

your **money** your **future**

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Avoiding the Christmas credit max-out

As the credit crisis tightens its grip on global financial markets, it's probably not the best time to be 'maxing-out' our credit cards.

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

One of the best ways is to set and stick to an affordable budget, in conjunction with some specific cost-cutting measures, such as a Kris Kringle-style Christmas with only one gift purchased for each family member.

You could also consider alternative gift giving. A registered charity like karma

currency allows you to purchase tax deductible gift vouchers, which the recipient can use to make a donation to their favourite charities.

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

Nevertheless, it may not be possible to avoid running up extra credit card debt this festive season. Plan wisely and start saving early in the year if you can, so you don't have to use debt to have a good time at Christmas. Call us now, for more tips on managing debt.



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Fancy paying more tax? How does an extra 31.5 per cent sound?

Providing your tax file number (TFN) to your superannuation fund ensures that you do not pay additional tax on your superannuation contributions.

It's your first week at a new job and there's so much administration. Bank details aren't a problem but you're not sure about your tax file number (TFN). Doesn't matter, you can send it to your super fund some other time. You keep meaning to call but you're busy and time slips by...

Not providing your TFN at this point is a simple oversight, but one that can have an adverse impact on your retirement income.

Triple whammy

There's no gain in failing to provide your TFN to your super provider – only pain, because:

- It imposes an extra 31.5 per cent tax on your employer contributions, on top of the usual 15 per cent contributions tax.¹
- You cannot make extra personal contributions to your super or receive Government co-contributions.

- It may result in extra tax on your benefits when the time comes to draw down your super.

Providing your TFN also makes it easier to trace your super funds when you change jobs, ensuring your hard-earned super savings don't join the estimated \$12.9 billion in lost and unclaimed super lying around in 6.4 million accounts.²

It is not too late to supply your TFN to your superannuation provider. Check your super statement now to ensure you're not paying more than your fair share of tax.

Notes:

- 1 Apart from contributions of less than \$1,000 in a financial year, which are exempt only if the account was opened before 1 July 2007.
- 2 Minister for Superannuation – Press Release 15 October 2008.

Case study: Stuart's super tax debacle

Stuart started work in the hospitality industry earlier this year on a full-time salary of \$50,000. His employer makes the mandatory nine per cent contributions to his super fund, adding up to a total of \$4,500 for the 2008/09 financial year.

But Stuart doesn't get around to providing his TFN to his super fund. His employer contributions are therefore subject to an extra 31.5 per cent tax, in addition to the usual 15 per cent contributions tax.

Stuart ends up paying an extra \$1,418 in tax, meaning less money for his hard-earned retirement funds. The total tax taken from his super fund is now \$2,092.50, or 46.5 per cent.

And when Stuart applies to make additional after-tax contributions to his super, the fund is unable to accept them without a TFN. Had he been able to make personal contributions, Stuart could also receive a Government co-contribution.³

³ As Stuart earns less than the \$60,342 limit for Government co-contributions.

New tax-effective home saver accounts hit the market

If you're about to start saving for your first home, or already putting money aside for a deposit, you'll be pleased to know the Federal Government's First Home Saver Accounts (FHSAs) initiative commenced on 1 October 2008.

What are FHSAs?

FHSAs are intended to offer a simple, tax-effective way for people to save for their first home through a combination of personal contributions, government contributions and tax concessions.

Which financial institutions can offer FHSAs?

The accounts can be offered by banks, building societies and credit unions, public offer super funds, life insurance companies and friendly societies. At this stage, it is mainly credit unions and some major banks who are offering FHSAs.

Who is eligible to open an account?

You are eligible to open an FHSA if you:

- are aged over 18 and under 65
- haven't previously bought or built a first home to live in

- haven't previously had an FHSA, and
- provide your tax file number.

How do FHSAs work?

You can contribute to your account with after-tax money. There is a cap of \$75,000 (indexed) on the total contributions you may make to the account.

Before funds can be withdrawn, you must have contributed a minimum of \$1,000 per year in at least four financial years.

No minimum annual deposit is needed to keep the account open. It can remain open for as long as necessary or until you turn 65, at which time it must be closed.

What are the benefits?

The Government will contribute 17 per cent on the first \$5,000 of your contributions made each year. This will be paid directly into your account after you've lodged your tax return and your account provider has sent the relevant information to the Australian Taxation Office.

Investment earnings are taxed at a concessional rate of 15 per cent,

withdrawals are tax free and FHSA balances are exempt from the Centrelink income and assets test.

What happens when I'm ready to buy or build my first home?

Provided you've met the withdrawal requirements, you can use your FHSA funds for various first-home related expenses including your deposit, legal expenses and stamp duty.

Also you may wish to check with the State Revenue Office in your state or territory regarding the concessions available including the recently enhanced grants for first home owners.

What happens if I no longer need my FHSA?

Chances are that you will eventually want to purchase a home, but if you don't your FHSA funds can be used to boost your super account.

More information?

For more information call us now or visit www.homesaver.treasury.gov.au.

Credit crisis 101 – your guide to weathering the storm

As turmoil in global financial markets continues, fuelled by the deepening credit crisis, it's becoming increasingly difficult for everyday investors to hold their nerve and avoid panic-driven reactions.

But the longer this current spell of turbulence continues, the more important it is to remain committed to long-term, sensible wealth-creation strategies.

As you've no doubt heard before, share markets are by their nature volatile and will rise and fall over time. They reward patience, well-diversified portfolios and investors who are willing to put up with some short-term pain in order to achieve long-term gain.

Markets have a habit of bouncing back

History has demonstrated again and again that investment markets not only recover from bouts of turmoil such as we're currently experiencing, but invariably rise again and go past their previous highs.

Over the past 20 or so years the Australian share market has been 'hit for six' by events like the 1987 stock market crash, the Gulf War, the so-called 'tech wreck' and the September 11 terrorist attacks. But the market has always bounced back.

While emotion can take over during volatile periods, as an investor you need to try and ignore all the 'noise' and continue to make rational decisions, rather than emotional ones. That way, you can reap the benefits when markets eventually recover.

Significant global action to ease the credit crisis

All over the world governments and central banks, including our own Reserve Bank, have been taking significant positive action to ease the credit crisis, stabilise financial markets and avoid the risk of a global recession.

To recap on some of the most important developments here and overseas:

- In early October 2008, the Reserve Bank of Australia slashed its cash rate by an unexpectedly large full-percentage point, taking official interest rates from 7 per cent down to 6 per cent. At that time, Prime Minister Rudd endorsed the decision, saying that the Government wanted to ensure that those who are currently borrowers received relief and at the same time, maintain the stability of the Australian banking system.
- Several days before this, the US Congress passed its much discussed



\$US700 billion rescue package to buy back 'toxic' sub-prime mortgage assets from troubled financial institutions. The plan aimed to restore confidence and stability in the financial system and was received positively by investors.

- A consortium of 10 global commercial and investment banks – including Barclays, Citigroup, Goldman Sachs and Deutsche Bank – have formed a lending facility set at \$US70 billion that will provide additional liquidity to the market.
- Central banks around the world have pumped billions of dollars into the financial system. This cash injection and initiatives to make it easier for banks to borrow has helped provide liquidity for financial markets.
- The US Federal Reserve can move interest rates lower to provide more stimulus if required. Similarly, the European Central Bank, the Bank of England and the Swiss National Bank have indicated they are ready to provide added liquidity if needed.
- Similar to a number of other countries, the Australian Government has guaranteed all deposits of Australian banks, building societies and credit unions and Australian subsidiaries of foreign-owned banks for a period of three years.¹

Good reasons to remain optimistic

And there are a number of other reasons for you to remain optimistic about the outlook

for investment markets and the economy, both globally and in Australia:

- The Australian banking sector is generally better regulated than the US market, meaning our banks are less exposed to poor mortgage loans.
- Lower world oil prices will help consumers resume spending and provide additional support to the domestic economy.
- The global economy has been remarkably resilient, powered by developing economies that continue to make a substantial contribution to world growth.
- Lower mortgage rates and lower housing prices are helping home affordability in the US, which in turn supports their economy. The US economy has also been helped by a significant rise in exports.
- Central banks around the world will act to lower interest rates and enhance liquidity to combat slowing economic growth if required.

Talk things through with your financial adviser

If you have any questions about your investments or about the state of play in investment markets, please call us for further information. Your best 'insurance' in the current environment is quality financial advice.

¹ http://www.pm.gov.au/media/Release/2008/media_release_0534.cfm

Trauma: the nuts and bolts

Cancer. Stroke. Heart attack. Issues that most of us would prefer not to have to face.

It's tempting to think that 'It couldn't happen to me' and therefore treat insurance against these traumas as an expensive luxury. After all, no one wants to find themselves in a situation where they have to claim on the policy. But the unfortunate reality is we are more likely to be confronted by one of these traumas. Consider the following.

One in three Australians will be affected by cancer. Half the Australian male population and a third of women will be diagnosed with cancer before the age of 85.¹

Over 60 per cent of cancer patients will survive for more than five years after diagnosis, during which time the need for financial protection will be paramount.²

Each year, around 53,000 Australians have a stroke.³ And cardiovascular diseases affect more than 3.5 million Australians.⁴

Overall protection

Trauma insurance shouldn't be treated in isolation. It's an integral component of your wider protection needs, which include life insurance, total and permanent disability (TPD) and income insurance.

A comprehensive trauma product covers a defined list of events, including cancer, coronary artery surgery, heart attack and stroke.

In the event of a claim, the cover will pay out a lump sum to cover expenses such as rehabilitation and recovery, refitting your home, relocating, outstanding debts, ongoing income and professional care.

Determining your optimal level of trauma cover might involve a little more planning than taking out a basic life insurance policy, but we can help you navigate your way through the fine detail.

We will also help you answer the hard questions like these before estimating your required level of cover:

- Do you want an income supplement to allow your spouse to give up work to look after you?
- How will your family earn a regular income?
- How will you pay bills and other expenses?
- Would you like to be able to pay off your mortgage and other loans?
- Will you need to travel to seek out medical advances and treatment?
- Will you need money to refit your home, upgrade your vehicle or modify your car?
- How will you fund retraining for alternative employment?
- How will you fund specialist equipment for post-trauma recovery?

The devil is in the detail

There are a few basic ways to work out your trauma insurance requirements. You can estimate your level of cover – common methods include a multiple of your annual income or perhaps an amount that clears a specific proportion of your debt. Or you can devise a detailed plan, dividing your potential expenses in the event of a trauma into necessary and optional requirements.

What's necessary and what's optional will vary depending on your personal circumstances but may include:

- **necessary** – additional recovery costs, income supplement, annual salary, contingency fund for bills and special purchases.
- **optional** – mortgage, investment and personal loans, house modifications, rehabilitation.

If you think trauma insurance is something you should consider then please contact us. We can help you work out how much cover you need to provide for you and your family in the event of a trauma.

Notes:

- 1 www.cancer.org.au/aboutcancer/TAQ.htm
- 2 Cancer in Australia 1998. Australian Institute of Health and Welfare
- 3 www.strokefoundation.com.au/facts-figures-and-stats
- 4 Australia's Health 2006. Australian Institute of Health and Welfare – AIHW cat no AUS 73

Case study: Alastair and Alison's forward planning

Alastair is 42 years of age and earns \$100,000 as the manager of an electronics store. His wife Alison, aged 39 earns \$35,000 as a part-time kindergarten teacher.

Alastair holds limited insurance via his superannuation fund. He has \$100,000 in life insurance and limited salary continuance cover.

Alastair and Alison have a mortgage of \$500,000 and a car loan of \$25,000.

Alastair's financial adviser compiles a detailed insurance plan, dividing their requirements into necessary and optional. As well as recommending increasing his life and total and permanent disability (TPD) insurance to \$1 million, Alastair's adviser recommends he take out a policy worth \$720,000 in trauma recovery insurance.

Necessary

Additional recovery costs	\$20,000
Income supplement	\$35,000
Annual salary	\$100,000
Contingency funds (bills etc)	\$20,000
Total minimum cover	\$175,000

Optional

Mortgage/investment/personal loans	\$525,000
House modifications	\$20,000
Total extra cover	\$545,000
Total trauma cover estimate	\$720,000

Based on the discussion with their adviser, Alastair and Alison decide to purchase the necessary level of cover, a policy with a sum insured of \$175,000 each. This level of cover would typically cost \$655 per year for a male aged 42, and \$517 per year for a female aged 39*.

* Quote based on stepped premium structure, using PQT version 4.0, October 2008.