PATRON
Financial Advice

Winter 2011

Happy new **financial year!**

Everyone thinks about change and making resolutions when the calendar year ends but what about the financial year end?

The new financial year is a perfect time to make some resolutions to improve your financial health. If you create simple and easy-to-follow resolutions you will be more likely to succeed. To start, you can ask yourself the following questions:

- What do I really want to change?
- What are the benefits of making changes?
- What steps do I need to take to make changes?
- What will stop me from making positive changes?
- Are my changes realistic and long term?

This article lists some simple, easy-to-implement resolutions you could take on for the new financial year.

Keep your receipts

The most common reason people don't take advantage of tax deductions when they file their tax return is simply because they don't keep receipts. While keeping receipts for big ticket items is necessary, you don't always need a receipt for the smaller items such as stationery and books.

Create a budget

Achieving your financial goals doesn't have to be daunting; a good way to start is with a budget. Try to keep a diary for your expenses and your spending. This will enable you to track where your money is going and how much spare cash you can use to either attack your debt or build investments.

Cut your spending

Look at cutting unnecessary expenses. This could be as easy as making your lunch or coffee at home, cutting out optional extras such as lottery tickets or taking public transport instead of driving.

Pay extra

Try paying more than the minimum off your debts. Whether it's personal loans or credit cards, paying the minimum will hardly make a dent as you will only be paying off the interest.

Increase your savings

Set aside a little bit of extra money each day, week or month. If you can save just $10 a day, you will have an extra $3,650 at the end of the year. You can talk to your employer about getting it automatically deducted from your pay – if you don't see it you are less likely to miss it.

Contribute to your super

Think of the long term and your lifestyle when you retire. One way to increase your retirement savings is through salary sacrificing some of your pre-tax salary. This will not only help to increase your super savings but could also reduce the amount of tax you pay.

Seek professional advice

Your financial adviser will help you keep to your resolutions and make sure your financial strategy is appropriate for the year ahead.

In this issue...

To pay or not to pay, **that is the mortgage question**

Home ownership is the Australian dream, but we also have a lot of other big dreams... overseas holidays, buying a boat or sending the kids to a great private school. So how do you decide whether you should pay off your mortgage faster or invest it for your big dreams?

The debate on paying off your mortgage versus investing can seem never-ending, and everyone has an opinion. When it comes down to it, the right course of action depends on your personal situation, risk profile and financial goals.

One way to evaluate the situation is to think mathematically– you can compare the tax implications, interest savings, rates of return and past market movements. This sort of evaluation can be complicated, so it might be best to get your financial adviser involved to help with the quantitative analysis. Before you do that, you can ask yourself a few questions to start the decision making process.

How many years do you have left on your mortgage?

If you have less than 10 years left on your mortgage, you might want to consider paying it off, as 10 years may represent a short period to invest in the stock market or investment bonds.

How good are you at sticking to a plan?

Paying off your mortgage early may present you with a surplus of cash or disposable income. If you are not disciplined and stick to your investment plan, you may find yourself tempted to spend your surplus funds. This can set you up in a fantastic lifestyle, but it may not be sustainable through your retirement if you don't save enough.

Is your lifestyle stable?

You know your personal situation best and you can decide how stable the future is likely to be or if there is a high probability that something will come along and derail your financial plans. If you feel secure in your job and that you won't need to access a lot of cash quickly, then aggressively reducing the mortgage might be the best path for you.

If you are the sole bread winner or job security is an issue, you might look at investing so that you can access your money in case of emergency or leaving the surplus within a redraw facility. If your mortgage does not have a redraw facility and you pay it off aggressively, you could run the risk of needing to borrow money later at a higher interest rate.

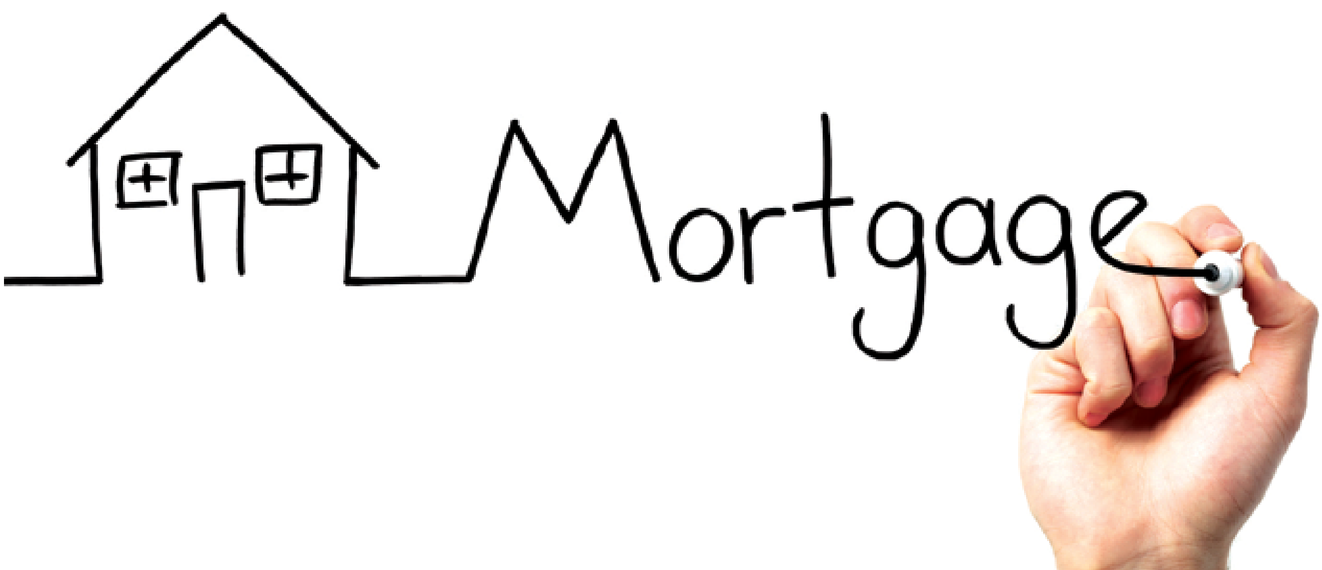
What are your investment goals?

If you need to invest for an important goal, you need to look at how much money you will need for that goal and how far off it is. If your goals are a long way off, you can have the satisfaction of both investing and making additional payments on your mortgage. It is as simple as allocating part of your available surplus funds for one goal and then using the remainder towards reducing your mortgage. When it comes to your mortgage, even small payments can make a difference over the long term.

So, what should you do?

You need to look at both the mathematical and emotional parts of your financial strategy. Your financial adviser will help you weigh the pros and cons of different investments and can provide a financial analysis for each option.

Remember that no matter which direction you choose, you can always reprioritise later to keep up-to-date with your changing circumstances and market conditions.



Case study

Judith has a home loan of $250,000 with 20 years left to pay. She is paying $1,908.35 per month of principal and interest and has an extra $100 a month to play with. She is considering the following options:

Option	Implication after 20 years
Use the $100 to pay off her mortgage, after she has paid off the mortgage after the 18th year, she will have $2,008.35 a month in cash which she will invest	Judith will have $51,780 in her investment
Invest the $100 into an investment bond	Judith will have $43,888 in her investment
Invest the $100 as a contribution to super after tax	Judith will have an additional $46,655 in her super
Salary sacrifice the amount as $194.17 before tax	Judith will have an additional $77,001 in her super

Things Judith will need to consider:

- The best option is for Judith to put her extra money into super via pre-tax salary sacrifice payments, however these contributions are preserved (locked away) until retirement and Judith may need to access this money before she retires.
- If she pays off her mortgage, she will then need to look at her ability to redraw the money if she needs to access funds in the case of an emergency.
- If she invests into the share market, she will have to pay tax on the investment earnings and capital gains upon sale of the investments.
- If she pays the $100 into an investment bond, the investment earnings (including capital gains) will be taxed at a maximum rate of 30%. Withdrawing from the bond after 10 years from the initial investment means there will be no taxation implications.
- The calculations in this case study are based on the following; the mortgage has 6.8% interest rate, her super fund, investment bond and investment portfolio returned 6.5% (inclusive of 3% pa growth, net of fees and excluding franking credits). Tax on earnings has been factored into all options (including the super fund and investment bond) whilst she paying 45% tax (not including the Flood Levy) on the investment portfolio. But these could change in the future.

The importance **of insurance**

- **4% Australian families with dependent children have adequate levels of insurance cover. This means that Australian families are critically underinsured to the value of $1.37 trillion.[1]**
- **Only 31 % of Australians insure their ability to earn an income.[2]**
- **33% of all women and 25% of all men in Australia will suffer cancer at some stage in their life, and of those over half will live for longer than 5 years after the diagnosis.[3]**

So, how do you stack up? Are you ready to rely on your savings or selling some assets if you have an accident or become sick?

Let's face it, the easiest way you can disaster-proof your finances is to take out insurance. But it does not have to be as complicated or as expensive as you may think.

1 Investment and Financial Services Association, Cost of Underinsurance Project, May 2005

2 TNS/IFSA Investigating Income Protection Insurance in Australia July 2006

3 Cancer Council, Cancer in Australia: an overview, published December 2008

Types of insurance

Insurance can be confusing when the acronyms and official terms start flying around, but below is a table with typical types of insurance and their descriptions.

Type of cover	Also known as	What is it?
Death	Term life	Death cover provides your family with financial security in the event of your death. If you die, your insured benefit may be paid to your beneficiaries or estate in addition to your account balance.
Total & permanent disablement	TPD	Total & permanent disablement cover provides you and your family with financial security in the event you become totally and permanently disabled and are unable to work.
Income protection	Salary continuance	Income protection cover provides you with a regular monthly income if you become totally disabled because of illness or injury and are unable to work and earn your income.
Critical illness	Trauma	Critical illness provides you and your family with financial security in the event you are diagnosed with a specified condition like cancer, heart attack or stroke.
Business expense	–	Business expense cover provides you with a monthly payment to reimburse the regular fixed operating expenses of your business if you're unable to work due to sickness or injury.

Retail versus group insurance

If you go to an insurance agent you will get a standard insurance offer, also known as retail insurance. You will need to pay the insurance premiums from your after tax pay or savings and it can be expensive, even though for some types of insurance you can get a tax deduction. You will most likely have to have a medical examination before you are accepted.

There is another type of insurance available to you, called group insurance, available through your superannuation. Your super fund negotiates group rates with the Insurer to cover all of their members and the premiums come out directly from your super account. You won't get as many bells and whistles as you would with a retail policy, but then you don't have to pay for them either. You can usually get an automatic acceptance, meaning you won't need to complete lengthy paperwork or complete a medical exam to obtain cover. Depending on your personal circumstances, this can be a significant benefit.

Worried about your cash flow?

If you are weighing up the flexibility of retail insurance versus the ability to keep payments out of your cash flow with group insurance, there are some providers who have started offering both. For example, IOOF's Pursuit platform has both group insurance and a retail insurance offering, called Accelerated Protection. This allows you to access retail insurance through either your superannuation or investment account without using up your cash flow.

Type of cover	Available through the following IOOF Pursuit Select and Pursuit Core products:
Death	Personal Superannuation and Investment Service
Total & permanent disablement	Personal Superannuation and Investment Service
Income protection	Personal Superannuation and Investment Service
Critical illness	Investment Service
Business expense	Investment Service

Your financial adviser will be able to help you to look at insurance offerings so that you can protect your family financially through the future.