INVESTMENT SOLUTIONS

onePlan FINANCIAL PLANNING

EDITION 01 | AUTUMN 2014

INSIDE:

3 Market update

4 End of financial year planning starts now

6 Choosing aged care: what you need to know

7 Covering all bases with income protection

Welcome

Investment Solutions
Autumn 2014

This year is off to a quick start, with end of financial year fast approaching. In this edition we take a look at some key end of financial year changes and consider how you can make the most of this period.

We also take an in-depth look at aged care, a topic receiving special attention with changes to the way the cost of aged care is calculated on their way.

Our regular market update provides a wrap up of global and local markets and a view of what's to come in 2014.

Finally, we recognise the role of income protection and the importance of covering all bases, not just early in your career but also when you're nearing retirement.

Until next time – happy reading.

onePlan Financial Planning
Louise Scifleet AFP ADFS(FP)
02 6372 0716
invest@oneplanfp.com.au
www.oneplanfp.com.au

Market update

Financial markets have begun the new year in a volatile manner. After a strong 2013, equities markets struggled in the first month of 2014 only to rebound strongly in February.

However, defensive asset classes such as fixed income have begun the year strongly with bond yields falling across most major developed markets.

Given the extent of the rally in equity markets through 2013 we remain of the view that markets will struggle to maintain the same level of performance through 2014. The new year has the potential to be a more volatile year than 2013 with a number of competing factors in play, not least the potential for military conflict in Eastern Europe.

The big issue for financial markets in 2014 will be the impact of the US Federal Reserve's tapering approach. Already we have witnessed a sharp decline in emerging markets since the Federal Reserve announced its intentions through the middle part of 2013. With 'cheap money' becoming less easily available, emerging economies that are running high current account deficits combined with a weaker economic outlook and poor political environment have struggled.

The decision by the Federal Reserve to reduce financial support reflects an improving outlook for the US economy. While month-on-month economic data is likely to be quite mixed, the overall trend appears to be positive. Equally, in other parts of the developed world, economies are making gains. In the UK, the economy continues to show signs of steady improvement supported by higher house prices and lower inflation. While in Europe the 'green shoots' evident through the latter stages of 2013 remain, although there remains a degree of divergence at a regional level and high unemployment levels, mixed growth and below trend inflation (i.e. deflation) remain an ongoing risk to any recovery.

In Asia, both China and Japan are pursuing reform agendas. Since its Third Plenum in Q4 2013, the Chinese government has focused on a number of key initiatives aimed at deliberately altering the current structure of the Chinese economy. While targeted economic growth may be lower at around 7.0% - 7.5%, this will still see the Chinese economy doubling in size over the next decade. For Japan the decision to continue its quantitative easing program to stimulate the economy may see the Yen remain below 100 (to the USD) while pushing up inflation towards the Bank of Japan's 2% target. However, broader challenges for the Japanese economy remain, particularly around structural labour market reform.

Back home in Australia, the domestic economy continues to show mixed signals. The positive performance of financial markets has been offset by weaker economic activity, an increasing jobless rate, a 'sticky' currency and higher inflationary data. While we expect cash rates to remain steady at 2.5% for an extended period, higher inflation does reduce the scope of the Reserve Bank of Australia (RBA) to provide further monetary policy support to the economy. Additionally, the corporate environment continues to be challenging. The one positive for the domestic economy has been the pickup in house prices. With interest rates at all time lows the housing market has improved steadily with all capital cities recording higher prices, albeit off a low base. While we maintain a generally more positive outlook leading into 2014, there continues to be a range of factors that have the ability to cause a high degree of financial market dislocation and uncertainty. To this end we support a balanced view to any investment strategy with a disciplined focus on managing downside risk.

End of financial year planning starts now

First we had the calendar new year, followed by the Chinese new year. A third new year is fast approaching and it's important to plan for it.

1 July 2014 marks the start of a new financial year. But it's important not to leave wealth accumulation and wealth protection until the last minute. There are many things you can do in the lead up to the end of this financial year to prepare for the new one.

This year it's particularly important to pay attention to superannuation contribution limits. If you are eligible to contribute to super, consider if you have maximised your level of contributions to the maximum you can afford to do, within the limits allowed, and taking into consideration your income and lifestyle needs.

An annual limit of $25,000 applies to concessional contributions (which generally covers superannuation guarantee contributions from an employer, salary sacrificed contributions or personal deductible contributions). You can contribute more than this amount, but if you do you can expect to pay additional tax above the standard 15% applicable within the superannuation environment.

If you were aged 59 or older on 30 June 2013, you have a higher concessional contribution limit of $35,000 for this financial year. If you are in this category, you may need to adjust any salary sacrifice arrangements to take advantage of this higher threshold. An extra $10,000 in salary contributions equates to $8,500 of investable money in the tax-effective super environment. If this money was taken as normal salary, instead of in super contributions, you could end up with as little as $5,350 after tax [1].

If you have turned 49 or older this year, from 1 July 2014 you can also access this higher $35,000 limit. If you're younger, there may be good news on the horizon. The existing $25,000 threshold is subject to indexation and current indications are that the standard concessional contributions cap will index to $30,000 from 1 July 2014. The ATO will confirm the actual cap closer to 1 July 2014, but it's important to start thinking now about your options. For instance, could you afford to salary sacrifice more into super? Could you increase the level of insurance coverage you hold through your super?

Don't forget to review your contributions this year to ensure you don't accidentally exceed the cap. For example, have you taken into account that compulsory super contributions from your employer increased this financial year from 9% of your salary to 9.25%? If you plan your contributions close to the cap, constant monitoring is important.

After tax contributions

The expected increase to the standard concessional contributions cap has a flow on effect to the non-concessional

cap, which relates to your after tax contributions to super. This cap is set at six times the concessional cap, making the current cap $150,000.

But if the concessional cap rises to $30,000, from 1 July the non-concessional cap should increase to $180,000. That's an extra $30,000 of after tax contributions you could make to super if you can afford it.

There are a couple of other factors to think about. You can also use a 'bring forward' rule for non-concessional contributions. That means (if eligible) you can bring forward two years' non-concessional contributions to the current financial year, effectively allowing you to exceed the current limit.

The rules mean you can contribute up to three times the value of the current year's non-concessional contribution limit (currently $450,000) and is invoked as soon as you go over the current year limit. How much you can contribute is restricted in the following two years.

So the idea is to work out if you can afford to contribute more than $150,000 after tax this year. However, if the cap rises the amount you can bring forward next year should also rise to a limit of $540,000 (instead of $450,000). You may be better only contributing up to $150,000 this financial year, and contribute the balance next financial year.

The rules are complicated

Quite clearly, the rules around superannuation contributions are complicated. Constant monitoring of your contribution levels against the relevant caps is important to ensure you don't exceed your caps.

Given the complex rules about who can contribute, how much, at what time and in what manner, it might be worth discussing your options with a financial adviser to help you make the most of end of financial year and beyond.

1_Assuming top marginal tax rate (MTR).

Choosing aged care: what you need to know

There are lots of things to consider when you're looking at aged care. You'll need to think about the type of care that's available, depending on how healthy you are. You'll also need to factor in different options for paying for your accommodation, based on your means.

This is especially important because major changes to the way the cost of aged care is calculated are on their way. A new system starts on 1 July, so it's worth understanding how these changes work.

The changes formalise the way means testing works for people who wish to receive aged care but still stay in their own home. There are also new formulas to calculate how much someone moving into an aged care facility will pay for their accommodation and how much the government will contribute.

Calculating the cost of care when you stay at home

The new income means tests determine how much someone pays to receive care in their home. Under the system, everyone pays a basic fee of $9.39 a day, which is the only fee someone on the full age pension pays. Part pensioners pay a means tested fee of up to $5,000 each year and self-funded retirees pay a means tested fee of up to $10,000 each year, depending on their circumstances.

So people with a higher level of income pay more for home care, but those with more modest means won't pay as much.

Calculating the cost of residential aged care

Under the new system, formulas that take into account income and assets determine how much a resident will contribute to the cost of their accommodation and ongoing health care and how much the government will pay.

The formulas are complicated and take into consideration 50% of the resident's income above a certain threshold. Approximately the first $44,000[1] in assets is exempt from means testing, with assets above this amount included in the formula, but on a sliding scale.

From 1 July it is estimated the maximum accommodation supplement the Federal government will pay towards the cost of a person's accommodation will be $52.84 a day. This amount drops on a sliding scale the higher the value of the resident's assets and income, with the resident paying the shortfall.

Under the new system residents will also contribute to the cost of their ongoing health care. But the daily health care fee will be the lower of their means tested amount and the amount the government would otherwise pay in subsidies and other payments for their care. Care fee payments are capped at $25,000[2] a year, with a lifetime cap of $60,000[3].

Residents also pay a basic daily fee, currently $45.63, to cover living expenses. They may also purchase other services on an opt-in basis.

Accommodation payments to the aged care provider

Under the new system, residents can choose to pay for their accommodation as a refundable upfront deposit, or by a daily payment, or a combination of both.

As you can see, the situation is complex. So talk to your adviser to work out what's best for you or, if you're starting to plan care options for your parents, what's best for them. It's also worth discussing whether in-home care might be a better option, depending on your financial circumstances and the type of care you would like to receive, as well as any health issues you may have.

1_The income and asset free areas increase with indexation.

2_The annual limit will increase with indexation.

3_The lifetime limit will increase with indexation.

Covering all bases with income protection

Protecting your income as you near retirement is just as important as protecting your income early in your career.

Income protection insurance comes across most people's radar when they're starting out in their career. Often, people take out this type of policy when they buy a house, so if a serious illness or a bad accident strikes, your children and your spouse are covered.

But income protection can really come into its own when we're nearing retirement and often more prone to accidents, illness and injury. According to the 2012 update of the Australian Bureau of Statistics' Australian Health Survey[1], only 1.6% of Australians aged between 35 and 44 have suffered a heart attack, stroke or other vascular disease. But this figure rises to 8.8% of people aged between 55 and 64.

If we suffer a trauma as we're preparing to finish work, without income protection insurance all our plans for a comfortable retirement can vanish as savings are eroded paying for medical bills or funding everyday living expenses.

We're also living longer, which means it's increasingly important to have enough money to provide for ourselves financially after we retire. According to data from the World Bank[2], someone born in Australia in 1960 can expect to live to 70.82. Contrast this with someone born in 2010, who can expect to live to 81.70. So people born today need to provide for themselves for a decade longer than someone born in the '60s.

Today, we're also more likely to help our dependents as we approach retirement. Over the past 23 years, the number of people aged between 18 and 34 who still live at home has risen from 19% to 23%[3].

So we're trying to help the kids financially and support elderly parents, all while saving for retirement. It's a big ask – an even bigger one if you become ill.

It pays to hang onto your protection plan

Income protection and trauma insurance are both great ways to protect your lifestyle from sickness or injury. As you approach retirement, this protection becomes even more critical:

1. If you have regular bills and lifestyle expenses that rely on your ongoing income.
2. If you suffer a serious illness like cancer or a heart attack, which could stop you from working for a long period.
3. If you're using your last few years in the workforce to reduce your debts and bump up your retirement savings.

If an illness or accident ends your career and you don't have income protection insurance, the quality of your future lifestyle could be dramatically lower.

1_Australian Bureau of Statistics, Australian Health Survey: Updated Results, 2011-2012

2_World Bank life expectancy figures, downloaded 20/2/14 http://data.worldbank.org/indicator/SP.DYN.LE00.IN

3_Australian Bureau of Statistics, June 2009, Home and away: The living arrangements of young people, June 2009.

Disclaimer
This publication has been compiled by Securitor Financial Group Limited ABN 48 009 189 495 AFSL 240687 and is current as at time of preparation, March 2014. Past performance is not a reliable indicator of future performance. Any outlooks in this publication are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the outlooks given in this publication are based are reasonable, the outlooks may be based on incorrect assumptions or may not take into account known or unknown risks and uncertainties. The results ultimately achieved may differ materially from our outlooks. Material contained in this publication is an overview or summary only and it should not be considered a comprehensive statement on any matter nor relied upon as such. The information and any advice in this publication do not take into account your personal objectives, financial situation or needs and so you should consider its appropriateness having regard to these factors before acting on it. This publication may contain material provided directly by third parties and is given in good faith and has been derived from sources believed to be reliable but has not been independently verified. To the maximum extent permitted by law: no guarantee, representation or warranty is given that any information or advice in this publication is complete, accurate, up-to-date or fit for any purpose. It is important that your personal circumstances are taken into account before making any financial decision and we recommend you seek detailed and specific advice from a suitably qualified adviser before acting on any information or advice in this publication. Any taxation position described in this publication is general and should only be used as a guide. It does not constitute tax advice and is based on current laws and our interpretation. The tax position described is a general statement and is for guidance only. It has not been prepared by a registered tax agent. It does not constitute tax advice and is based on current tax laws and our interpretation. Your individual situation may differ and you should seek independent professional tax advice. SE13814C-0214gd