Your money Your future

Financial Planning newsletter

Super shortfall leaves retirees in the lurch

Saving for retirement can seem like a daunting task when you calculate just how much you need for a comfortable retirement and how long you have to accumulate it.

Add to that the factors outside your control which are liable to affect your savings plan and it is immediately apparent just how precarious saving for retirement can be.

Research by Investment Trends reveals the financial crisis hit retirement savings particularly hard in 2009. Its Retirement Income Report shows a widening gap between Australians' expectations for a comfortable retirement and what their superannuation savings will really deliver.

Of almost 3,000 people surveyed aged 40 or more, 56 per cent said recent volatility had a negative impact on their retirement savings and that they would change their plans as a result – mostly spending less in retirement, working longer, or delaying retirement.

Investment Trends principal Mark Johnston says the gap between retirement dreams and reality has become noticeably bigger as a result of the financial crisis and that investors are being forced to make significant changes to their retirement plans.

According to the report, less than one in 10 people have enough super to reach their goal of a $40,000 minimum annual retirement income. The average income from personal savings by those already retired was less than half that – $19,000 per annum.

The research suggested that those within five to 10 years of retirement had been hardest hit and were now planning to delay retirement by an average of 3.7 years.

The financial crisis has also heightened awareness that compulsory super will not be enough, with 45 per cent of respondents agreeing that the nine per cent Super Guarantee was inadequate to retire on and should be higher.

This concern about retirement savings is reflected in the low super balances of many investors. The median balance for those five to 10 years from retirement was just $71,000 and $141,000 for those one to three years from retirement.

So how much is enough? The general consensus is that retirees will need 60-70 per cent of their annual pre-retirement income to maintain a comfortable standard of living. How much you will need to save depends on your personal circumstances, including how much you already have saved and how long you have until you retire.

Taking control of your finances and planning for your retirement early can give you more flexibility and choice when it comes time to retire. To discuss your particular needs as you approach retirement, please make an appointment with our office today.

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Super: the pros and cons of do-it-yourself

Australians are increasingly doing it for themselves when it comes to super.

Self-managed superannuation funds (SMSFs) are the fastest-growing fund type in Australia, with about 410,000 SMSFs representing 772,000 members, or 7 per cent of Australia's total super members.

SMSFs have gone from strength to strength, with each recent month seeing the establishment of around 2,500 new SMSFs. The total value of funds under management increased from $132 billion to $332 billion in the five years to 30 June 2009, an annual growth rate of 20 per cent.

But the complexity of running your own super fund means SMSFs are not for everyone – SMSF members tend to be older, have a higher income and larger super balances.

Before switching to an SMSF it's worth asking:

1 Is the fund strictly for retirement benefits?

2 Do you have the time and skills to run your own super fund?

3 Will the benefits be worth the costs?

4 How will switching affect your current super benefits, services and fees?

The case for

An SMSF can have a maximum of four members, all of whom act as trustees and are responsible for running the fund, investing assets, paying benefits and meeting compliance requirements.

The great advantage of an SMSF is that you're in control. Asset allocation, tax strategies, insurance options and retirement planning – it's all up to you.

Investments

You have great flexibility over where your super is invested, as long as you comply with regulations and the fund is operated for the purpose of building retirement wealth (also known as the sole purpose test).

When planning an investment strategy, you need to consider your objectives, time horizon, risk tolerance and diversification. You can invest in your preferred combination of assets, across all asset classes – cash, fixed interest, property, Australian shares and international shares.

Tax

SMSF trustees are permitted to lodge their tax returns later than some other types of fund, allowing them to invest a greater percentage of funds under management.

Insurance

You can choose from a complete suite of insurance options, including life and trauma insurance.

Retirement

Your investment strategy can incorporate a transition to retirement strategy using a non-commutable allocated pension.

So what can't you do? You can't use an SMSF to fund the purchase of a business, holiday home or golf club membership. Generally, you can't acquire assets from a related party, borrow money or allow in-house assets to exceed five per cent of the total fund assets.

You also need to be wary of schemes to withdraw your super early. The Australian Taxation Office is handing out heavy penalties for those who illegally withdraw from schemes early.

The case against

Costs

SMSFs can be expensive, with the annual costs of running a medium-sized fund estimated at $2,000.

Your fund needs to be substantial enough to make this worthwhile. An SMSF is usually not advisable if the fund assets are likely to be less than $200,000. It's not surprising therefore that the average annual member balance is $454,000 – more than six times the industry average of $70,000.

Administration

Most people find it hard enough keeping up with their current super, let alone running their own fund.

When establishing the fund, you need to draw up a trust deed setting out trustee powers, benefit payments and exit strategy.

You also need to create a separate bank account, keep accurate paperwork, produce annual operating statements, keep copies of annual returns and appoint an approved auditor.

Many SMSF owners choose to outsource some administration functions to reduce the amount of paperwork they need to complete themselves.

Help is at hand

With greater control comes greater responsibility, but the right financial advice and support can make it easier. Fortunately there is more help out there than ever before for Australia's growing number of SMSF enthusiasts.

If you're interested in setting up your own super fund, please contact our office. We can help set your fund's investment strategy based on your investment objectives and individual circumstances.

Managing the risk of strokes

Other traumatic events might generate more headlines, but strokes are actually Australia's second biggest killer after coronary heart disease.

Strokes kill more women than breast cancer and an estimated 60,000 Australians suffered a stroke in 2009.

While the likelihood of suffering a stroke increases with age, strokes do not only affect the elderly: close to 20 per cent of all strokes happen to people under the age of 55. Strokes also have a substantial financial effect on the Australian economy, costing an estimated $2.14 billion a year.

Fortunately, it is possible to manage the risk of a stroke by making some basic lifestyle changes, while taking out comprehensive insurance in case the worst happens.

What is a stroke?

As opposed to heart attacks, strokes (also known as cerebrovascular disease) occur when the supply of blood to the brain is suddenly disrupted. Blood may stop moving through an artery because of a clot or plaque, or because the artery breaks or bursts.

There are two types of stroke:

- Ischaemic stroke (blocked artery)
- Haemorrhagic stroke (bleeding in the brain).

Strokes vary in severity, from a minor stroke to a major attack which results in total paralysis on one side of the body, coma, or even death. A transient ischaemic attack is often referred to as a mini-stroke and can be a warning sign of a subsequent stroke.

Spotting the symptoms

Regardless of its severity, a stroke always constitutes a medical emergency. It is important to recognise the early signs of a stroke and seek medical assistance as soon as possible.

The National Stroke Foundation's **FAST** programme helps you spot the initial signs of a stroke:

Facial weakness. Check the person's face: has their mouth drooped?

Arm weakness. Can they lift both arms?

Speech difficulty. Is their speech slurred? Do they understand you?

Time is critical. If you see any of these signs call 000 immediately.

A stroke victim can also experience problems with their vision, their balance and loss of feeling or paralysis of one side of their body.

Preventing a stroke

A medical check-up can diagnose any latent problems such as diabetes or an irregular heartbeat, both of which can make you more susceptible to strokes. Other significant risk factors include high cholesterol and high blood pressure.

Making changes to your lifestyle

There are a number of risk factors entirely within your control that will reduce the chances of suffering a stroke.

Diet and exercise are two of the most important elements in maintaining a healthy lifestyle and controlling your cholesterol, blood pressure and weight.

A balanced diet low in saturated fat and salt and including fresh fruit and vegetables is important in reducing your risk of stroke.

Exercising also helps to maintain a healthy body weight and has been shown to improve mental health. People who participate in moderate physical activity are less likely to have a stroke. Try and build up to at least 30 minutes of moderate physical activity most days of the week.

Insurance cover for strokes and other traumas

If the worst happens and you suffer a stroke, it will take a while to recover, during which time you will need to meet your usual financial obligations as well as cover the cost of recovery.

Insurance cover can help your family cope financially if you suffer from a stroke or other serious trauma. Trauma insurance payments can cover specialist medical attention, home modifications and repayment of debts (such as a mortgage).

Get the cover you need. We can help you determine the level of cover you need to protect your family. Contact us today for a confidential discussion about your personal circumstances.

The risks of going guarantor

Those who thought that the gradual reduction in the first homeowner's grant in September 2009 would cool the real estate market have, for the time being, been proved wrong.

The Australian Financial Review reported in December 2009 that despite the federal grants being halved, young buyers continued to flock to the market. In Victoria alone, more than 49,000 grants were provided in the year to November 2009 – a rise of 46 per cent on 2008 (which was 28 per cent up on 2007). The figures in NSW are equally startling, with more than 66,000 first home owner's grants – up 67 per cent from 2008.

This means young families are assuming more debt than ever before, and in some cases older parents are too when they agree to act as guarantor for their adult children's home loans.

High property prices have seen a significant increase in loans involving support from family members, with many agreeing to act as guarantor so first homebuyers can avoid extra costs like lenders' mortgage insurance. This provides big savings for the kids, but it may not be so good for older parents, for no matter how attractive the idea seems, acting as guarantor is considerably more than a mere formality.

By acting as guarantor, you are taking on serious legal and financial responsibilities. If your adult child can't pay back the loan according to the terms of the contract, the lender can legally force you, as guarantor, to pay the money back instead.

In today's environment of generous grants and historically low interest rates, older parents need to be especially careful about going guarantor. It may only take a modest rise in rates for some first homebuyers to face difficulty managing their mortgage. Similarly, bankruptcy, business failure, or a relationship breakdown could all adversely affect your child's ability to service their loan.

By the time many offspring are looking at buying their first home, parents are typically at an age where they should be focussing on building their own nest egg. Having to pay their children's mortgage could seriously derail the best-laid retirement plans. At worst, it could mean losing the roof over your own head and reducing your pension, as any repayments made on behalf of your child which exceed Centrelink's allowable amount will be assessed as your asset for five years from the date of the gift.

That's why it's worth doing the sums with your kids to check that they can handle the loan if – and when – rates start to climb.

It's important to seek legal advice before signing any documentation. You need to know exactly where you stand and what your legal obligations are if you act as guarantor.

There are other, less risky, ways that parents can help out, like lending kids part of the deposit, or offering grown children rent-free living at home to really help them save. Having a bigger deposit would certainly take some of the sting out of rising loan repayments caused by rising interest rates.

If you're considering acting as a guarantor, please don't hesitate to contact our office for more information.

The power of volunteering

You've retired after a lifetime of hard work and now it's time to put your feet up and enjoy a well-earned rest. Finally you've got the time to travel, develop your interest in hobbies and really enjoy life.

Sounds great in theory – but in practice many retirees find the shift to retirement a difficult transition, suddenly faced with the challenge of filling up days without the structure of full-time employment.

The answer for an increasing number of retirees is volunteering. It's an excellent way of smoothing the transition into retirement and boosting your own physical and mental wellbeing. By volunteering you can tap into your local community and receive the support and encouragement that you used to derive from work, as well as contributing to those less fortunate.

More than one in three adult Australians, or 5.4 million people, are estimated to take part in volunteering.

What are the benefits of volunteer work?

The essence of volunteering is giving back to your community or helping people in developing countries improve their standard of living. In 2006, Australia's army of volunteers provided 713 million hours of community work – that's an average of 56 hours per volunteer.

So why do people volunteer? The most popular reason given during a recent survey was helping others or the community (57 per cent). Personal satisfaction (44 per cent) and doing something worthwhile (36 per cent) were also significant motivators.

The most common volunteering activities are fundraising, preparing and serving food, teaching or providing information and administration.

Volunteering has a wider financial benefit to the Australian economy. The economic value of volunteer hours contributed to the not-for-profit sector alone has been estimated at $14.6 billion for 2006/07.

As well as helping others, volunteering can be a way of helping yourself. It's been shown to result in lower rates of depression, improve physical health and even lower mortality rates.

Get involved!

Regardless of your range of interests and skills, there is always an opportunity to lend a hand in your community or even further afield.

- **Volunteering Australia** is a national service for the recruitment and deployment of volunteers – www.volunteeringaustralia.org.
- **GreatConnections** connects mature-age volunteers who have professional skills and business experience with not-for-profit organisations in need of help – www.greatconnections.com.au.
- **Australian Volunteers International** enables Australians to volunteer and work overseas, in partnership with people of developing countries – www.australianvolunteers.com.

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