Forsythes Financial Planning

Money Matters

> "If you don't act now while it's fresh in your mind, it will probably join the list of things you were always going to do but never quite got around to. Chances are you'll also miss some opportunities."
> ~ Paul Clitheroe ~

WELCOME TO THE FORSYTHES FINANCIAL PLANNING - MONEY MATTERS - WINTER EDITION 2009

IN THIS EDITION

News Update

John O'Connor - Partner

The closure of the 2009 financial year has seen some stabilisation in domestic and international share markets. The clear highlight (if there is one!) of the last 18 months of turmoil has been the resilience of the Australian economy. The world's insatiable demand for Australia's primary resources has meant any slowdown is muted and probably healthy – when you struggle to hire cleaners in Western Australia at $150,000 p.a. you know things are a little overheated!

The Reserve Bank's action in reducing interest rates has greatly assisted in boosting consumer confidence. With much lower interest bills, the average household is feeling reasonably secure. The lower rates have, however, brought a decision to many of our investors. Having prudently reduced client's exposure to shares over the past 18 months to avoid capital loss, the more secure assets of cash and term deposits are now paying income as low as 2% and 4.5% respectively. At the same time, the significant fall in value of many shares has made dividend yields much more attractive – shares such as CBA and Telstra now have gross dividend yields of more than 8%. With the Australian economic outlook stabilising, these investments will be worth revisiting over the next six months or so.

Congratulations go to Erin Touzell!

Erin has been appointed as a new Authorised Representative of Forsythes Financial Services Pty Limited. Erin has been with us for over 3 years and has chosen to specialise in personal risk insurance – an extremely important part of our client's holistic financial plans.

Speaking of total financial planning needs, your adviser may request you bring a copy of your latest home loan statement to your next meeting (if applicable). With the home loan provider pool shrinking, it is wise to have the conditions of your borrowings reviewed periodically to ensure you are getting the best deal and that the structure of your loan will see it repaid as soon as possible. The lower interest rate environment provides a great opportunity to get ahead of schedule in home loan repayment.

April 29th 2009 was the date of our successful Investment and Estate Planning Client Briefing, held at the Newcastle Club. Client feedback was very positive and as a result we are in the process of planning the next briefing. We would welcome client input on topics which may be of interest.

Henry Review of Taxation

In May 2008, the Government announced that it was initiating a review of the Australian taxation system under the title of "Australia's Future Tax System". This far reaching review is being conducted under the chairmanship of Dr Ken Henry and final recommendations are expected to be presented to the Government in late 2009.

However, in May 2009 an initial report was released which considered a range of issues associated with retirement income policy. This report was used as the basis for developing certain aspects of this year's Federal Budget.

May 2009 Report

The May 2009 report provides some interesting reading in terms of the possible future direction of the development of a retirement income policy within the Australian context.

The Report endorses Australia's current "three pillar" approach to retirement funding.
To recap, the three pillars are: a means tested age pension system, compulsory superannuation, and voluntary superannuation. However, it is suggested that some structural weakness in the current three pillar system may need some reform. We expect to see further comment in the final report when it is delivered at the end of the year.

A number of recommendations have been made, some of which have already been adopted in the 2009 Budget. The recommendations include:

Superannuation guarantee

The superannuation guarantee system was introduced in 1992 and requires employers to make compulsory superannuation contributions for most employees. The Henry Review has recommended that, despite many submissions to the contrary, the current 9% level of contributions should be maintained. The Review does not make recommendations relating to the extension of the SG system to the self-employed, nor does it recommend any changes to the present minimum income threshold of $450 per month before SG applies.

Age pension qualifying age

The Review recommends that the age at which people qualify for the age pension should be progressively increased from 65 to 67.
This change was announced in the May Budget and is scheduled to commence its phase in period from 2017 and be fully implemented by 2023. A further recommendation was to review the age pension age again in 2020 with a view to increasing it further in later years.

Age pension means testing

Government income support benefits like the age pension are subject to means testing. Currently both income and assets are taken into account when assessing eligibility for the age pension. The Review has suggested there may be the need to simplify the present means testing regime and introduce a single income test rather than separate income and assets tests. As part of a reformed income test it is conceivable that a wider range of assets could be included with income deemed to be derived from those assets. One asset that may be included is the family home which is presently exempt from means testing for the age pension. The Report suggests that high value principal residences (or at least amounts that exceed a threshold value) may have part of their value included under a deemed income arrangement.

Superannuation preservation age

Preservation age, that is the age at which people can access their preserved superannuation benefits, currently ranges from 55 (for those born prior to 1st July 1960) to 60 (for those born after 30th June 1964). The Review suggests the introduction, over time, of an increase in preservation age to match the age pension age. More information on this proposal is expected in the final report.

Longevity risk

One of the dilemmas facing many retirees is the risk of outliving their money. This is referred to as longevity risk. With continual improvements in life expectancy, longevity risk is expected to becoming an increasingly important issue.

The report speaks in broad terms of a range of potential solutions to managing longevity risk including the introduction of "longevity insurance", whether it should be compulsory or voluntary, and whether it should be provide by Government or the private sector.

Longevity risk is a serious issue and one we are sure will receive increasing attention over the years to come.

Taxation of super

One of the recommendations related to the tax concessions available to participants in superannuation and, in particular, the current caps applying to tax deductible contributions. The Government has already acted on this recommendation by halving the caps applying to concessional (i.e. tax deductible) contributions effective from 1st July 2009.

Conclusion

A cynic might suggest that the May 2009 report on strategic issues affecting the Australian retirement income system simply confirmed what the Government wanted to hear. There were many submissions from a wide cross section of both the private and professional sectors.
We are continuing to monitor developments and optimistically live in hope that the final report and subsequent Government policy delivers fair and equitable reforms that reward those who make provision for their own financial wellbeing while, at the same time, providing a safety net for those who through circumstances often beyond their control, find themselves having to rely on the public purse for their financial support.

Source: Peter Kelly ~ Associated Advisory Practices
June 2009

Your 5-point recovery plan

Many people's finances have taken a hit in the past 18 months. And while we can't control what markets do, we can control how we respond. Here are 5 important recovery strategies to discuss with your financial adviser.

1. **REVIEW GOALS AND ASPIRATIONS.** It sometimes takes a period of uncertainty for us to consider what's most important in life. Now may be a good time to review your goals and aspirations, including:
   - what really counts to me and my family?
   - what will I need to sustain my lifestyle?
   - what do I want the rest of my life to be like?
   - should I delay any major lifestyle or spending decisions?

   The answers to these questions provide a firm and objective basis for getting the money questions right.

2. **REVIEW INVESTMENTS.** There's no doubt the Global Financial Crisis (GFC) is a good reason to review investment portfolios. Review whether your investment strategy is still linked to your goals and aspirations (even if market falls have caused a setback). There are different ways to achieve this, so ask your adviser to explore all the options with you.

   Don't assume major changes are required – your original strategy may still be the right one. Also, don't assume converting to cash is the answer, for three reasons:
   1. selling shares now may involve converting a paper loss to a permanent or "real" loss
   2. only those who stay invested will benefit from recovery (markets rose more than 25% in March and April, highlighting the benefit of hanging in there in tough times)
   3. no-one rings a bell to signal recovery – it happens without notice – so if you try to time in and out of markets, there's a good chance it won't work.

3. **USE STRATEGIES THAT SUIT YOUR GOALS.** A wide range of financial strategies are available and the mix that's right for you will change periodically. Some specific possibilities (they won't suit everyone so please do not act on these without consulting your adviser) may include:
   - **accessing your super while still employed,** for those aged 55 or more, which can have significant tax advantages and may enable a reduction in work commitments if that's what you want.
   - **rebuilding your super by making extra pre-tax contributions** – analysis shows that for taxpayers on the 46.5% tax rate, it would take a fall in super of 37.1% for the tax advantage of this strategy in dollars to be eliminated by a fall in markets.
   - **protecting your capital against future losses** – there are "sleep at night" options to do this that may be worth exploring.
   - **match your investments to your retirement needs** – have some cash available for short-term spending, and leave growth investments to recover from downturns.
   - **use dollar cost averaging to invest new funds or return to the markets**. By investing a set amount each month, you buy more units or shares when markets have fallen and fewer when markets rise.

4. **MAXIMISE CASHFLOW.** Take the time to understand exactly what you're spending and when, and reduce any unnecessary expenses for now. Use these funds to create a cash buffer to help you deal with uncertainty. A saving in expenditure is like a guaranteed 100% return, as long as you can do without the things you were going to buy – at least temporarily.

5. **LOOK AFTER YOURSELF.** Finally, look after yourself, your family, your health and well being. Stay engaged in your community, learn new skills, write a book, dance until dawn – whatever keeps you active, involved and happy.

Focus on what you can control and be ready for recovery when it comes.

If you would like to discuss your recovery strategies further, contact your adviser.

Source: ipac June 2009

Time to review salary sacrifice arrangements

Salary sacrificing is an arrangement whereby a wage or salary earner enters an agreement with their employer to forego all or a part of their salary in exchange for benefits of another form. Salary sacrifice is a very popular strategy for people wishing to add to their superannuation savings.

Contributions made under a salary sacrifice arrangement are treated as an "employer" contribution and as such, are assessed under the employee's concessional contribution cap.

In the May 2009 Federal Budget the Government announced that effective from 1st July 2009, the concessional contribution caps would be half what they were in the 2008/09 financial year.

This means the concessional contribution cap for a person aged under 50, for the 2009/10 financial year will be $25,000. For those aged 50 and older, their "transitional" concessional contribution cap is $50,000.

Where a concessional contribution exceeds the relevant contribution cap, two things happen. Firstly, the excess contribution is taxed at a rate of 31.5% (the fund has already paid 15% tax on the contribution), and the excess contribution is counted against the member's non-concessional contribution cap.

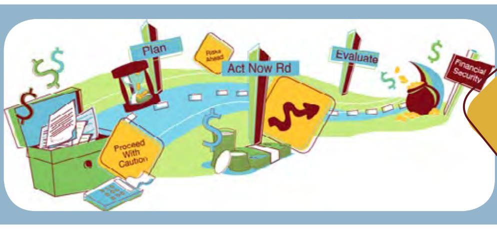
For those employees that have a current salary sacrifice arrangement in place, it is important to review the current level of salary sacrificed contribution so as to ensure the concessional contribution cap is not inadvertently exceeded.

When considering salary sacrificed contributions, it is also important to consider contributions that are being made under the superannuation guarantee system. SG contributions are also treated as concessional contributions which count towards the concessional contribution cap. Importantly, as an employer is obligated to make SG contributions, an employee can't voluntarily opt out simply because they may have breached their concessional contribution cap.

With the reduction in concessional contribution caps having taken effect from 1st July 2009, it is important that current salary sacrifice arrangements be reviewed now.

Your financial planner can assist in this process.

Source: Peter Kelly ~ Associated Advisory Practices June 2009



10 Tips to protect your financial identity

1 Always visit the website of an organisation by typing the web address into your browser

If you receive an email inviting you to click on a link, always type the web address into your browser or email or call your friend or bank and confirm the contact. Be wary of emails or phone calls that supposedly come from your bank.

Why? These may be phishing (email) or vishing (phone) scams which try to grab your personal details by taking you to a hoax website that often looks genuine.

2 Treat social networking sites in the same way as face-to-face meetings

Think carefully about what information you put on Facebook, MySpace and other places where you can meet and interact with others. Do your 'friends' really need to know your date of birth, mobile number, employer or home address? Limit access to your profile to your close friends only and don't be tempted to add friends you don't know. Not every friend has your best interests at heart.

Why? You would not give all your personal details to someone in a meeting so why reveal it online? Fraudsters can scour your profile for anything they can use for crime and they may be able to obtain enough information to pass themselves off as you. They can also screen-grab your photo.

3 Disable pop-ups in your browser

Disable pop-ups in your browser if you can.

Why? Pop-ups are not only annoying, clicking on the pop-up message may allow others to download and install a program on your PC aimed at spying or identity theft. They may even download a keylogger that records the keys you press and sends details to the scammer.

4 Make your passwords hard to guess

Use combinations of letters, numbers and punctuation for your passwords and change them frequently. Using any single word or easy number combination, for example your pet's name or your birthday, makes it easy for scammers.

Why? Email is not secure. Scammers can intercept your email, find out your email address and guess your online email password. Never put financial information (such as account numbers, credit card numbers, PIN or passwords) in an email.

5 Always click the 'log out' button when banking online

When you visit secure sites (such as your bank website or email account), make sure you always log out. Avoid using public computers for confidential purposes because even if you are logged out, the details of your activities are still stored on the PC.

Why? If it's a public computer, or any computer someone else can access, scammers can use it for identity theft.

6 Check whether the website is secure

If you're asked to provide personal information, check that the details in the address bar of the browser start with 'https' (the s stands for 'secure').

Why? It makes it easier for scammers and hackers to access sites that are not secure.

7 Check your credit report at least once a year

You can get a free copy of your credit report from these Credit Reporting Agencies: My Credit File (Veda Advantage), Dun and Bradstreet and Tasmanian Collection Service.

Why? By checking your credit report you can make sure no-one is using your name to borrow money or run up debts.

8 Thoroughly check your account statements

Check that you have received all expected account statements. Follow up any unfamiliar transactions by contacting your bank or financial institution.

Why? A missing letter could indicate that a thief stole the letter from your letterbox or changed your billing address.

9 Destroy personal information - don't just throw it out

You should shred, cut up or burn old bills, account statements or cards to prevent scammers from getting hold of your personal information.

Why? Scammers can go through your rubbish in the hope of finding personal information.

10 Lock your letterbox

Make sure that you have a secure lockable letterbox. Check the letterbox regularly and remove mail shortly after it's been delivered.

Why? Identity thieves can easily steal letters from unlocked letterboxes.

What should you do if you have your identity stolen?

1. Contact your banks, other financial institutions and card issuer to report disputed transactions.
2. Make a report to your local state or territory police.
3. Contact a credit reporting agency and tell them that you have been compromised by identity theft and would like a file note placed on your file.
4. Contact your local Post Office to check if your mail has been diverted to another address.
5. Document the nature and timing of all conversations you have had in reporting the incidents to the various agencies.
6. Contact any relevant government agencies or departments, including Australian Passport Office or Centrelink.

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