



# Financial planning 101: diversification

**Another month another investment scheme collapse, or so it seems... so how can you minimise the risk?**

Westpoint, Fincorp, Australian Capital Reserve and Bridgecorp – the past 12-18 months has seen a number of highly promoted, high-risk investments collapse, leaving many investors out of pocket. The hardest hit investors were retirees, or those close to retiring, some of whom had contributed life savings to the schemes. These investments were never on Genesys' approved investment list.

In these cases, many investors will get little or none of their original investment back, with any available funds paying back creditors first. The lesson from this? Don't put all your eggs into one basket – it's all about diversifying your investments.

Diversification means spreading your investments across a number of different types of assets; spreading risk and making the most of quality investments. Diversification helps to reduce the impact of any one investment on your overall returns.

By spreading your investments, you aren't as exposed to the movements of just one market – you will have money in many different markets, some of which may rise, while others may fall.

The financial markets are influenced by a number of different factors such as interest rates, local and global economic conditions, government decisions and market expectations. Unfortunately, many of these factors are unpredictable and beyond our control. This is why diversification is important.



To use the full benefits of diversification, a portfolio should have a mix of each of the major asset classes – shares (both Australian and International), property, fixed interest and cash.

Three main ways of diversifying a portfolio include:

- Within an asset class, by investing in a number of different shares or properties.
- Across asset classes by investing in more than one of the main asset classes – cash, fixed interest, shares and property and/or securities.
- Across investment managers – by choosing a mix of managers, you may be able to smooth out performance fluctuations that might result if you have only one investment manager. Also, some investment managers' style suits some market conditions better than others, helping to add consistency to returns over time.

An important part of understanding how investments work is to read the Product Disclosure Statement or prospectus, particularly if you are considering an investment that hasn't been recommended by us. If you are contacted directly about an investment, don't understand the investment, believe the promise of high returns is too good to be true, or are alarmed by the level of risk involved, you should speak to us immediately.

## CONTENTS

Smart women, smart money **2**

Adrenaline junkies **3**

Centrelink – how do the changes affect you? **4**

Good advice – take it or leave it **5** News bites **6**

# Smart women, smart money

**We all know that women are more likely to take a career break to look after children, and that women usually end up with less superannuation than their male counterparts.**

Even as recently as 2004, most women still earned less than men, and only around 40% of all income paid was received by women<sup>1</sup>. Almost 50% of marriages end in divorce<sup>2</sup>, and more than half of divorced women over the age of 45 are living in poverty<sup>3</sup>.

These worrying statistics show that, more than ever, it's essential women are armed with the knowledge and skills required to make important financial decisions, and plan for a secure financial future.

While women are often responsible for the household finances – budgets, paying the bills, balancing the cheque book etc – future financial considerations such as saving enough for retirement can take a backseat to more immediate issues.

## Avoiding exposure to other people's debt

Unfortunately, many individuals become exposed to unforeseen debt as a consequence of being married to, living with, or having a family relationship with another person. Consumer Legal Credit Services suggests that as many as nine out of 10 of these people are women. Unfortunately they often end up suffering the financial and emotional effects of paying their partner's debt.

Being aware of the risks involved in the following familiar scenarios can help avoid the debt of others:

**Ending up with nowhere to live:** A husband who asks his wife to mortgage the family home as security for credit provided to his business, despite her having no direct involvement in running the business. If the business fails, creditors could possess the home to cover debts.

**A joint loan doesn't mean you are liable for only half the debt:** A woman whose partner asks her to be the guarantor on a car loan (which she will not be using), only to discover she is a co-borrower. If her partner defaults on payments, she will be liable for all repayments plus any interest payable.

## Superannuation

It's a well known fact that women live longer than men. Life expectancies since birth have increased and today men can expect to live to age 82, whereas women can expect to live to around 86.

The need for women to build retirement savings is important – 82% of women over age 65 rely on government pensions or allowances as their principal source of income<sup>4</sup>. Because women, on average, spend roughly 20 years less in the workforce than men, there is less opportunity to accumulate the significant retirement savings they will need.

According to the Association of Super Funds of Australia, more women have superannuation savings compared to 20 years ago. In 1985, approximately 24% of women had super; in 1991, 72% had super, and in 2001, 95% had superannuation savings<sup>5</sup>. However, Federal Government projections indicate that by 2019 the real average superannuation balance for women will be \$77,000 whereas the average for men will be much higher at \$121,000.

Given that half of all women over the age of 65 outlive their husbands by 15 years, it's important that women feel comfortable dealing with finances on their own.



## Planning for the unexpected

As much as we like to think 'it won't happen to me', not everyone is immune to unforeseen circumstances. Income protection insurance, life insurance and total and permanent disability insurance are important insurances that are often available through your super fund, at competitive premiums. Income protection premiums are usually also tax deductible.

## Smart women, smart money cont.

### Planning with your partner

While a large number of women take responsibility for the household budgets, bill paying and day-to-day finances, many let their partner take care of the 'wealth creation' aspects. Consider this:

Anna and her husband Michael have been married for 17 years. During this time, Anna has been largely responsible for budgeting and ensuring the household bills are paid on time, while Michael has taken care of their accounting, wealth creation and retirement planning. Michael dies unexpectedly, and not only is Anna left to deal with the grief but she also had to try to understand and make the financial planning decisions that Michael previously looked after. Had Anna and Michael been jointly responsible for understanding and making financial decisions together, Anna would be able to simply deal with her grief without the burden of making complicated financial decisions alone.

Whatever happens in life, it's important to be confident in making financial decisions. Discussing your goals with a financial planner is the first step in making sure you understand your financial situation.

<sup>1</sup> Australian Bureau of Statistics Australian Social Trends, 2001

<sup>2</sup> Australian Bureau of Statistics Marriages and Divorces in Australia, 1999

<sup>3</sup> www.amp.com.au

<sup>4</sup> ibid

<sup>5</sup> Association of Super Funds of Australia Fact Sheet 6, Women and Super, June 2004



### ASIC's seven hot tips

1. Deal only with a licensed financial advisory business
2. Pick the adviser with the strongest qualifications, experience and integrity
3. Ask questions until you really understand
4. If you feel uneasy, it's ok to walk away
5. Make sure your financial plan suits your needs and personality
6. When you get a good plan, stick to it
7. Keep all your paperwork

## Adrenaline junkies

Extreme sports have been growing in popularity since the 1980s with a new extreme sport born seemingly almost every week. Many extreme sports are a hybrid of other sports, brought together to form a new sport that is even more radical than the last. Hang gliding and skydiving have given way to heli-bungee and sky flying; skateboarding has spawned street luge; building involves free climbing skyscrapers; BASE jumping involves parachuting from buildings; while freediving is about learning to hold your breath as long as you can. Crazy? You bet!



Interestingly, the growth of extreme sports tends to be at the expense of more traditional sports. For example, between 1998 and 2004, the number of people who took up snowboarding grew by 30 per cent, and artificial wall climbing increased in popularity by 63 per cent. At the same time, participation in more traditional sports has declined.

Extreme sports are big business – TV programs, drinks and clothing are bigger than the sports themselves. While males aged 15 to 24 are the prime demographic in this high-adrenaline market, the extreme sports channel has an audience of over 20 million across Europe, most of which are unlikely to go anywhere near a 'half pipe' (a u-shaped ramp for performing tricks on a skateboard or snowboard).

But is it the perceived danger of extreme sports that makes them popular? In most circumstances, people who take part in extreme sports have masses of safety equipment, and often entire safety teams. Surprisingly (or perhaps not), the most statistically dangerous sport in the world is actually horse riding!

# Centrelink – how do the changes affect you?

**You may have heard about Centrelink changes that come into effect from 20 September 2007. But do you know how they affect you?**

The changes, including a reduction in the assets test taper rate and the abolishment of the 50% assets tests exemption for new complying income streams, affect the age pension payment and superannuation retirement income streams. Many more Australians will be eligible for an age pension as a result of the changes – you may be one of them.

## Changes to the assets test taper rate

Under the current assets test taper rules, pension recipients lose \$3 of pension per fortnight for every \$1,000 of assets above the allowable asset limits.

However from 20 September 2007, the taper rate will be **halved** so that recipients only lose \$1.50 of pension per fortnight for every \$1,000 of assets above the limit. The lower threshold from which the pension begins to taper off won't change, and the limit at which the pension cuts out completely will increase.

This new rate applies to assessment for a number of pensions, including the age pension, the disability support pension and carer payment. There is no change to the income test for these pensions.

So, from 20 September 2007, a single homeowner will start to lose \$1.50 of pension per fortnight for every \$1,000 of assets above the threshold of \$166,750. After 20 September, the pension will cut out completely at \$520,750<sup>^</sup> worth of assets – an increase of \$177,000 from the current limit.

For a couple who own their home, their pension will start to taper off once their assets reach \$236,500<sup>^</sup>, cutting out at \$531,000<sup>^</sup>. After 20 September, it will cut out completely at \$825,500<sup>^</sup> worth of assets – an increase of \$294,500 from the current limit. The family home is not included in the assessable assets.

Assessable assets include items such as cars, boats, caravans, real estate (other than the principal residence), bank accounts and investments, household contents and business assets.

Superannuation in accumulation phase is not considered to be an assessable asset until you reach age pension age. Superannuation pensions are assessable assets unless they meet Centrelink requirements for asset test exemption.

<sup>^</sup> Based on thresholds applying from 1 July 2007 to 19 September 2007

## Change to the 50% assets test exemption for complying income streams

From 20 September, income streams (including allocated pensions, account based pensions, term allocated pensions and complying annuities) will be fully (100%) assets tested.

The exception to this will be complying income streams that were commenced before 20 September 2004, which will remain 100% assets test exempt, and complying income streams purchased between 20 September 2004 and 19 September 2007, which will remain 50% assets test exempt. These exempt income streams include lifetime annuities/pensions, life expectancy term annuities, and market linked complying income streams (term allocated pensions).

Let's take a look at a simple example of the above exemption in practice:

Richard is 62 years old and retired. He has been advised to purchase a term allocated pension using \$150,000 of his superannuation before 20 September 2007. When Richard is eligible to apply for the age pension at 65 years of age (three years from now), only 50% of the remaining balance of his term allocated pension will be assessed in the asset test.

The Centrelink changes present more Australians with the opportunity to receive an age pension – however it's important you discuss your circumstances with us to ensure you make a decision that's right for you.

## Be rewarded for your hard work!

The Pension Bonus Scheme is a voluntary scheme that rewards people who defer claiming the age pension or service pension. You could be paid a bonus if you continue to work past age pension, have registered for the scheme and meet a work test of a minimum of 960 hours work for at least 12 months after registration. The bonus is based on years accrued and starting rate of pension at eventual retirement, as per the rates table below:

Years	Single	Couple (each)
1	\$1,283.30	\$1,071.70
2	\$5,133.40	\$4,286.60
3	\$11,550.10	\$9,645.20
4	\$20,533.50	\$17,147.10
5	\$32,083.60	\$26,792.40

The bonus is paid as a non-taxable lump sum once you claim and receive the age pension. But make sure you register as soon as you are eligible – the sooner you register, the more pension bonus you are eligible for! Visit [www.centrelink.gov.au](http://www.centrelink.gov.au) for more information.

# Good advice – take it or leave it

**When it comes to a tragic event or accident, most of us think ‘it won’t happen to me’. Unfortunately, it can. Risk insurance cover can help when unforeseen circumstances arise, and insurance protection should be an integral part of any financial plan – whether it’s planning for wealth creation, retirement or just paying off debt.**



Financial advisers specialise in providing financial advice but unfortunately not all clients implement that advice, resulting in four scenarios when it comes to risk insurance advice: taking advice; not taking advice; deferring the decision for some time; and taking advice but not reviewing it regularly. All of these decisions have consequences – some more serious than others.

Below are four real-life case studies as told by our fellow advisers – which of these four situations will you fall into?

## Did not take advice

‘Nick was a self-employed painter who came to see me about income protection. I recommended Nick take out a policy that would pay him a benefit up until age 65 if he was sick or injured and couldn’t work.

Nick didn’t want to pay the higher premium so he took out a policy that only gave him two years of benefit payments.

Three years later, Nick was cleaning out the gutters on the roof of his home when he fell off the ladder and landed head first on the concrete. The impact and injury was so severe, his life hung in the balance for a short time. While he survived, Nick’s speech and sense of smell was affected so much that he could no longer tell the difference between oil and water based paints – essential when you work as a painter.

Nick is now unemployable, and as he only had two years worth of salary continuance payable from his policy, is now struggling to keep his home.’

## Did not review advice

‘An acquaintance, a financial adviser who was working in a large accounting practice, knew the value of risk insurance but was sensitive about having anyone review his policy. Robert was a very private person, and also had medical issues he didn’t want anyone to know about.

After the insurance policies were set up, he took the file and locked it away and didn’t review it again; he also turned down every offer to review the policy.

Recently, after a week of intense pain, and abdominal and gastric discomfort, Robert was diagnosed with advanced stomach cancer and needed two operations to remove the full tumour. During the first

operation, he came very close to death. He was left with permanent damage, and does not have a good prognosis for recovery.

Barely hours after the surgery, Robert asked his colleague to put in a trauma insurance claim for him, but because the policy hadn’t been reviewed for over 10 years, it didn’t cover the type of benign tumour he had been diagnosed with. His claim was denied and he is left with the prospect of significant ongoing medical costs to be paid out of his own pocket. He is now looking to downsize his house and lifestyle.’

## Deferred decision

‘I submitted a risk insurance application on behalf of my client Tony. It was accepted, subject to Tony agreeing to an exclusion clause for private flying. I contacted Tony to discuss the clause, however decided he would deal with it when he returned from the three week holiday he was about to go on – in other words, Tony deferred the decision.

While on holidays, Tony fell ill and was eventually diagnosed with cancer. As his insurance policy was not activated prior to his diagnosis, he is now uninsurable.

## Taking advice

‘Michael was referred to me by a general insurance broker for \$100,000 of life insurance. After a full consultation, I established that he not only needed \$185,000 of life insurance, Michael also needed income protection insurance as he was self-employed in the family business.

Less than two years later, Michael had a brain hemorrhage and died. At the time of his death, Michael and his wife were within weeks of settling on their first home, and within months of expecting their first child.

While it was a very traumatic time, at least the life insurance was sufficient to settle the property and have some left over to support his wife while off work having the baby. She eventually sold the property and moved closer to her parents but the life insurance made a difficult time less of a financial strain.’

Each of these case studies is tragic, but what makes the first three even more tragic is that each of the clients had access to sound financial advice but did not take advantage of it.

**Please contact us if you would like to discuss your risk insurance needs.**

# News bites

## Don't take the bait



The Financial Planning Association of Australia has fully endorsed the Australian Taxation Office's new *Don't take the bait* campaign, which aims to help consumers identify dodgy investment schemes.

The brochure advises Australians of the importance of seeking independent financial advice and checking for an ATO product ruling before investing.

High investment returns, generous tax breaks and arrangements that put money in an offshore tax haven are high on the ATOs list of warning signs that should trigger alarm bells with investors.

The brochure, available for download from the ATO website, provides a list of typical phrases often used to generate interest in suspicious investment schemes, including 'There are no risks. We guarantee returns', 'A top lawyer and/or accountant has looked at the investment and they think it's great', or 'We'll put your money in a tax-free overseas account'.

The brochure provides consumers with some questions they should ask before entering into investment schemes, including whether or not the salesperson promoting the product works for a licensed business, and whether the investment scheme provides a Product Disclosure Statement. If investors don't investigate the risk of having to pay back any missing tax, plus interest and penalties. Not to mention losing the initial investment outlay if the scheme fails.

Getting advice from a qualified financial planner can help minimise the risk in investing in 'dodgy schemes' – as the old saying goes 'if it sounds too good to be true', it probably is!

Source: [www.ato.gov.au](http://www.ato.gov.au)

## Who wants to be a millionaire?

The number of high net worth Australians has grown by more than 10%, placing us in the world's top 10 countries in terms of millionaires.

According to the Merrill Lynch/Capgemini 11th annual World Report, the number of people with financial assets of at least US\$1 million, grew from 146,000 at the end of 2005, to 160,600 at the end of 2006 – an increase of about 15,000 wealthy individuals. Australia comes in at number six in the world, behind the US, Germany, UK, China and Canada.

The combined wealth of the world's investors increased to a staggering US\$37.2 trillion, with around 9.5 million people falling into this category.

Source: Merrill Lynch/Capgemini World Wealth Report 2007

## TFN and insurance in super

Under the new simpler super rules, super funds cannot accept non-concessional (personal post-tax) contributions if they do not have the member's Tax File Number. This affects not only personal contributions to super, but also potentially any insurance policies held within super. If insurance is through the super fund and contributions are not accepted, this could affect the payment of premiums, and may ultimately lead to the lapse of the insurance policy within the super fund.

## The A-Z of finance

Money makes the world go round or so the saying goes, but how much finance talk sounds like a foreign language? Here are just a few examples:

**Bear market:** not as cute and fuzzy as it sounds – it's a share market in which prices are going down

**Bull market:** no, it's not the running of the bulls – it's a share market in which the prices are rising.

**Yield:** how much you make on an investment, usually expressed as a percentage.



## IMPORTANT INFORMATION

Any advice contained in *Aspirations* is general advice only and does not take into consideration the reader's personal circumstances. Any reference to the reader's actual circumstances is coincidental. To avoid making a decision not appropriate to you, the content should not be relied upon or act as a substitute for receiving financial advice suitable to your circumstances. When considering a financial product please consider the Product Disclosure Statement. Genesys and its representatives receive fees and brokerage from the provision of financial advice or placement of financial products.

To request not to receive further editions of *Aspirations* contact your adviser or our Privacy Officer on 1800 066 577 or by writing to Genesys Wealth Advisers Privacy Officer Locked Bag 26, Epping, NSW 1710.