In Perspective

Suncorp Financial Services

Autumn 2012

Greece is the word

Why do Europe's financial problems matter to Australia?

Could your family benefit?

Make sure you're claiming everything you're entitled to

Home or away?

Why international shares may still be worth considering

Inside or outside?

The pros and cons of holding life insurance in your super

SUNCORP

Welcome

Whatever your views on the recent turmoil in Australian federal politics, it's heartening to reflect that Australia's economy remains in relatively good shape. Unemployment is low and demand for our raw materials is strong.

Yet some of us might now be starting to feel that investment market volatility and gloomy financial news are becoming the norm rather than the exception. Even investing in bricks and mortar is less certain these days. On average, capital city residential property values fell 4.8 per cent in 2011.* (Brisbane fell 6.7 per cent). And the Property Council of Australia doesn't expect values to climb this year even with more interest rate cuts.

If you're retiring soon, you may be unsure what all this means for your plans and whether you need to adjust your savings strategy in light of the prolonged uncertainty on world financial markets.

And if you're a long way from retirement, you may be wondering where to invest and whether to do so within your super fund or to hold your investments privately. These are decisions only you and your financial adviser can make. But what remains true, despite the impact of market volatility on the underlying investments, is that super is a tax-effective and simple way to accumulate wealth for your retirement.

In the last edition of *In Perspective* we considered how investors should react to sharemarket volatility. I think it's worth repeating the main things to consider:

- Building a well-diversified portfolio of investments across the asset classes of cash, fixed interest, property and shares may be the best approach to smooth out market volatility over time.
- Your reaction to market volatility will depend on things like your age, retirement goals and attitude to investment risk.
- The most important thing is not to panic and rush into any investment decisions.

Above all, I encourage you to keep in regular contact with your financial adviser. They can work out the best course of action for you during the inevitable ups and downs of investment markets. Your adviser can also help you with the critical business of making sure that you, your spouse and your family have the right level of life insurance – including income protection.

I hope you find this edition informative and useful.

Stephen Daly
Executive Manager
Suncorp Advice

FAST FACTS
Retirement intentions

- Of the 2.6 million Australians aged over 45 and working full time, 41% plan to switch to part-time work before they retire.
- 13% of workers aged over 45 intend never to retire.
- The main influence on when to retire is financial security, followed by health and age pension eligibility.

Source: ABS Report, Retirement and Retirement Intentions (July 2010 to June 2011)

*Source: Australian Bureau of Statistics

Greece is the word

Why do the financial problems of a small country half a world away matter to Australia?

For the past few months the news has been full of Europe's financial woes. Pessimism about what may unfold has rattled financial markets and undermined investor confidence, with many experts now seeing a European recession as inevitable.

We asked **Tim Fredericks**, **Suncorp Research Analyst**, for his thoughts on the European debt crisis and its implications for Australia's economy.

What is causing these problems in Europe?

Some of the countries that share the euro as their currency ('eurozone' countries), such as Greece, took on too much debt and are now facing difficulties in repaying this debt. Some of the wealthier eurozone countries such as Germany are now helping to 'bail out' Greece.

Why is Greece in the spotlight?

Greece is getting most of the attention because it compounded the problem with overspending and insufficient productivity. Greece's debt equals $447 billion – equivalent to $37,000 per person in a population half that of Australia's.*

Greece is now the subject of a massive bailout plan which requires its government to implement increasingly harsh austerity measures like slashing public sector jobs, raising taxes and making big cuts to age pensions and other state benefits.

What's the worst-case scenario for Europe?

There's a chance that Greece could default on its debts and leave the eurozone. This could be the first 'domino' in a series of events that triggers a collapse of the euro and a breakup of the European financial (and even political) alliance. This situation would potentially lead to a deep and prolonged European recession.

More positively, the European Central Bank is playing a key role in the crisis in a bid to prevent a collapse of the euro and a more serious downturn in financial markets.

That's all very interesting, but what about Australia?

Australia continues to have relatively low unemployment and strong demand from China for our resources. Our government debt is low and our interest rates are relatively high which provides the Reserve Bank some flexibility should there be deterioration in our growth.

Does this mean we're immune to a European crisis?

No. Financially it's a very small world these days. The European crisis affects the supply of money available in the international markets, making it more difficult and costly for companies to raise funds. If this were to worsen and continue, Australian companies may find it difficult to refinance existing debt let alone raise funding for new projects.

Direct trade links between Australia and Europe are low. But the indirect impact may be substantial because Australia's largest export markets in Asia themselves rely heavily on demand for their goods in Europe. As such, an escalation of the eurozone crisis could affect Australia via our reliance on Asian markets.

On the plus side if global conditions worsen then the value of the Australian dollar, which has been at near-record highs, is likely to fall. This would make our exports cheaper and help cushion the impact on our economy.

*http://www.abc.net.au/news/2011-10-13

Home or away?

On page 3 we looked at Europe's financial problems and how Australia's economy is faring much better by comparison.

In might therefore seem counter-intuitive to consider investing outside Australia. But in this story, we look at why it may still make sense for some superannuation investors to include some exposure to international shares in their portfolio.

But let's start by lifting the lid on a typical 'growth' super fund.

1 Your super contributions

When you (or your employer on your behalf) make a super contribution, in most cases you're actually buying units in the fund (or funds) that make up your investment option. Those units are usually invested in a range of assets that rise and fall in value. As the values of the assets change, so too does the price of units in that fund.

The performance of your super is calculated based on the change in the value of the units in the fund(s) that make up your **investment option**. Say, as a simple example, those units started the year at $1 each, and ended the year at $1.10. Your 12-month performance would be 10 per cent, less any applicable fees and taxes. So if you had 1,000 units worth $1,000 at the start of the year (and assuming you didn't make any contributions and buy more units), they'd be worth $1,100 after 12 months, less any fees and taxes.

So what are the actual assets behind these units?

2 Choosing your investment option

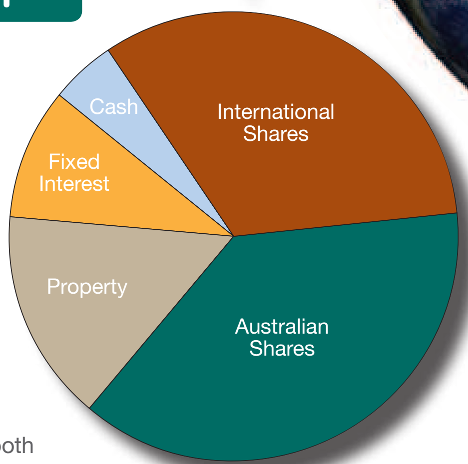
When you joined your super fund, you were given a choice of investment options – or your financial planner may have designed a portfolio for you. Typically, the main options for most super funds are 'Conservative', 'Balanced', 'Growth' and 'High Growth'. You can switch options at any time (if you don't make a choice, you'll most likely be placed in your super fund's default option).

The types of assets held in these funds can vary greatly. But they'll usually be made up of the following 'asset classes':

- Australian shares
- International shares
- Property
- Cash
- Fixed interest

Let's take a look inside a typical growth investment option. In most cases, a growth option will include a sizeable allocation to shares, both Australian and international, which along with property are often referred to as 'growth assets'. (A balanced fund will also probably have some exposure to shares and property, but in a lower proportion than a growth fund.)

The allocation of your money to international shares will most likely be spread across several investment fund managers, such as Ibbotson, Colonial, Perpetual or Vanguard. Each of these fund managers decides which shares to buy and sell (ie which companies to invest in) to maximise returns from their funds.



Typical growth investment option

3 Going global

The Australian sharemarket represents just a tiny proportion – roughly two per cent – of the world's sharemarkets, so there's literally a world of investment opportunities beyond our shores. Your super money might be invested in shares in the United States, Europe, China, India or any other country where the fund manager has identified companies with long-term growth potential.

As the share prices of those individual companies fluctuate, so might the value of the units in your super fund.

FAST FACTS

Retirement income

- 50% of workers over 45 expect super to be their main source of retirement income, while 26% expect it to be a government pension or allowance (NB the maximum age pension for a single person is just $374.40 per week, or $564.50 for a couple).
- Comparatively, 17% of current retirees reported super as their main source of income, with 66% cent saying it was the government pension.

Source: ABS Report, Retirement and Retirement Intentions (July 2010 to June 2011)

4 The big brands behind your super

So, if your super's investment option includes international shares, you could be invested in European household name companies like Nokia, BMW and Nestle.

Investing internationally also gives you the chance to access industries in which Australia does not have strong representation, such as the aerospace, technology and pharmaceutical sectors.

So why go international?

Whether they're Australian or international, investing in shares will always be riskier than investing in defensive assets like cash and fixed interest, but the reason most super funds do it is that, over the long term, shares are likely to achieve higher levels of growth.

One of the main reasons for including international shares in a portfolio is actually to reduce risk through diversification. That's because different economies and sharemarkets perform better at different times, and not always for logical reasons. For instance, while our economy is the envy of the Western world at the moment, in 2011 the Australian sharemarket was surprisingly outperformed by the United States and the recession-threatened UK.

Are shares right for you?

This depends on things like your age, how long until you plan to retire, and your attitude to investment risk. For many people, whose super is going to be growing for decades (and don't forget, it continues to grow after you're retired), some allocation to shares may help you achieve your long-term goals.

Choosing the right investment option for your super is an important decision. It could make a huge difference to your eventual super balance. Your financial planner can help you make sure your super is invested in the way that's right for you.

Could your family benefit?

Make sure you're claiming your full government entitlements

Family life is expensive so it's important to make the most of government benefits. The trouble is that when you've got kids it's hard to find a spare minute for yourself, let alone the time to wade through a pile of information and work out your entitlements.

So here's a quick summary of the main government benefits available to families. The eligibility criteria shown here is only a general guide. Eligibility depends on your individual circumstances, so you should contact the Family Assistance Office on 13 61 50 or visit www.familyassist.gov.au for more information (or the ATO in relation to the Education Tax Refund).

The benefit	What does it pay?	Are you eligible?
Family Tax Benefit (Parts A and B)	A fortnightly payment based on the number and age of your dependent children.	• To receive the maximum FTB Part A, your annual family income must be less than $46,355. • To receive FTB Part B, your family's primary earner must earn less than $150,000.
Child Care Benefit	Weekly payments of up to $189 per child to help with child care expenses.	• To receive the maximum benefit, your annual family income must be less than $39,785. • The benefit cuts out at a family income of $138,065 for one child in care (higher thresholds apply for additional children in care).
Child Care Rebate	Covers 50 per cent of the out-of-pocket expenses for approved child care, up to a maximum of $7,500 per financial year, per child.	• There is no income test for the Child Care Rebate
Education Tax Refund	A 50 per cent tax refund for eligible education expenses. You can claim up to $397 for each child in primary school and up to $794 for each child in secondary school (in 2010-11).	• Generally, you must be eligible to receive Family Tax A for the child you want to claim the education tax refund for. • You should include the education expenses as a tax offset in your income tax return.
Baby Bonus*	Paid per eligible child in 13 fortnightly instalments. Those eligible to receive the Baby Bonus will get a higher first instalment of $879.77 and twelve fortnightly instalments of approximately $379.77.	• Your adjusted taxable income needs to be less than or equal to $75,000 in the six-month period following the child's birth (or entry into your primary care).
Paid Parental Leave*	Provides 18 weeks of government-funded, paid parental leave at the national minimum wage rate (currently $589.40 per week).	• Your adjusted taxable income must be less than $150,000 in the financial year prior to the date of birth, adoption or claim (whichever is earlier).
Maternity Immunisation Allowance (MIA)^	A non-income tested payment to encourage parents to fully immunise children in their care.	• You must be eligible to receive a family tax benefit for the child (disregarding the FTB income test). • You must claim when your child is aged between 18-24 months (first payment) and between 4-5 years (second payment).

* You cannot receive Paid Parental Leave and a Baby Bonus payment for the same child. There is a 'Paid Parental Leave Comparison Estimator' at www.familyassist.gov.au to help you make an informed decision about which payment to claim.

^The MIA will stop from 1 July 2012.

FAST FACTS

Cash for kids

- Money was the most common Christmas gift for children aged 6-13 in 2011, with 38% of those who were given money receiving $100 or more.
- 49% saved their money in a bank account and the remainder spent it on 'entertainment' items (not surprisingly!) such as toys, console games and books.

Source: Roy Morgan's Understand Young Adults Report

FAST FACTS

We need insurance

- Every year, serious illness and injury forces about 17,000 working-age parents to stop working either permanently or for an extended period of time.
- 95% of families do not have enough insurance to protect themselves financially.

Source: Lifewise/NATSEM Underinsurance Report, February 2010

Could you keep spending if your income stopped?

If your house was worth over two million dollars, you'd protect it with comprehensive insurance. There's no way you'd want to risk financial ruin if it was destroyed or damaged.

Yet many of us aren't protecting ourselves even though we're worth far more than bricks and mortar. For instance, a person earning $60,000 a year will earn over $2.2 million over 20 years.[1] Isn't that something worth protecting?

Financial freedom

Income protection insurance pays an ongoing monthly amount (usually up to 75 per cent of your salary) if you can't earn an income because of illness or injury. It gives you the financial freedom to focus on your recovery or treatment, without having to worry about paying the mortgage and other bills.

It can be cheaper than you think

Like all insurances, the premium you'll pay depends mainly on your age, gender and chosen benefit amount.

To give you an idea, a 35-year-old female office manager earning $60,000 a year would pay the equivalent of $3.41 a day for a policy that pays a monthly benefit of up to $3,750.[2] And her premiums are tax deductible.

Have a chat with your financial adviser if you're not sure your income is adequately protected against illness and injury.

Income protection in action

Maria was 41 and worked full-time as an assistant store manager in a large supermarket, earning around $65,000 a year. The work was busy and physically demanding but the store was conveniently close to Maria and husband Paul's home. They'd recently taken out a big home loan and moved into a new house with plenty of room for their 12-year-old twin girls.

Both Maria and Paul already had some insurance cover through their super, but when the twins were born they had been concerned that they might not have enough protection. They saw a financial adviser who calculated an appropriate sum of life cover and recommended that they both take out income protection cover.

Last winter the family went to the snow for a long-awaited skiing trip. On the second day of the holiday Maria took a bad fall and suffered a broken wrist and an injury to her spine.

Although luckily not permanent, her spinal injury was serious and needed a long recuperation. The treatment required her to spend long periods lying flat on her back. She was completely unable to work.

With her financial adviser's help, Maria made a claim under her income protection policy. The claim was approved and she began receiving the full benefit of $4,062 a month. This enabled Paul and Maria to keep paying their home loan and other family expenses, and ensured they had no major money worries while Maria was recovering.

After three months her insurer engaged a rehabilitation consultant who helped Maria plan a gradual return to work.

1 Based on annual CPI and salary increases of 3 per cent

2 Based on an Suncorp Lifeguard Income Protector policy, non-smoker, stepped premium paid annually, Queensland resident, 30 day waiting period, benefit period to age 65, increasing claim.

Inside or outside?

Super can do more than just grow your retirement savings – it can also provide affordable, tax-effective life insurance. Here we look at some of the pros and cons of holding life insurance inside or outside super.

What types of insurance are usually available within super?

Most super funds offer some or all of the following types of cover:

- Life insurance, which pays a lump sum on your death or on the diagnosis of terminal illness.
- Total & Permanent Disability (TPD) insurance, which pays a lump sum if you suffer an illness or injury that leaves you totally and permanently disabled.
- Income Protection (or 'Salary Continuance') insurance, which pays an ongoing monthly amount if you can't work because of illness or injury.

Trauma (or Recovery) insurance, which pays a lump sum if you're diagnosed with a serious illness such as cancer, heart attack or stroke, is usually only available outside super.

Why have insurance within super?

Most people have at least a basic level of life insurance within their super fund, and benefit from:

Cost savings

- If you're employed, premiums can be funded from your pre-tax employer or salary sacrifice contributions.
- As most super funds are collectively insuring a lot of people, they can offer members a 'group discount' on premiums.

Improved cash flow

- As premiums are funded by your pre-tax super contributions, there's no need to dip into your take-home pay.

Automatic cover

- Many funds offer automatic acceptance for basic cover, with no need for you to undergo medical assessment.

What are the drawbacks?

Structuring insurance within super can also have its disadvantages, including:

Lower super balance

- Funding insurance premiums from your super contributions (or from your actual super balance) is eroding the money that would otherwise be accumulating as part of your super savings.

Less protection

- Many income protection policies within super will only pay benefits for a two-year period, so you may need to supplement this cover outside your fund.
- People often accept their fund's default level of cover without checking that it's enough to cover their current level of debt and protect their family and lifestyle.
- If held under your employer's super plan, your insurance may only last for as long as your stay with that employer. If you leave, your cover may lapse. If your health has deteriorated or you're just a lot older, you may then find it difficult – or more expensive – to take out new cover elsewhere.

Slower claim payments

- If you have to make a claim, the process can take longer because the trustee of the fund decides how, and to whom, a benefit is paid.

Tax implications

- Insurance benefits within a super fund become part of the fund's account balance and may attract unnecessary tax in the hands of recipients.
- There's no tax advantage to holding income protection cover within super, whereas the premiums are generally tax deductible if it's held outside super.

Contact us

To learn more about any of the strategies in this newsletter, have a chat with your financial planner. Or call Suncorp on 13 11 55 (and ask for 'financial planning').

19462 01/03/12 A