

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

FINANCIAL PLANNING NEWSLETTER



## Beyond children: safeguarding the future

With your house paid off, the children grown up and your retirement savings on target, you could be lulled into a false sense of security that you no longer need personal insurance.

If you or your partner were to die, then little may change in your financial situation. But what would happen if one of your adult children had an accident and needed care for the rest of their lives?

If your adult child is not insured, then you might find that all you have worked for over the years is whittled away by the many costs associated with assisting in their care.

After all, whatever their age, they are still your children and you will always want the best for them, be it the best care, the best medical treatment and/or a refit of their home to accommodate any new needs.

But at the same time, you are entitled to enjoy your retirement rather than have a substantial amount of your retirement savings redirected into helping your child.

Taking out insurance in your child's name could be a solution as it would enable them to enjoy a reasonable standard of living should they become permanently disabled as a result of an accident or illness.

You could either make the payments on their behalf by owning the policy, with a view to transferring the policy to them at a later date, or simply encourage them to have their own cover. Your children may

also not be aware that they can hold cover within super, which won't affect their day-to-day cash flow.

Of course, many super policies automatically carry Term Life and Total and Permanent Disability (TPD) insurance, but this cover may not be enough. Rice Warner Actuaries estimate that life insurance cover within super is on average only 20 per cent of what is needed.<sup>1</sup>

### Start a conversation

As with all things, it starts with having a conversation with your children to help them understand the value of having personal insurance cover.

With more adult children living at home, it is also a good idea to have a conversation with your financial adviser about your existing insurance arrangements to determine whether you and your family are adequately covered.

### Key benefits

One of the key benefits of taking out personal insurance at a younger age is premiums are generally cheaper.<sup>2</sup> They do increase with age – known as 'stepped premiums', however other options such as 'level premiums' exist whereby premiums commence at a higher rate but remain stable over time. Level premiums are generally more cost effective over the long term.<sup>3</sup>



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## Beyond children: safeguarding the future continued

Another benefit of taking out insurance when you are younger is that insurance policies are generally guaranteed to be renewable. This means once a policy is in place, the insurer is obliged to renew it every year unless you say otherwise. So should your child develop minor health complications or an illness later in life, the insurer cannot refuse cover. Neither can they increase the premiums (called a 'loading'). Unfortunately, many adult children delay taking out insurance until they have dependants of their own, or significant financial obligations like a mortgage.

Minor health complications can lead to the imposition of a loading or in some instances denial of cover altogether. This is more of a reason to encourage adult children to consider taking out insurance early on.

### Case study

John and Susie were in their early 60s and looking forward to a retirement filled with holidays and the opportunity to pursue their personal interests.

They had two children, Fiona, 34, who was married with two children and Ben, aged 28, who was single and still living at home. Fiona and her husband had already realised the



value of personal insurance, however Ben, on the other hand, could not see the point of having insurance.

One day Ben was involved in an accident when he dived into a shallow river. He ended up with quadriplegia, needing constant daily care and a home modified to cater for his needs.

John and Susie had worked hard all their lives to ensure they could enjoy their retirement but realised they would now have to dig into their savings to help with Ben's costs.

Had Ben been covered by personal insurance, both parents and child would have had a better chance at achieving financial freedom.

- 1 <http://www.lifewise.org.au/facts-research>
- 2 <http://www.canstar.com.au/life-insurance/cost-of-life-insurance/>
- 3 <https://www.amp.com.au/wps/portal/au/AMPAUHelpCentreAns?vignurl=%2Fvgn-ext-templating%2Fv%2Findex.jsp%3Fvgnextoid%3D53f5ec9cd1e75310VgnVCM1000001903400aRCRD%26vgnnextchannel%3D3f97e4a5d0385310VgnVCM1000001903400aRCRD%26mid%3D4572>

## Beware SMSF property spruikers

Self Managed Superannuation Funds (SMSF) are becoming increasingly popular with Australians who want to take control of their superannuation investments.

But there are growing concerns that SMSF property investments are being pushed by aggressive unlicensed property spruikers who are not acting in their best interests.

The Australian Securities and Investments Commission (ASIC) recently warned real estate agents that they must have an Australian Financial Services Licence (AFSL) before they recommend the use of a SMSF to invest in property.<sup>1</sup> While a financial adviser is licensed under an AFSL, many unsuspecting people don't realise many "property experts" are not licensed and are sometimes incentivised by developers to "promote" property that may not be appropriate as an SMSF investment.

Property investment has been heavily promoted to SMSF trustees since a change in superannuation legislation allowed them to borrow for investment. At present SMSFs hold around 15 per cent of their assets in direct property.<sup>2</sup>

Residential property has been a reliable investment for generations of Australians, but the decision to buy inside or outside super needs to be weighed up carefully. There

are benefits and restrictions with each form of ownership.

### Property inside super

The main benefit of buying inside a SMSF is that capital gains are tax-free if you sell your property after you retire and have converted to pension phase. If you sell earlier and have held the property for over 12 months, the effective tax rate is 10 per cent. Of course you can't take the proceeds out of super until you retire or start a super pension.

In addition, the tax benefits of negative gearing are smaller inside super where income is taxed at 15 per cent. What's more, banks will generally only lend up to 80 per cent of the purchase price, and will generally charge higher rates of interest than those on offer outside super.<sup>3</sup>

### Outside super

If you buy property in your own name you may be able to borrow up to 100 per cent of the purchase price if you already have sufficient property as security. You can also sell your investment and access the cash whenever you like.

Set-up costs are cheaper outside super and tax deductions for interest and other



investment-related costs are often greater. This is because they are made at your marginal tax rate rather than the 15 per cent super tax rate.

On the downside, when you sell the property you pay capital gains tax at your marginal tax rate.

The best outcome will depend on your personal financial circumstances and investment strategy. If you would like to discuss any the points raised in this article, please see your financial adviser.

- 1 ASIC, 6 Nov 2013, <http://www.asic.gov.au/asic/asic.nsf/byheadline/13-304MR+ASIC+warns+real+estate+industry+about+recommending+property+investment+through+SMSFs?openDocument#>
- 2 RBA Financial Stability Review, September 2013, <http://www.rba.gov.au/publications/fsr/boxes/2013/sep/d.pdf>
- 3 <http://www.yourmortgage.com.au/calculators/affordability/>

## Freshen up with frontier MINTS

It used to be that having a good lie down after taking a Bex powder was the homely antidote to stress. Nowadays, investors wringing their hands over sluggish returns are more likely to be told to have some MINTS.

Not the tingly sort you pop into your mouth, but a stake in the frontier and promising economies of Mexico, Indonesia, Nigeria, Turkey and South Korea (MINTS).

The acronym was coined by former leading Goldman Sachs economist Jim O'Neill, who also first described the global game-changing bloc of the rapidly evolving BRIC economies – Brazil, Russia, India and China in 2001.<sup>1</sup>

Originally, the latest grouping of powerhouse economies was known as MIKT and did not include Nigeria. Some economists argue that South Korea should be excluded because its economy is more developed. Collectively, the MINTS are forecast to contribute more to world economic growth over the next decade than the average of some of the wealthiest countries.<sup>2</sup>

### Adapting to change

Maintaining these newly emerging economies on your portfolio radar is important now that traditional, First-World havens have lost some of their economic turbo boosters.

Since the Global Financial Crisis, economic clout has been turned on its head and some investors looking for fast growth have looked towards new markets in the developing world. Nowadays, corporations are increasingly choosing those markets above some First-World markets for their own individual growth strategies.<sup>3</sup>

Such an example is GM Holden's decision in late 2013 to exit manufacturing in Australia,<sup>4</sup> which reflected its Detroit headquarters' priority to manufacture only in locations where it can sell and export cars profitably. They conceded the opportunities for accelerated growth are increasingly less in the developed world, and more in emerging countries.<sup>5</sup>

### Mexican wave

The International Monetary Fund (IMF) forecasts that by 2018, Mexico will have the world's 10th largest Gross Domestic Product (GDP) on the basis of Purchasing Power Parity (PPP), one rung above South Korea. Indonesia and Turkey are listed at numbers 13 and 16 respectively, ahead of Australia's own ranking of 18. Not to be considered a laggard, Nigeria appears at number 24 out of the total 180 countries ranked.<sup>6</sup>

In Mexico, a recent legislative amendment to allow private companies to explore for unconventional oil and gas in shale deposits is about to open a significant market. The state-owned oil company will be able to partner the private sector to produce fuel from shale oil deposits.<sup>7</sup>



### Turkish delights

In Turkey, another member of the MINTS group, credit ratings agencies like what they see. There, IMF led reforms have fuelled economic growth for a decade.<sup>8</sup>

Foreign investors impressed with the lower cost base and greater profit margins of domestic manufacturers are seeking out Turkish bonds earmarked to fund expansion.<sup>9</sup>

### People power of Indonesia

Two years ago, the Indonesian government's impressive financial reforms led to credit agencies upgrading the rating of the 250 million-strong nation's economy. While the population – to which more than 4 million births are added each year – becomes increasingly middle class, Indonesia's consumption will be a force to be reckoned with. Already, ambitious government policies promoting universal healthcare have created an opening for regional medical service providers to gain a foothold.<sup>10</sup>

### Nigeria – Africa's bright spark

The latest MINTS member, Nigeria, from which Australia imported \$2 billion of crude petroleum last year, has recorded GDP growth of between six per cent and eight per cent for the past five years.<sup>11</sup>

This stand-out nation on the west African coast has just completed the privatisation of its power generation assets, with a considerable number of foreign corporations buying up. Since 2005, Nigeria has hived off dozens of state-owned companies on condition the new owners will do a better job than the government to increase the nation's prosperity. Many more assets, from telecommunications companies and oil refineries, are being prepared for privatisation.<sup>12</sup>

### Trade jackpot

Australia may have only exported \$100 million of goods to Nigeria in the past year, but our exports to MINTS nation South Korea are worth considerably more at \$32 billion. The latest news is that this figure is likely to increase significantly thanks to the signing of a free trade agreement with the Asian nation in December 2013.

It is estimated Australian companies doing trade with South Korea will collect an extra \$5 billion between 2015 and 2030 following the deal.<sup>13</sup>

It is important to remember many superannuation funds are already exposed indirectly to the opportunities in MINTS economies because they own large big brand companies listed on various stock exchanges around the world such as Apple, Toyota and Nestle. Of course some super funds invest directly into MINT economies as part of their overall diversification strategy.

To find out how your investment portfolio is benefiting from this unfolding growth, speak to your adviser today.

- 1 <http://www.goldmansachs.com/our-thinking/archive/archive-pdfs/build-better-brics.pdf>
- 2 <https://moneymorning.com/2013/11/29/best-investments-in-emerging-markets-mint-is-the-next-bric/>
- 3 "How Western multinationals can organize to win in emerging markets" McKinsey Report: Author Vimal Choudhary
- 4 [http://media.gm.com/content/media/au/en/holden/news.detail.html/content/Pages/news/au/en/2013/Dec/1211\\_National\\_Sales\\_Company.html](http://media.gm.com/content/media/au/en/holden/news.detail.html/content/Pages/news/au/en/2013/Dec/1211_National_Sales_Company.html)
- 5 <http://www.nasdaq.com/article/general-motors-stays-at-neutral-analyst-blog-cm312010>
- 6 [http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_future\\_GDP\\_\(PPP\)\\_estimates](http://en.wikipedia.org/wiki/List_of_countries_by_future_GDP_(PPP)_estimates)
- 7 [http://www.washingtonpost.com/world/the-americas/mexicos-congress-certifies-oil-reform-approval/2013/12/18/6145a630-6821-11e3-997b-9213b17dac97\\_story.html](http://www.washingtonpost.com/world/the-americas/mexicos-congress-certifies-oil-reform-approval/2013/12/18/6145a630-6821-11e3-997b-9213b17dac97_story.html) "Mexico's congress certifies oil reform approval", By Associated Press, Washington Post, December 19, 2013.
- 8 [http://www.standardandpoors.com/spf/upload/Ratings\\_EMEA/2013-05-24\\_AsNewInvestorsDiveIntoTurkeyCorporatesExpand.pdf](http://www.standardandpoors.com/spf/upload/Ratings_EMEA/2013-05-24_AsNewInvestorsDiveIntoTurkeyCorporatesExpand.pdf) Standard & Poor's Rating Services, May 24, 2013. "As New Investors Dive Into Turkey, Corporates Expand Outside Their Borders", Page 2.
- 9 [http://www.standardandpoors.com/spf/upload/Ratings\\_EMEA/2013-05-24\\_AsNewInvestorsDiveIntoTurkeyCorporatesExpand.pdf](http://www.standardandpoors.com/spf/upload/Ratings_EMEA/2013-05-24_AsNewInvestorsDiveIntoTurkeyCorporatesExpand.pdf) Standard & Poor's Rating Services, May 24, 2013. "As New Investors Dive Into Turkey, Corporates Expand Outside Their Borders", Page 9.
- 10 [http://www.oxfordbusinessgroup.com/economic\\_updates/investing-indonesias-private-sector-health-care](http://www.oxfordbusinessgroup.com/economic_updates/investing-indonesias-private-sector-health-care)
- 11 <http://www.dfat.gov.au/geo/fs/ngra.pdf>
- 12 <http://dailypost.com.ng/2013/12/21/jonathan-approves-privatisation-nations-four-refineries/> <http://www.bpeng.org/-sites/bpe/Pages/default.aspx>
- 13 <http://www.smh.com.au/federapolitics/political-news/australia-signs-free-trade-deal-with-south-korea-20131205-2ysv3.html>



# A digital life after death

The common thread shared among Walt Disney, Paris Hilton and Britney Spears goes well beyond entertainment.

They are all clients of a non-profit company that researches, advocates for and performs cryonics. That is, the preservation of humans in liquid nitrogen after death with hopes of restoring them to full health when new technology is developed in the future.

This is just one of the more recent examples in mankind's endless search for eternal life. But, in a roundabout manner, anyone with a laptop, smartphone and internet connection readily collects enough email addresses, passwords, hashtags, likes and PIN numbers to make it seem as if they're figuratively frozen in ice.

## Everyone has a digital footprint

Consider for a moment your own virtual footprint. At a minimum, there's likely to be at least one or two social media accounts via Facebook or Twitter. Your bank accounts are almost certain to have online access, and perhaps there's also a few hundred dollars in a Neteller wallet for the odd flutter on eBay. That's before you even consider the personal data you have stored on the desktop at home, or on the iPad that never leaves your side.

These elements are an indelible part of our lives, but precious few of us consider the implications of these digital alter-egos as part of their formal estate planning.

## Digital Wills and social media

Digital Wills are now being made available through respected organisations so people can ensure their online legacy lives – or fades – according to their wishes. The suggested check-list for those considering a digital Will includes:

- What are your digital assets? Make a detailed and accurate list.
- Who do you want to look after and deal with your digital assets after your death?
- Where are your digital assets, who can access them and what passwords or other access controls (such as encryption, etc.) are required?
- Which sites do you want to continue or close after your death? Are there any saved items you don't want deleted (such of photos or videos)?

The expertise of a Digital Will maker also helps friends and family negotiate the minefield of terms and conditions that the majority of us accept with a tick of a box. For example, some sites like Amazon do not

provide any information on how to close the account of deceased users. iTunes is another grey area. No substantial law exists to say whether you really own the content forever, or just while you are alive.

These considerations are even more important for residents of Australia. While the right of publicity ceases when you die as a resident of most countries, no laws currently exist in Australia to grant a Will's executor automatic access to someone's social media accounts.

## Storing your digital identity

In addition to Digital Wills, a popular alternative is to store important documents and passwords in an online vault. Businesses including SecureSafe and Legacy Lockbox offer secure online storage of passwords and documents. Password management accounts can also be set-up using software such as Norton Identity Safe while Google recently introduced a new program called Inactive Account Manager, which enables you to choose how you wish your Google data to be managed.

Perhaps these alternatives will be enough for the likes of Ms Hilton and Ms Spears to steer away from a trip to the liquid nitrogen tanks.

# Tips and traps of credit

Starting out with a HECS debt is bad enough, but abusing a credit card can also mean trouble. Admittedly it's tempting to spend with interest rates at current levels, but most credit cards still have double-digit rates.<sup>1</sup>

Of course a card is useful when you don't have ready cash, but unless you pay off the balance in full each month the interest costs add up.

Credit card statements today must show how long it will take to repay the debt, and how much extra interest you pay if you only make the minimum payment each month. The MoneySmart calculator is also a useful tool to show you how much more you owe on your card.<sup>2</sup>

Running up large credit card debt can result in a poor credit rating that can come back to bite you down the track.

For instance, if you are just five days late in paying your credit card, this fact may be noted on your credit file. If you are 60 days late in paying any form of credit, then you may be issued with a default or other negative listing.<sup>3</sup> That does not sit well when applying for a mortgage.

It is estimated that the average household credit card debt for the 56 per cent of

Gen Y's who have credit cards is \$6,000.<sup>4</sup> Much of this is lifestyle debt – money spent on clothes, entertainment and holidays rather than appreciable assets like property.

For Gen Y's wanting to get ahead financially, the first step is to pay down a credit card. This will help provide space in a personal budget to think about starting a regular savings plan.

## Interest-free store deals

Interest-free store deals can prove lethal, they are not free with both fees and charges attached. If the purchase balance is not paid in full within the interest-free period, you will be charged interest on the outstanding balance at rates that can be close to 30 per cent. In some cases, the interest may revert to when you first made the purchase.<sup>5</sup> Paying huge interest costs on a depreciating asset long past its prime is a wasted effort.

Amalgamating all your debt into the one account and then paying a lower overall interest rate may be an option but this also has a downside as it may mean extending the repayment of what was previously a short-term debt over a longer period, which can cost you more in interest.<sup>6</sup>



There is no doubt credit cards can play an important role in life, but you need to make sure they are working for you and not the other way round. If you are concerned, speak to an adviser about getting a savings plan in place today.

- 1 <http://www.canstar.com.au/credit-cards/compare-credit-card-rates/>
- 2 <https://www.moneysmart.gov.au/tools-and-resources/calculators-and-tools/credit-card-calculator>
- 3 <http://mycra.com.au/blog/2013/07/16-25-drowning-debt-guide-make-credit-work-you/>
- 4 <http://www.genworth.com.au/downloads/4-2-3-Spotlight/spotlight-series-gen-y.pdf>
- 5 <https://www.moneysmart.gov.au/life-events-and-you/under-25s/credit-and-debt/types-of-credit-interest-free-deals>
- 6 <https://www.moneysmart.gov.au/managing-your-money/managing-debts/consolidating-and-refinancing-debts>

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