LIFE FINANCIAL PLANNERS Pty Ltd

Prepare for life

+ wealth + security

Issue 7 | 2012

Making the most
of your retirement income

After you stop working, you can find yourself with time to do the things you may not have been able to do before, like travelling, volunteering or spending more time with loved ones.

As you adjust to this new lifestyle, you will need to think differently about your finances. In retirement, your priority typically changes from saving in preparation for when you leave the workforce, to carefully spending those hard-earned savings.

Age Pension

The Age Pension is an income support payment offered by the Government to older Australians who meet the relevant eligibility criteria.

With maximum payments of $19,643 p.a. for a single pensioner and $29,614 p.a. for pensioner couples (current for the period 20 March 2012 - 19 September 2012), the Age Pension probably won't be enough to afford most people a modest post-work lifestyle of basic activities, let alone a comfortable lifestyle.

To afford even a modest lifestyle in retirement, many people will need to supplement the Age Pension with other income. This could come from an annuity, an account-based pension or other investments.

An annuity [from within or outside super]

An annuity is a simple, secure financial product that guarantees a series of payments for a fixed term or for life, in return for an upfront investment. The earnings rate is fixed at the outset and this applies for the length of the annuity, regardless of share market movements or interest rate fluctuations. Capital can be returned at the end of the agreed term or gradually during the term of the annuity as part of the regular payments.

An account-based pension [from super]

This is an investment account which gives you the ability to choose from a range of investments and can vary the level of income you wish to draw subject to the minimum annual withdrawal amounts set by the Government. These are usually market linked, meaning that the capital value is linked to the performance of the underlying investments, which can impact the level and duration of your savings and the income produced. Account-based pension providers, which may include your super fund, charge management and administration fees for these products.

Other investments

These are just some of the types of investments that can sit within your super fund or outside superannuation.

- **Term deposits:** A term deposit is a fixed term, fixed interest savings account. Terms generally range from one month to five years.
- **Shares:** Shares pay income in the form of dividends. You can invest in shares directly or via managed funds (or account-based pensions).
- **Property:** An investment property is real estate which has been purchased with the intention of earning a return on the investment, either through rent, the future resale of the property, or both. Another type of property investment is a property trust, which is a managed fund that enables investors to pool their money to purchase an interest in a portfolio of real estate assets.

Income from various sources can be 'layered' to meet your income requirements. This can be set up so that more secure income, such as from the Age Pension or an annuity, can cover your essential costs of living, while your income from other sources can fund your discretionary spending.

More than one investment strategy and product may be required, so it's important to receive professional help from a financial adviser - it can make all the difference to your financial success in retirement.

Source | Challenger

In this issue...

Understanding your risk profile

One of the crucial aspects of successful investing is understanding your risk profile. How willing are you to accept fluctuations in the value of your investments?

If you choose a 'balanced' profile, it generally means you are willing to take a moderate amount of risk with your investments and probably have a combination of higher risk investments, such as shares, together with lower risk investments, like Government bonds.

The problem with risk profiling is that an investor's risk tolerance is dynamic. Interestingly, in a bull market, when asset valuations tend to be higher, investors are often more willing to take on a higher level of risk. In a bear market, however, when valuations tend to be lower and therefore asset prices less expensive, investors tend to be more risk averse. In essence, our risk tolerance tends to increase at the exact time we should be scrutinising our portfolios the most!

So, how do we get away from this way of thinking? One way is to set a savings goal and only take as much risk as is needed to reach your target. Even as markets move up and down, the overall level of risk will remain the same. That way, you are not tempted to stretch your risk tolerance just because markets are strong.

Another way to look at your risk profile is to look at age-based risk profiling.

Investors in the accumulation phase might be more willing to take on a higher degree of risk in their portfolios because of their stage in life. Generally, these investors will have a longer investment time horizon and/or earnings capacity, allowing for more time to ride out the volatility in markets.

As an investor gets closer to retirement and looks to start drawing down their accumulated funds, their risk profile is likely to become a little more conservative, simply because losses at this later stage of life are harder to recoup as there is less time available.

In the retirement phase, an investor can use an appropriate combination of both of these strategies.

With an ageing population, people are now living longer. To meet their expected lifespan, investors need to manage their accumulated pool of savings by targeting a certain level of earnings. What does this mean? For a risk adverse investor, who avoids shares and other more volatile investments, the biggest risk is that their savings run out before they do!

Investors, therefore, may need to consider holding a portion of higher risk investments in order to meet their overall retirement needs; being mindful, however, to limit that exposure to manage any market volatility.

Whatever your stage of life, it's important to discuss these issues with your financial adviser to make sure your investment strategy reflects a risk profile that's appropriate for your situation.

Source | IOOF

THE CREDIT CARD GAME HAS CHANGED

Stories abound of people being caught up with credit card debt that seems to be on a continuous upward spiral. Perhaps you have experienced this yourself at some point.

New reforms introduced from 1 July 2012 might make getting the credit card back under control just a little bit easier and those unsolicited invitations from our credit card provider to increase our limit might be a thing of the past.

Some of the new arrangements only apply to new credit card contracts but others apply to both new and existing contracts. So everyone is expected to benefit from the reforms.

When applying for a new credit card, issuers are now required to give you a fact sheet that sets out key information in a standardised format. This should make it easier to compare offers from different credit card providers.

Credit card contracts entered into on or after 1 July 2012 must include the following provisions, in addition to the fact sheet mentioned:

- Customer will be asked to nominate their credit card limit, allowing you more control;
- Fees charged on spending that exceeds the credit card limit (over-limit fees) are banned unless you specifically agree to this fee being charged when you apply for your credit card. Check the fine print carefully, or ask the issuer directly if over-limit fees apply;
- If you exceed your card limit, your card provider must notify you within two business days, thereby giving you the opportunity to stop spending or make a repayment in order to control the increasing level of debt; and
- Credit card providers are required to direct payments to the most expensive part of your credit card debt first. Many credit card contracts have different interest rates including one for standard purchases, another for cash advances and in some cases, an introductory rate that applies to transfers from other credit cards. Having payments directed to the most expensive items first will assist in making it easier to reduce debt.

While the foregoing conditions apply to new credit card contracts, there are some changes that will apply to both new and existing credit card customers.

If you have received a credit card statement since 1 July 2012, you may have noticed some changes. All credit card statements are now required to include a "minimum repayment warning". This warning contains personalised information and states how long it will take to pay off your credit card if only making the minimum monthly payment and not adding any further charges.

In addition to the minimum payment warning, credit card providers will no longer be able to make offers to increase your credit card limit unless you agree and providers must clearly show how their interest free period works.

Hopefully managing your credit card might have become just a little bit easier.

DID YOU KNOW:

A credit card balance of $4,000, attracting an interest rate of 18%, will take three years and 11 months to repay based on a monthly repayment of $120. Total interest will amount to $1,586.

If the monthly repayment is increased to $200, the repayment period is slashed to two years and the interest paid is also halved.

Source | Peter Kelly
National Manager – Technical Services Associated Advisory Practices

Financial advisers say clients can save and invest simultaneously, irrespective of their financial situation.

Although this advice might sound like financial boot camp, the principles of this advice lay the foundations for effective cash flow management that will ultimately enable a brighter financial future.

The key is establishing and practicing the art of saving – setting funds aside beyond what is needed to pay bills, groceries, utilities, school fees and repayments.

To do this, clients need to get real about their true costs.

It's difficult to stick to a budget but you need to be really transparent about spending.

Currently, Australians are saving more money than they ever have in the past 30 years. Since the Global Financial Crisis, there has been a dual trend of increased savings and the willingness by Australians to deleverage or to reduce debt.

This is the opposite of what was happening in the mid-1990s to the mid-2000s when Australians went into negative savings. That is, we spent more than we earned.

Financial advisers say most Australians should aim to save 10-15% of their after-tax savings.

Although this may be difficult in some stages of life, it is more important to stick to the practice of savings rather than the specifics of the amount.

Meanwhile, one of the most beneficial saving strategies continues to be salary sacrificing into superannuation. This allows investors to make more tax-effective contributions to superannuation and is subject to thresholds.

Another great saving strategy is reducing mortgage payments via an offset account. It allows you to use your savings account balance to reduce the amount you owe on your loan.

Stripping out money as soon as you get paid also reduces the likelihood of unaccountable spending.

Although the above strategies may seem quite simplistic, when utilised in a comprehensive financial plan put together by a qualified financial planner and tailored to your specific financial circumstances and goals, the results can be significant.

Source | BT

From my Desk

Some updates on our office, as you would all be aware Cherrilyn decided go home back to Singapore and spend some quality time home with her family. We were very sad to see her go but wished her all the very best in her future. The new financial year saw a new face in our office, Jenny Phillips, has recently joined our team as the Client Services Officer. She has over seven years' experience in the financial services industry, having worked in client services, stockbroking and administration. She returned to Perth last year after five years in London working for State Street Bank & Trust as a Pricing Analyst. She has completed a Bachelor of Arts from the University of WA and is currently studying towards her Diploma of Financial Planning. She is proving to be a great addition to our small team.

Our other big news at LIFE is Mei, who most of you have met, has decided its time to take the big plunge and is away enjoying her wedding and honeymoon in Bali. We wish her and her Husband Pete and baby girl Larnie every happiness for a wonderful life together.

www.lifefinancialplanners.com

Contact your local office for further information:

Life Financial Planners Pty Ltd
Marijana Ravlich B.Bus SA Fin
Authorised Representative/Director

12/643 Murray St
West Perth WA 6005
Ph: 08 9322 1882
Fax: 08 9322 1883
Mobile: 0410 549 562
Email: marijana@lifefinancialplanners.com
Web: www.lifefinancialplanners.com

LIFE FINANCIAL PLANNERS Pty Ltd