LIFE FINANCIAL PLANNERS Pty Ltd

Prepare for life

+ wealth + security

Issue 5 2012

FLOOD INSURANCE

Making sure you're covered when disaster hits

Once synonymous with endless sunshine and blue skies, summer in Australia is now widely known as Storm Season. It is the time of the year when parts of the country are battered by torrential rain, fierce winds and flooding.

We were reminded of this all too well when in the summer of 2011, Australia experienced some of the most extensive flooding in its recorded history.

During that period, Suncorp handled approximately 40,000 claims worth more than $1 billion relating to flooding and cyclones in Queensland alone.

The key to facing Storm Season is preparation. That means the usual things like clearing gutters, trimming trees and having an emergency kit prepared.

Checking your insurance should also be a routine part of that preparation. Make sure your policy reflects the true value of your assets and that the coverage is relevant to the risks in your area.

If there is anything you're not sure about, contact your insurance company - it is much better to be asking questions before your home is damaged, than afterwards.

Many people affected by flooding have told us that after the safety of their loved ones, insurance was the next thing they thought of.

Their relief at knowing they were fully covered helped them to face one of the toughest periods of their lives. At the end of the day, that is the true value of insurance.

Questions you need to ask about your home and contents insurance:

- Do I have the right type of cover? You should assess your level of risk to variables such as flood and fire and then make sure your insurance policy provides the right cover.
- Have I got the right level of cover for the value of my home? If your level of cover is less than the cost of repairing or rebuilding your home, you may need to pay the difference. Make sure you know the current value of your home. If you've recently renovated, you should get another evaluation.
- Does my insurance policy reflect the true value of my contents? Some people don't realise what their contents are worth until they need to replace them. Keep a full list of your contents and their value – this will save a lot of stress should you ever need to make a claim.
- Is my home properly maintained? If you haven't properly maintained your home, for example by keeping the gutters clear or addressing structural issues, your insurance policy may not cover all of the damage if this was the cause.
- Is there a "no claims" period? Depending on your policy, you may not be allowed to claim for damage caused by floods or storms 48 or 72 hours after signing the contract. You need insurance cover all year round in case of the unexpected – signing a contract when you know a storm is about to hit might not cover you for any damage.

Article by Jason McCracken | Suncorp | Division of Asteron

Associated Advisory Practices is not licensed to provide general insurance products.

In this issue....

Enter the Dragon

Financial tips for the year ahead

A number of weeks have now passed since we heralded the start of the New Year. If you're like most people, this is about the time where the tensile strength of those New Year resolutions - made so enthusiastically a few weeks earlier - are tested.

Have your resolutions held up against the stress and strain of life post festivities?

If you're still going strong, well done! If not, then why not start fresh from today?

2012 is, after all, the auspicious year of the dragon. It is said to be a year full of promise and change; a great time for business and money-making schemes.

With this in mind, here are a few tips to help you get ahead this year.

Set your goals

One of the most common (and commonly broken) New Year's resolutions is to save more money. But nobody saves money for the love of saving money. To make this resolution stick, you need to first know what you're saving for. Set some measurable goals with deadlines and remind yourself regularly of what you're really working towards.

Set your budget

So often, people who earn good money complain that they don't know where all their money goes. In order to save money, you need to know what you're spending. Determine how much income is coming in, how much is being spent, where it goes and how frequently. Then work out how much you need to save to achieve your goals. Break this down to how much you need to save per pay packet. The key is to ensure your budget is both realistic and sustainable. Give yourself a little room to still enjoy life and remember to reward yourself when your goals have been achieved (without breaking your budget of course).

Get the best deal

One of the simplest ways to make more money is to always get the best deal. Review your mortgage and check the interest rate you're paying. The Reserve Bank has been decreasing rates lately to help reduce any negative effects of the European debt crisis. Are you getting the best deal? Compare interest rates and the mortgage features that are important to you and don't forget about the exit fees. While you're at it, shop around for the best deal on your electricity, gas, mobile, internet and insurance.

Are you protected?

Speaking of insurance – do you have enough? Life inevitably changes and your level of insurance may be inadequate for your circumstances. Income protection is often the most overlooked type of insurance but it covers you if you're sick or injured and temporarily unable to work. It can ensure your living expenses such as rent, mortgage, household and medical bills can still be met and what's more, it is completely tax deductible. Review your insurance today and get the right level of cover.

Check your super

If you have multiple super accounts, you're probably paying multiple fees. Consolidate your super and check that you haven't exceeded the $25,000 cap on super contributions for people under 50. You don't want to be slapped additional tax after all that super saving!

Get smarter

Make 2012 a year for more education and better advice. Whether it's reading the finance section of the paper, subscribing to one of the consumer finance magazines, doing a short course to increase your financial IQ or meeting with your financial adviser - the more informed you are, the better your decisions will be.

For more information and specific advice for your needs, please contact your financial adviser. The year of the dragon is your chance to start anew, so make it a good one!

Source | IOOF Holdings Limited

Annuities and Aged Care

The costs associated with aged care facilities such as nursing homes and hostels are very complex and can vary significantly depending on a person's level of income and assets. Although there are many rules and regulations surrounding the costs, there may be the opportunity to reduce aged care fees and maximise Centrelink or Department of Veteran Affairs (DVA) benefits with the use of an annuity.

The main fees payable by residents can be summarised as follows:

Accommodation payments – in the form of an accommodation bond or an accommodation charge.

Basic daily fees – payable by all residents. The maximum basic daily fee is set at 84% of the single base rate of pension for residents who entered an aged care home on or after 20 September 2009.

Income tested fee – may be payable by residents that are either part-pensioners or self-funded retirees and is based on a person's level of income.

Income tested fee

The amount of income tested fee payable is based on the residents' level of income and capped at an amount set by the Department of Health and Ageing.

It is calculated using the following formula:

('Total fortnightly assessable income' – 'total fortnightly assessable income free area') x 5/12

Where: Total assessable income includes income as assessed by Centrelink plus any Government income support payment or income support supplement.

The total assessable income free area is an amount provided by the Department of Health and Ageing and is determined by adding the basic age pension rate, the pension supplement and the income test free threshold together.

How can an annuity help?

A six year nil RCV annuity is 100% asset tested, however, it generally has favourable Income Test treatment over deeming. It must be a minimum term of six years, as anything less than this is deemed (unless the client's life expectancy (LE) is less than five years in which case their LE rounded up can be used). The Income Test on these income streams is:

Gross payment – deductible amount

Where deductible amount is calculated as:

$$\frac{\text{Purchase Price – Residual Capital Value}}{\text{Term}}$$

Case Study

Betty is an elderly, single non-homeowner who has recently entered a hostel facility. She paid an accommodation bond of $200,000 and is left with $320,000 in financial investments. She is currently receiving an Age Pension of $14,553 annually based on the income test. Her annual aged care fees are $17,046.

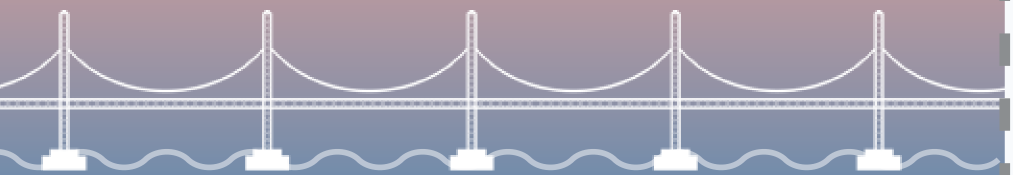
Betty's family decide to see an adviser who recommends allocating 30% of her portfolio to an annuity. She purchases a six year nil RCV, 3% indexed annuity for $96,000. The income in the first year is $17,043. The deductible amount of the annuity is $16,000 ($96,000/6) which means that only $1,043 is assessed as income in the first year.

As a result of purchasing the annuity, Betty's Age Pension increases to $16,192 and her aged care fees reduce to $16,363. This represents a saving of $2,322 in the first year. The earning rate of the annuity in this case is 5.56%. In effect we have added 2.42% to the annuity rate in the first year and uplifted it to 7.98%.

Source | Challenger

BRIDGING THE GENDER GAP

SUPER BALANCES STILL HAVE SOME CATCHING UP TO DO



When Linda Fitzhardinge, founder of Women Building Wealth, was in her mid-20s, she was struck down by a serious illness, causing a loss in her career and personal life. Even though at the time Linda sold personal income insurance, she ironically didn't have any herself. She eventually recovered and took it as an important lesson about putting yourself in the driver's seat when it comes to your finances.

Making your financial security a priority

CommSec research shows women earn only 82.5% of what men earn and male wages now outstrip average female wages by $12,870 a year.[1]

According to the ABS Survey of Income and Housing compiled for the Association of Superannuation Funds of Australia, the average account balance in 2009–10 for women was still much lower than for men: $40,475 compared with $71,645.

These are sobering statistics, but there are strategies you can put in place to shore up your financial position:

20s and 30s: Starting out

Starting in your 20s, you should become a habitual saver.

Take advantage of government benefits such as the first home buyer's grant and the co-contribution scheme. Under this scheme, the Federal government will match additional contributions to super up to $1,000 for low income earners.

The 30s are often the years in which women take time out of the workforce to have children and buy a family home.

If you are taking time out of the workforce, one option is super splitting, allowing the working half of a couple to split their super contributions with the non-working spouse.

40s: Setting the foundations for retirement

Your 40s are all about getting your super ready for retirement through strategies such as salary sacrificing, reducing your taxable income and adding to your super.

50s and beyond

Once you hit your 50s, it's a good idea to take advantage of proven strategies such as 'transition to retirement' which allow you to continue working and contributing to super and at the same time draw down on your retirement savings.

Source | Colonial First State

[1] Sebastian, Savanth, Commonwealth Research 'Women fall behind in pay stakes', 18 August 2011.

Aged care – making an informed decision

It can be difficult to plan for the move into an aged care facility, both financially and emotionally.

When the time comes you may find yourself being confronted with a complex range of questions with many difficult decisions to make.

If you or your parents are entering this stage of life, we are able to help. We can work with you to ensure that the decisions that you and your family make will be the right decisions whilst taking into consideration the impact to your financial situation, age pension entitlement and aged care costs. Making the wrong decision could result in a loss of age pension, increased aged care costs and a reduced estate to be passed on to the next generation.

Please call us to discuss your own situation.

www.lifefinancialplanners.com

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