds which provide a set return (a coupon rate) over a set period, at the end of which your capital is also returned. Bonds are traded (bought and sold) by fund managers in an attempt to improve the return to investors in managed funds. The coupon rate paid on a bond will be determined by a number of factors such as: the strength of the institution issuing the bond, the prevailing cash rate at the time the bond is issued, and the term (or duration) of the bond.

If an investor purchases a bond with a 5 year term and a coupon rate of 6% and interest rates increase to an extent where new 5 year bonds are being issued at a 10% coupon rate, the market value of their bond will fall. In this instance, many fund managers may consider selling their bond at a loss to lock in a new investment returning a higher return.

As a result, in an increasing interest rate environment, the capital value of fixed interest investments can fall, producing negative returns for short periods. Generally, fixed interest would give better returns than cash over 1 – 3 years.

Property is a growth asset because it provides investors with not only income (from rents) but also with the potential for capital growth, from the appreciation of the property itself.

There are many types of property investment, however most fund managers invest in listed property securities, which are property funds that are listed on the stock exchange. The largest and most well known of these in Australia is Westfield. Property securities still provide income and capital growth but they are much more easily traded than "real" or "direct" property as they can be bought and sold in small parcels at any time on the share market.

Direct property can be difficult to sell and can only be transacted as a whole. There is also a daily price available for listed assets, whereas you only really know the true value of a direct property on the day you buy or sell it. Many factors affect the price of property and property requires ongoing maintenance and development, therefore the capital value of this asset type is quite volatile, and should therefore provide a better return to investors than defensive assets.

Australians generally love property investments and have amongst the highest levels of home ownership in the world. If you own your own home, you already have a significant property investment, so buying investment properties can lead to having most of your eggs in one investment basket. Costs and taxes to buy and sell investment property are high and therefore have an impact on investment returns.

Shares are the real growth asset, as the majority of an investor's return generally comes from the increase in the share price due to the continued growth of the underlying business. When you own a "share", you in fact own part of a company and the only real reason for the existence of a company is to provide a return to its shareholders. Most companies pay their shareholders income in the form of dividends and many pay franked dividends. Franked dividends carry a tax credit for investors at the company tax rate (currently 30%). This is a result of the company having already paid tax on this income. If a company is performing well and paying a good income to shareholders, it will become more attractive to investors and demand will then push up its share price. Over the long term, shares should provide investors with the greatest return, but they are also the most volatile investment as there are so many factors that can impact on company performance. Share prices are also often driven by investor sentiment which can have both positive and negative impacts on the price.

The cost of buying and selling share based investments is generally very low and shares can be quickly and easily bought and sold on the share market.

Of course there are many variations on the above investment types, and these days there are also many "structured" investments to further complicate matters!

The table below provides a brief overview and comparison of the abovementioned assets.

Asset classes – benefits and risks

Asset class	Investment timeframe	Benefits	Risks
Cash e.g. Term deposits, cash management trusts, bank bills	**Short term** 1 – 3 Years	Little chance of losing your capital	Relatively low returns Inflation risk Sensitive to interest rate movements Not tax effective
Fixed Interest/ Bonds e.g. Government and large company bonds	**Short – medium term** 3 – 5 Years	Generally higher returns than cash Can make capital gains	As per cash Capital volatility (chance of capital loss)
Property Securities Commercial, industrial and retail buildings, NOT residential **Direct property** Residential and commercial	**Medium term** 5 Years	Historically has out-performed cash and bonds Protects against inflation Invest across different property sectors Some tax concessions	Higher capital volatility than Bonds Direct property Capital intensive Expensive to transact Cannot be sold quickly or partially sold
Shares A portfolio of shares spread across sectors and markets, both Australian and International	**Medium – long term** 5 Years +	Potential for long-term return better than all other asset classes Protect against inflation Tax benefits through dividend imputation system & overseas tax offsets Currency movements can add value (on international shares) Easy and inexpensive to buy and sell, can buy small amounts, therefore great for dollar cost averaging	Highest capital volatility Fear can lead to cashing out at bottom of the market Market sentiment (fear/euphoria) leads to market imbalances Currency movements can reduce value (on international shares)

The risk vs. return philosophy

As mentioned previously, the second part to investing is to understand the risk vs. return philosophy. Put simply, the higher the level of return expected from an investment, the greater the potential for fluctuations in the value of that investment and the higher the possibility of losing part or all of your capital.

Shares are characterised by prices that fluctuate daily, whereas assets such as fixed interest and cash provide a more even level of return with little variation in capital value. It is important, however, to differentiate between paper risk and real risk. Paper risk is the regular fluctuation in the value of the investments you hold. Real risk is the risk that you are forced to realise the value of an asset when that asset is priced at a relatively low level due to short-term investment volatility. This is easily mitigated by only investing in high return investments, such as shares and property, for the long-term.

How you react to short-term volatility is crucial. If your reaction to a fall in the price of your investments is to panic, or even consider selling, share and property investments should be kept to a minimum. If you can accept and understand that short-term volatility will generally occur in growth investments, you are well placed to enjoy the higher returns from this part of your investment portfolio.

Specific risks[2]

The following outlines some specific risks that may be associated with investing. **Note that this is not an exhaustive list of every conceivable investment risk.**

Market risk	The possibility that movements in a market can cause an investment to decrease (as well as increase) in value.
Inflation risk	The possibility that the purchasing power of your money may not keep pace with inflation (e.g. by not investing at all or not investing sufficiently in growth products). The risk is a poor real return on funds invested.
Credit risk	The possibility that an institution holding your capital (e.g. a debenture issuer) may fail to pay interest or return your capital. (i.e. they may become bankrupt)
Value risk	The possibility you will pay too much for a particular product or that you will sell it too cheaply.
Timing risk	The possibility that a strategy of trying to time entry and exit from markets will expose you to greater short-term volatility.
Liquidity risk	The possibility that you may not be able to readily access your funds when you want or need them most because they are invested in illiquid assets (e.g. direct real estate).
Currency risk	The possibility that investments held in other countries may rise or fall in value due to the value of the currency they are held in changing in relation to the Australian Dollar.
Risk of not diversifying	The possibility that if you put all your investment capital into one basket (e.g. the share market) a fall in that market will adversely affect all of your capital. Diversification is a deliberate strategy aimed at reducing the impact that volatility in one asset class, sector or single product will have on your overall portfolio of assets.
Re-investment risk	The possibility that if you invest in fixed rate investments (e.g. bonds) you may have to re-invest maturing money at a lower rate of interest if rates generally decline during the life of that investment.
Manager risk	The possibility that you will invest with a fund manager based primarily on their recent past performance without regard to their fundamental ability to cater to your particular needs or performance expectations over the time frame you have in mind.
Regulatory risk	The possibility of government policy or regulation changes negatively affecting you and your financial strategy. For example: ■ super and retirement incomes policy ■ an asset test exempt income stream loses its exempt status ■ change in preservation age rules for super (the age you can access it).

[2] Financial Planning Association of Australia, Practice Guideline No 2 (Jan 1999, p.7-9)

Lifestyle's investment philosophy

At Lifestyle, we focus on assisting our clients to achieve their goals. We believe our clients should be invested in line with the amount of investment risk they are comfortable with (once they have an understanding of this risk and how it is managed), and how investment decisions will impact on the achievement of their goals.

We have been in the investment advice business for over 20 years. Over this time we have investigated all investment styles, listened to countless presentations from fund managers and economists, and we have seen many investment houses come and go. This experience has led us to develop core beliefs, and to formulate our own investment philosophy, being:

- **Returns:** Asset Allocation is the key to long term performance. Growth assets will outperform defensive assets over the long term.
- **Fees:** Minimising fees adds to performance. The less you pay in fees the more investment return you keep for yourself.
- **Risk:** Volatility and investment risk are different. Volatility in growth assets is unavoidable, but investment risk (choosing poor assets to invest into) is avoidable through good research.
- **Markets work and are generally efficient**: Investing broadly and diversely in shares will give you 'share market' returns; however, opportunities for outperformance may exist in under-researched areas of the market such as small companies and emerging markets.

Our research and experience has proven to us that, in the majority of cases, fund managers do not consistently add value. Many fund managers struggle to perform as well as the share market indexes, after the deduction of their fees.

Share market indexes simply measure the performance of a certain parcel of shares. For instance, the ASX 200 index tracks the performance of the largest 200 shares listed on the Australian Stock Exchange (ASX). There are approximately 1,300 companies listed on the ASX, however the top 200 make up about 80% of the total market in dollar terms.

There are few Australian share fund managers that perform better than the ASX 200 each year, let alone consistently outperform it over many years. The only evidence we can see of consistent outperformance is when managers invest in smaller companies, value companies (companies that pay strong dividend streams) or if they invest offshore in developing countries. All these elements tend to increase risk but they also potentially increase the overall return. However diversifying across a greater investment universe in turn actually reduces investment risk as you have your eggs spread across a larger number of baskets.

Investment funds exist which simply reproduce the various investment indexes, such as the ASX 200. These funds are called "passive" as managers are not making investment decisions about the individual companies; they simply include them in the fund if they are within the appropriate index.

The fees charged by managers for running these passive index funds are much less than actively managed funds charge, so an active manager has to perform better than the index to simply cover the fee charged. Our experience shows that this is not often achieved, however some active managers have been able to consistently outperform after accounting for their fees; we therefore recommend them.

Investment gearing

Gearing is simply borrowing to invest. While this seems like a great idea and is potentially a great idea if done correctly, there are dangers involved with gearing as it not only has the potential to increase your profits when the underlying assets increase in value, but it also increases your losses when they fall in value.

Of course you must pay interest on the money you borrow, therefore the additional returns you get from gearing must be greater than the cost of interest.

Gearing can be structured in a number of ways. The most common are:

Home equity lending: borrowing against equity in your home to buy other investment assets such as shares or investment property. This can be a good strategy if all your money is tied up in your home in the form of equity, and you need to "release" this equity to be able to invest.

Margin lending: using existing investment assets (such as shares) as collateral to borrow to buy more assets. Again this can be an excellent strategy, but it is more dangerous in periods of falling markets as you need to retain a level of equity in your investments. If the equity level falls below the minimum, your assets may have to be sold to repay some debt, realising losses at potentially the worst time.

Internally geared investments: these are funds which borrow internally to increase your exposure to investment markets. There are a number of these structures and some of them are quite complex.

Action item

□ Do you need to consider gearing to achieve your goals?

Should I pay off the mortgage first?

When planning for your future a very important aspect is debt management and as financial advisers, one of the most common questions that we get asked is "Should I pay the mortgage off first?" There is no catch-all right or wrong answer. If your current strategy will achieve your financial goals then maybe you should just stick with it. However, if you are going to fall short, then you need to explore other options.

Generally and in most instances, if you have a mortgage you should pay it off as soon as possible and you should not be pursuing an investment strategy if it has the effect of significantly slowing down the rate at which you are paying off your home. The reason for this is that the interest you are paying on your mortgage is not deductible. Likewise, the interest you save by directing any surplus funds you have into your mortgage is not assessable. It is tax-free! You are effectively obtaining a guaranteed tax-free return of, say, 6.5% if you "invest" surplus funds in your mortgage.

However, if it is likely that you are not going to achieve your goals then you need to explore other options such as making additional super contributions or using the equity in your home to help improve your overall financial position. This is generally achieved by redrawing on your loan and investing it into other assets that will generate income and capital growth at a higher rate than what the interest payments are.

In this situation, debt management becomes extremely important in helping you reduce your 'bad debt' and maximising your 'good debt'.

Bad debt is where the debt is not necessarily adding to your overall wealth and for which no tax deduction can be claimed. A classic example of this type of debt is personal loans and credit cards. Whilst a home loan is used to purchase the home we live in, this debt does not allow us any concessions and thus should be paid down as quickly as possible. This creates equity which can then be borrowed against.

Good debt takes the form of investment loans, as you can use these to invest and create wealth. As these loans are used to generate income and create capital growth you are able to claim a tax deduction for the interest expense.

Action item

□ Could you be investing some of the equity in your home to build your wealth?

Protecting yourself and your family

There are risks in every aspect of life, but many risks can be insured against.

Most people insure assets such as homes and cars, but many don't insure their most valuable asset – their ability to earn an income. Many people also have inadequate (or sometimes no) life insurance, which can leave their family in a difficult position if they die.

What would your situation be like if you had a serious accident, became seriously ill or died? How would you or your family replace your lost income, and how would this loss of income affect the achievement of your goals?

Wealth protection related risks

The main financial risks you and your family are likely to face are:

1. **Permanent or temporary loss of income.**
2. **Inability to fund additional costs resulting from unexpected accident or illness.**

Generally the optimum level of cover for you is the maximum that the life insurance company will accept based on financial evidence[3]. However, in many cases this is simply not affordable.

To be able to determine an appropriate level of cover, you need to consider the following:

- Your level of income.
- Your relationship status.
- Your outstanding debts.
- The number of financial dependants you are responsible for.

The major forms of insurance cover available to cover these risks are:

Income protection (salary continuance)

Income protection pays you a regular income on a monthly basis if you can't work due to an accident or illness. The optimum cover has a short waiting period before benefits are paid, pays 75% of salary and remains in force until your 65th birthday (you can usually also insure your super contributions). The shorter the waiting period and the longer the benefit payment period, the better the cover, however the higher the premium cost will be. Premiums are tax deductible while all benefits paid are fully assessable for tax purposes.

The insurer will pay in accordance with their definition of 'disabled', and this is an important consideration when selecting a policy.

Lifestyle would consider this to be the most important insurance for working adults as generally speaking, your ability to earn an income is your greatest and most valuable asset. You should have the best cover you can afford.

Life insurance

Life insurance provides a lump sum of cash upon the death of the life insured. This can help to provide for the cost of living of your family if you die, fund the repayment of debt, or cover future needs such as children's education or long term care.

To calculate the level of life cover, you need to understand:

How much income would your family need if you died –

$ _______________ per annum

1. How long will you need to provide financial support for your family (i.e. when your youngest child is no longer financially dependent)

= _______________ years

2. If your partner doesn't work you may need to provide income for a longer period. If this is the case the optimum period is around 20 years' income.

Multiply the above two answers $______________

(or say 20 times as the optimum)

Add your current level of debt $______________

Total cover required $______________

You can have life cover either within super or as a non-super policy. The benefits of having this cover within super include:

- your employer Super Guarantee (SG) payments can be used to fund the premiums.
- the premiums for life cover within a corporate super plan are generally cheaper because of group discounts (especially for smokers).

The disadvantage of having life cover within super includes:

- The beneficiaries of a super fund are restricted to/ determined by the requirements of legislation and the super trust deeds. Generally your spouse, children, and financial dependants are allowable beneficiaries. This is a complex area and you need to consult with the trustees of your super fund to understand your options.

[3] Generally insurers use the following as a guide to the maximum insurable amount: Income protection – 75% income; Life cover – $2,000,000; Critical illness cover – $1,000,000 & TPD Cover – $2,000,000.

Critical illness cover (trauma insurance)

Critical illness or (trauma) insurance is the other important insurance cover you need to consider.

It provides a lump sum of money on diagnosis of a range of serious illnesses. Premiums are not tax deductible but the proceeds from the policy are tax free.

The cover is designed to help people recover financially from such a trauma or crisis. This money could be used for out of pocket health care costs, medication, physiotherapy, the need to make modifications to the home, or for treatment overseas.

Trauma cover benefits are paid on diagnosis. Many people now recover from major illnesses, therefore their life insurance is of no use in this instance. A benefit payment allows the insured to return to work at an appropriate time, and to have funds during a time of financial need.

Cancer (59%), heart attack (16%), stroke (6%), and by-pass surgery (5%) comprise 86% of all trauma claims. The insurer generally covers many other critical illness conditions on top of the above mentioned.

You should consult the relevant product disclosure statement for further information on these conditions.

Total and permanent disability (TPD)

TPD cover provides a lump sum benefit when the life insured is totally and permanently disabled.

A usual definition of TPD is:

- You suffer the loss of both feet or both hands or sight in both eyes;
  or any combination of two of, a hand, a foot or sight in an eye.

OR

- You have been absent from employment through sickness or injury for six consecutive months and have provided proof that you are incapacitated to such an extent as to render you unlikely to ever resume work or attend to any gainful profession or occupation in either your own occupation or any occupation[4] for which you are suited by reason of education, training or experience.

A usual 'homemaker' definition of TPD is:

- Through sickness or injury you have been unable to perform any normal physical domestic duties for six consecutive months and will never be able to do so again.

Total and permanent disability (TPD) insurance is generally only offered as an extension to life insurance. Becoming totally and permanently disabled represents a major risk.

General insurance

It is also important to make sure assets such as your home and its contents and your car are appropriately insured. It is worthwhile to compare the premiums and benefits offered by various policies to ensure you are getting good cover at the right price.

With home insurance, it is particularly important to ensure that the cover you have will adequately provide for the replacement of your home, including the removal of the existing structure if necessary. Under-insurance is a common problem.

Health insurance

Private health insurance is another important consideration. Not only is it potentially good to have, without it you may be taxed more.

The Medicare levy surcharge is a levy, or an extra tax, on Australian taxpayers who do not have private hospital cover and who earn above $90,000 for individuals and $180,000 for couples or families, increasing by $1,500 for each additional child after the first. (Figures are correct as at 2012/2013 and are indexed each year).

The surcharge is calculated at a rate between 1% and 1.5% of taxable income (depending on your income level). It is in **addition** to the Medicare levy of 2%, which is paid by most Australian taxpayers.

The Medicare levy surcharge is imposed on individuals and couples or families earning over the threshold who do not have an appropriate level of hospital insurance.

It is important to consider if private health insurance is appropriate and affordable for you.

Action items

□ Check to see if you have any insurance cover within your super accounts.

□ Determine what an appropriate level of personal insurance is for you and your family.

□ Review your current general insurance needs such as your home, contents, vehicle and health insurances to ensure they are still appropriate.

[4] If TPD is taken via a super fund then it uses an 'any occupation' definition rather than any 'own occupation' definition if a claim is made. What this means is that it is harder to claim that you will never return to the workforce in any occupation rather than own occupation.

Wills and powers of attorney

Estate planning is all about giving you proper control of your assets, making sure that the right amount of money and assets go to the right person(s) at the right time. It is about wealth preservation and succession. **Estate planning is complex and requires the expertise offered by a solicitor and accountant** in conjunction with the guidance of your financial planner.

Wills

It is widely known that more than 75% of Australians do not have a current will. Why is a will important? We all have assets of some form and a will instructs your executor to distribute these assets, your “estate”, in accordance with your wishes, avoiding the scenario of any ”fighting” for them after you have passed away.

Some assets do not come under the influence of your will. If you hold an asset jointly, such as a bank account or your home, then if one owner dies the asset automatically passes to the surviving owner, thus there is no need for it to be included in your will. Another asset that may not form part of your estate is your super. With binding nominations available in most super funds, you are able to nominate who you wish to receive this benefit, and it will then be paid directly to the beneficiary. There are rules around who is an eligible beneficiary.

Any other assets become part of your estate and your will directs how these assets are to be distributed. If you die intestate (without a will) then the settling of your estate will become a matter for the public trustee and can be prolonged for years, possibly leading to much anxiety for your loved ones.

Power of attorney

What is a power of attorney?

A general power of attorney is a legal document which you can use to appoint a person to make decisions about your property or financial affairs. The person who makes a power of attorney is known as 'the principal'. The person who you appoint to make decisions for you is known as 'the attorney'.

What is an enduring power of attorney?

An enduring power of attorney is like a general power of attorney however it continues **if you lose mental capacity**.

Why make an enduring power of attorney?

By making an enduring power of attorney, you are choosing who you want to manage your financial affairs if you lose the mental capacity to do this for yourself.

If you do not have an enduring power of attorney and you lose mental capacity, there may be no one with the legal authority to manage your financial affairs. This may mean that the Guardianship Tribunal or the Supreme Court will need to appoint a financial manager for you.

What is the difference between a 'general' power of attorney and an 'enduring' power of attorney?

A general power of attorney ceases to have effect after you lose the mental capacity to make financial decisions. An enduring power of attorney will continue even after you lose mental capacity (e.g. if you develop dementia, have a stroke or sustain a brain injury).

Who can make an enduring power of attorney?

Anyone can make an enduring power of attorney if they have the mental capacity to understand the nature and effect of the power of attorney. People of any age (not just older people) can make an enduring power of attorney. It is a safeguard for anyone who would like to choose who can manage their financial affairs if they lose their mental capacity.

Can the attorney make any decisions apart from financial ones under an enduring power of attorney?

The attorney can make decisions about your property or financial affairs. This means that they can operate your bank accounts, pay your bills, and sell or buy property (such as your house or shares) on your behalf. An enduring power of attorney cannot be used to make medical or lifestyle decisions for you. However, you can appoint an enduring guardian to make these decisions. The Guardianship Tribunal can give you information about enduring guardianship.

Enduring guardian

An **enduring guardian** is someone whom you choose to make personal or lifestyle decisions on your behalf when you are not capable of doing this yourself.

The common decision making areas or functions for an enduring guardian are:

- where you live;
- what health care you receive;
- what services you should have; and
- give or withhold consent for any medical and dental treatment for you.

This does not mean that you have to give your enduring guardian all of these functions. You can delete the decision-making areas you do not want your enduring guardian to have. You can add other decision-making areas if you wish.

It is also possible to give directions about how to exercise the particular decision-making functions you have given your enduring guardian.

Action items

□ See your solicitor to review your will and ensure it is appropriate.

□ Ensure you have an appropriate enduring power of attorney in place.

□ Consider guardianship issues.

How do I choose a financial planner?

If you think you would benefit from working with a financial planner, our suggestion would be that you choose a planning firm that can tick all the following boxes:

- Has the resources to serve you properly.
- Conducts their own research on investments and investment products.
- Can choose from a wide range of investments and investment products.
- Has a documented and disciplined investment methodology that you can understand.
- Charges on a structured "fee for service" basis that is fair.

The individual you work with should be someone:

- You are comfortable dealing with and can understand.
- Who is part of a firm that will be there for the "long haul".

Of course we believe that Lifestyle can tick all the above boxes and we hope you would contact us first if you are looking for a relationship with a planner!

There is no point in working with a financial planner if they cannot add value to you that is well in excess of the fees that are charged.

Lifestyle has eleven staff licensed to provide financial advice.

Seven of whom are Certified Financial Planners (CFP) and members of the Financial Planning Association (FPA). The others are working towards the CFP designation, a qualification which is globally recognised as our profession's highest.

More information can be found on the FPA's website at **www.fpa.asn.au**

The aim of this booklet is to assist you in working towards achieving financial independence and to help ensure you and your family and loved ones are protected along the way.

You can contact Lifestyle at:

Lifestyle

Telephone **(02) 9410 6000**
Email **invest@yourlifestyle.com.au**

Please visit our website at **www.yourlifestyle.com.au** for more information about us, to download useful forms, read our newsletters, register to attend seminars, etc.

Do you need assistance?

If you would like us to help you review your circumstances, please complete the following form. Once completed, please return it to us via mail, email or fax.

Why are you seeking advice? ______________________________

____

____

____

What are you looking to achieve? ______________________________

____

____

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DETAIL			CLIENT 1	CLIENT 2
CONTACT DETAILS	Title		□ Mr □ Mrs □ Ms □ Miss □ Dr □ Other	□ Mr □ Mrs □ Ms □ Miss □ Dr □ Other
	Surname			
	First name(s)			
	Gender			
	Date of birth			
	Marital status			
	Phone			
	Home/Postal address		STATE CODE	STATE CODE
	Email			
	Planned retirement	Expected age		
		Retirement income		
CHILDREN/ DEPENDANTS	How many children/dependants do you have?		□ no. of children/dependents □ n/a	□ no. of children/dependents □ n/a
	Or are there others who rely on you financially? If so, please provide number.		□ no. of other dependents □ n/a	□ no. of other dependents □ n/a
EMPLOYMENT	Employment status (e.g. employed & full time, self-employed, contractor, home duties)			
	Occupation			

		Type (cash, shares, property)	Current value	Owner	Funded by borrowings
ASSETS AND LIABILITIES	ASSETS		$	□ C1 □ C2 □ Joint	□ No □ Yes $
			$	□ C1 □ C2 □ Joint	□ No □ Yes $
			$	□ C1 □ C2 □ Joint	□ No □ Yes $
			$	□ C1 □ C2 □ Joint	□ No □ Yes $
			$	□ C1 □ C2 □ Joint	□ No □ Yes $

ASSETS AND LIABILITIES	LIABILITIES	Type (mortgage, investment, credit cards, personal loan)	Lender	Borrower	Balance	Principal/ Interest Only
				□ C1 □ C2 □ Joint	$	
				□ C1 □ C2 □ Joint	$	
				□ C1 □ C2 □ Joint	$	
				□ C1 □ C2 □ Joint	$	
				□ C1 □ C2 □ Joint	$	

INCOME AND EXPENSES	INCOME	Retirement income	$	$
		Investment income	$	$
		Other	$	$
	EXPENSES	Living expenses	$	$
		Mortgage/rent	$	$
		Other	$	$
	SOCIAL SECURITY	Do you receive an Centrelink, DVA or other benefits?	□ Yes □ No	□ Yes □ No
		If yes, what payment type and amount?	TYPE $ /fortnight	TYPE $ /fortnight

SUPER AND RETIREMENT (Please provide information for policies not managed by Lifestyle only)	Super product name	Owner	Approx. balance	Is insurance held within super?
			$	□ Yes □ No
			$	□ Yes □ No
			$	□ Yes □ No
			$	□ Yes □ No

PERSONAL RISK (Please provide information for policies not managed by Lifestyle only)		Client 1	Client 2
	What life insurances do you have?	□ Life* □ TPD* □ Trauma* □ Income Prot.* □ N/A	□ Life* □ TPD* □ Trauma* □ Income Prot.* □ N/A
	Do you have any health issues?	□ Yes □ No	□ Yes □ No
	Do you have private health cover?	□ Yes □ No	□ Yes □ No

* Please provide additional information of your insurance policies (if applicable).

Details	Policy 1	Policy 2	Policy 3	Policy 4
Policy owner				
Life insured	□ C1 □ C2 □ Joint	□ C1 □ C2 □ Joint	□ C1 □ C2 □ Joint	□ C1 □ C2 □ Joint
Insurance company				
Term life cover – approx amount	$	$	$	$
TPD cover – approx amount	$	$	$	$
Trauma cover – approx amount	$	$	$	$
Income protection/Salary Continuance – approx amount	$ pm	$ pm	$ pm	$ pm
Superannuation policy?	□ Yes □ No	□ Yes □ No	□ Yes □ No	□ Yes □ No

NEXT STEPS

Return this form by mail, fax or email and we will contact you shortly to discuss potential solutions:

Mail

Lifestyle Financial Services
PO BOX 5245
Chatswood West NSW 1515

Fax

02 9410 6010

Email

super@yourlifestyle.com.au

Financial Wisdom Limited and your privacy

Our Privacy Policy

As a financial planning organisation we are subject to certain legislative and regulatory requirements which necessitate us obtaining and holding detailed information which personally identifies you and/or contains information or an opinion about you. As part of our continuing commitment to client service, the maintenance of client confidentiality and as required by law, both Lifestyle Financial Services and Financial Wisdom Limited comply with the Privacy Act 1988 and as a member of the Commonwealth Bank Group of companies conforms with the Group's Privacy Policy. For further details please refer to the Group's Privacy Policy at **www.commbank.com.au/security-privacy/general-security/privacy**

Gathering all the right facts should lead to the right financial solution for you!

Lifestyle

Suite 9 Level 10, 809 Pacific Highway
PO Box 5245 Chatswood West NSW 1515
t 02 9410 6000 f 02 9410 6010 invest@yourlifestyle.com.au

Taking control – additional information

2014/2015 financial year

Income tax rates – for Australian tax residents

Taxable income	Tax payable
Up to $18,200	Nil
$18,201 - $37,000	Nil + 19%
$37,001 - $80,000	$3,572 + 32.5%
$80,001 - $180,000	$17,547 + 37%
Excess over $180,000	$54,547 + 45%*

plus medicare levy of 2%

* doesn't include 2% Temporary Budget Repair Levy payable for taxable incomes over $180,000

Preservation Age

Preservation age is generally the age that you can access your super benefits. A person's preservation age depends on their date of birth, as set out in the following table.

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 to 30 June 1961	56
1 July 1961 to 30 June 1962	57
1 July 1962 to 30 June 1963	58
1 July 1963 to 30 June 1964	59
On or after 1 July 1964	60

Personal (non-concessional) contributions

You can contribute $180,000 in this financial year or $540,000 within a 3 year period starting from financial year 2014/2015. Where bring forward has been triggered prior 30 June 2014, your bring forward cap for the three years will be $450,000.

Concessional contributions –
(Salary Sacrifice, Employer Super Guarantee (SG), Employer additional)

	Maximum contribution 2014 / 2015
Under age 49	$30,000
Over age 49	$35,000

Government co-contributions

Income	Personal after tax contribution	Government contribution*
$34,488 or less	$1,000	$500
$36,000	$899	$450
$40,000	$633	$316
$44,000	$366	$183
$47,000	$166	$83
$49,488 or more	$0	$0

Spouse contributions

A taxpayer will be able to claim a tax offset for eligible spouse contributions as long as the following conditions are satisfied.

- The recipient spouses assessable income + reportable fringe benefits (RFB) + reportable employer super contributions (RESC) for the income year are less than $13,800;
- The couple live together in a bona fide domestic relationship
- The contribution must be made to a complying superannuation fund
- The contributor must not claim the contribution as a tax deduction
- The gainful employment status of the contributor is not relevant
- The recipient spouse must not be over age 70
- Spouse contributions are preserved
- Both the contributor and the spouse must be residents for tax purposes.

The maximum tax offset is $540 and is calculated as 18% of the lesser of:

1. $3,000 – [(recipient spouse's assessable income + RFB + RECS) – $10,800]
2. The amount of the spouse contribution actually made

Important Information

This document has been prepared by Financial Wisdom Limited ABN 70 006 646 108, AFSL 231138, (Financial Wisdom) a wholly-owned, non-guaranteed subsidiary of Commonwealth Bank of Australia ABN 48 123 123 124. Lifestyle Financial Services is an authorised representative of Financial Wisdom.

Please note that personal financial advice cannot and will not be provided during this meeting. Before making any decisions, you should consider whether it is appropriate in light of your particular investment needs, objectives, and financial and taxation circumstances. We recommend that you take personal financial advice before taking any action on superannuation matters.