Insight

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INNOVATIVE
FINANCIAL SOLUTIONS
(QLD) PTY LTD

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Brought to you by Innovative Financial Solutions

Helping you achieve financial success and peace of mind by providing you with a personalised financial strategy

Welcome to our latest edition of Insight

Through this newsletter we hope to provide you with relevant insight into the areas which affect you and those around you.

2014 is well underway and we hope you had a fantastic summer. For us here at Innovative Financial Solutions, 2014 has got off to a huge start as our Robina team has moved into our new larger office space two doors down. Our team has also grown as we welcome a number of new advisers to help continue to provide high quality strategic advice to our every growing client base.

Please note that our Toowong and Robina office phone and mailing address details remain the same, however our Robina office address is now **57**/1 Arbour Ave, Robina.

The year so far has provided a steady start for equity markets at home and around the world. We do however have the liberal government's first budget to be handed down on 13th May 2014. Prime Minster Tony Abbott and his team have been quite clear on the areas they wish to focus on in particular age pension entitlements and means testing. Rest assured we will be assessing this information and the potential impact it may have on our client's strategies. However feel free to contact us if you have any questions regarding the budget.

We look forward to continue to work with you and of course feel free to contact us at any time to discuss your situation.

Also we hope this newsletter is of value to you and appreciate any feedback and suggested topics that you feel you would like us to address in future editions.

Thank you for your continued support.

Kind Regards
Chris Hockey
Director
Innovative Financial Solutions (QLD) Pty Ltd

Control your debt before it controls you

Debt can be a wonderful slave but an unforgiving master.
Be prepared and follow these six simple steps to take control of your debt.

Australia, in common with many western countries, has an extraordinarily high level of consumer debt. The number of new credit card accounts opened in the 12 months prior to September 2013 increased by 296,000. But the scariest figure is the accruing interest on credit cards – at the time of writing is in excess of $5,800,000,000 per annum (that's almost six billion dollars)!

You can see why banks LOVE credit cards!

Please don't misunderstand; properly managed debt can be a great tool. Most people need it to help them purchase their first house and other necessities in life.

It is also very important in investment planning, enabling you to purchase income producing growth assets, such as shares or property, to boost your long-term wealth. In this case the interest may also be a tax deduction.

The problem arises when debt is used for basic living costs or purchasing depreciating assets. This is further aggravated when the interest rate applied is too high and there is no planned debt reduction program in place.

When interest rates increase most people focus on their mortgage rate and forget that the interest on their credit cards sneaks up too. Most major cards are charging around 20%pa with many customers paying little more than the minimum amount and sinking further into debt.

If you are not paying off your credit cards in full every month, have other high interest loans, or your current level of debt is keeping you awake at night, you need to seriously consider your financial direction.

Follow this simple plan and take control of your debt before it takes control of you...

1. Restructure your debt by consolidating what you owe at the lowest available interest rate. Keep ONE credit card and cut up the rest!
2. Seek professional help from a financial adviser to plan your financial goals and how to achieve them.
3. Prepare and keep to a budget to ensure your cost of living is within your means and put a debt reduction program in place.
4. Beware of "interest free" offers and make sure you can afford to pay off the entire balance by the end of the contract. A lot can happen in 50 months so don't get behind on your payments.
5. Ensure new loans are only for a productive purpose, such as investing, and can be justified by potential future profit.
6. Avoid the mental attitude of "keeping up with the Joneses" – the laugh will be on them when the debt collector turns up at their door!

All of the above steps will make for a much easier life in future years ... not to mention sleeping better every night!

Disclaimer: This article has been prepared by Suncorp Financial Services and does not consider your personal circumstances and is general advice only. You should not act on any recommendation without considering your personal needs, circumstances and objectives. Innovative Financial Solutions (QLD) Pty Ltd recommends you obtain professional financial advice specific to your circumstances.

China: an evolving relationship

In just two decades, China has risen from being largely irrelevant for Australia as an export destination to becoming our most important trading partner – and by some margin. Such has been the meteoric change, that other sectors of the Australian economy such as manufacturing have struggled to keep pace with the knock-on effects like the higher currency.

Our most important partner

It's well understood the role that China has played in fuelling the domestic resources boom. The Chinese government has an unwavering commitment to modernise their economy and this is only possible by using Australia's natural resources in the building and construction phase, particularly iron ore (steel production) and coal (energy production).

Much has been made of the end of the mining boom but it's important to put this into context and to also to understand where to from here for the Australian economy. Headlines claiming the end of the resources boom have served their purpose in getting people's attention but they do little in providing the complete picture. There is little doubt that mining activity has curtailed in response to weaker demand from the likes of China. You only have to look at the changes in the management of the two largest mining companies, BHP Billiton and Rio Tinto. At both companies, out are the expansionary CEOs and their vast ambitions and in to replace them are conservative CEOs who have a mandate to drive efficiencies from existing projects and to put less commercial initiatives on hold. What the headlines fail to mention is that China continues to take more of Australia's resources than ever before – just not at the rates of growth that we are accustomed to. Steel production for instance is expected to grow at over 3% over coming years, which is more than enough to keep existing mining projects happy but not enough for future mining projects to be assured of commercial success and hence the canning of many future mining developments.

China accounts for nearly half of the world's steel production. Not bad for a country that accounted for just 15% of global steel production as recent as ten years ago.

Such growth brings with it unintended consequences. Chinas' main asset to date has been cheap labour, as it set about becoming the world's workshop. The irony is that such success has led to increasing wages and there have already been examples of jobs that have shifted to cheaper labour nations such as Indonesia and The Philippines.

So where to from here?

In relative terms, China has only been a key player in global trade for a very short time. There are few precedents on this scale but some trends are already beginning to emerge. Surveys of Chinese households in recent years highlight the swift changing of attitudes in response to improving household wealth. Before China's economic growth boomed, the major concern for Chinese families was the certainty of access to food.

Fast forward to today and the concern for food security has become less of an issue as it's more readily available. In fact, China has as high a level of childhood obesity as any western nation. The new trends emerging from these household surveys are the focus on education and the environment. The Chinese have an insatiable appetite for education. It is seen as a key platform to take advantage of the increasing opportunities being afforded to its people. Part of this aspiration for those that can afford it is an overseas education. The number of Chinese students studying in countries such as Australia, Canada, the UK and the US has surged in recent years.

China's rapid industrialisation has led to significant environmental problems. Among the most evident of such problems is the smog that blankets many of China's larger urban environments. A 2014 survey by the Environmental Protection Ministry revealed that 80% of those polled held deep concerns about the country's environmental problems. In centres such as Beijing, pollutant levels have been as high as twenty times levels deemed safe by the World Health Organisation. Corporations have begun experiencing problems in recruiting expat workers to take up posts in cities such as Beijing as breadwinners have reservations about relocating their families to cities with obvious health concerns.

Another area of interest for Australia in its' changing relationship with China is the notion of becoming the Asia's food bowl. South Korea and Japan are interesting examples of what happens to the diets of nations who undergo rapid industrialisation. An improved standard of living invariably leads to higher levels of protein intake such as red meat. In both South Korea and Japan, a period of huge economic growth was quickly followed by a significant change in diet. This theme was behind BHP Billiton's failed takeover of the world's largest fertiliser company in 2010. Few countries are as well positioned to take advantage of China's likely change in diet than Australia.

Bumpy Transition

China is determined to reorient its economic fortunes away from being so heavily reliant on exports. The GFC highlighted just how vulnerable China is to slowdowns in markets that buy their goods. But China's problems aren't just external. Significant imbalances have built up and so managing China's growth is becoming increasingly difficult. A highly interesting twist in recent months is a number of corporate defaults in China.

At face value, this may look like a problem and sharemarkets globally have reacted nervously to the news but the fact that the Chinese government is allowing companies to go under is an important adjustment as they become more market-oriented rather than allowing corporates to fall back on the government in times of financial hardship.

In the short term, investment markets are wary of these adjustments in policy but the medium term is actually supported by changes to more normal market practices and less government intervention.

Conclusion

China is expected to overtake the US as the world's largest economy within the next few decades. When a nation the size of China undergoes the economic transformation that it has commenced, it's a case of win-win for the rest of the world. China's rise has already had a profound impact on the Australian economic landscape.

While growth rates in the mining sector are moderating, areas such as education and food production are only just beginning to see the rewards of an evolving China. The scale of the mining boom has skewed the public's perception about what the rise of China means for nations such as ours. Tourism Australia reported that visitors from China were up over 15% in 2012 on the year before to around 625,000 arrivals. What will become more apparent through time is that the Chinese economy is going to be increasingly prone to the ups and downs that other major economies experience.

The challenge for Australia is that we must accept the good with the bad. While the mining industry will continue to be underpinned by China, our economic relationship will include many more sectors, many of which will not be as temperamental as the resource sector can be.

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INSURANCE INSIGHTS

Worst case scenarios: are you covered for the unexpected?

None of us can predict the future, and few of us like to think about it - especially when it comes to worst case scenarios.

In Australia, our overwhelming preference is to take the out of sight/out of mind approach.

> **95 per cent of us are lacking adequate levels of insurance, according to a 2011 Lifewise/ Natsem Underinsurance Report.**

Yet the report also calculates that over the next 10 years more than one million working-age parents with dependents will be affected by death or an illness or accident. What's more, underinsurance is likely to cost the federal government more than $1.3 billion over the same period.

That's where Total and Permanent Disability (TPD) insurance can help. It is designed specifically to safeguard against financial hardship from serious illness or accident which prevents you from returning to work.

TPD insurance provides a lump sum payment that can be used as an income stream to pay off debts, cover medical/rehabilitation expenses and pay for home care. All of these outgoings can quickly erode savings and adversely affect your family's lifestyle choices.

TPD cover came in very handy for Sue and Mike*, a couple raising three children on a single-income of $85,000 per annum. When Mike became a paraplegic after a serious car accident, he was unable to return to work as a motor mechanic.

Thanks to his TPD insurance cover, he received a benefit of $500,000, which was enough to cover the mortgage, as well as refitting the home and paying for a carer.

What does TPD cover?

TPD insurance can be purchased either as a stand-alone product or within your superannuation. It may also be part of a broader insurance package. It generally covers a physical condition or psychological disorder (excluding self-harm) that prevents you from returning to work.

Some examples of TPD claims include cancers, skeletal injuries, the loss of limbs and loss of eyesight which have prevented the claimant from returning to work.

Depending on the type of TPD cover you have, TPD can cover you if you are unable to ever work again in 'any occupation'. It may also protect you if you can no longer work in your 'own occupation'. Another type of TPD covers those who are not currently employed but are no longer able to perform two out of five activities of daily living, such as eating or bathing.

> **Taking out TPD insurance generally involves a risk assessment that will take into account your medical and family history, occupational hazards and lifestyle choices such as smoking and other high-risk activities. Depending on the sum insured, a formal medical assessment (including blood tests and other health reports) may be necessary.**

Because TPD cover is intended to protect against loss of income, 'any' or 'own' occupation TPD cover generally expires once you reach the age of 65. However, people over 65 can continue with 'non-occupational' TPD cover, which generally may be held until the age of 80.

Start a conversation

It's a good idea to have a chat with your financial adviser who can help you to assess your future financial needs if the worst happens and you need to call on your insurance.

While you may have life insurance and TPD as a default option as part of your superannuation accounts, it is important to understand what exactly you are covered for and whether it suits your circumstances and requirements. This will ensure that you are protected properly and that you will be financially secure if something happens.

Did you know that you can also buy TPD insurance for other family members and even friends?

That means you can help protect all of your loved ones from financial catastrophe if they're not in the position to take out their own cover.

Speak to your financial adviser to find out more.

*Real name not used.

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Five common super mistakes and how to avoid them

Your super is the key to having enough money to live comfortably in retirement. Yet many of us are letting our retirement dreams slip away by falling into some common, and easy to prevent, super traps. Here are the top five super mistakes you should avoid.

Losing track of your super

An estimated 5.8 million super accounts, or about one in five, are lost. The total amount of lost superannuation is $18.8 billion[1]. If you've ever changed your name, switched jobs or done casual work, you might have lost track of some of your super without realising it.

But that doesn't mean it's lost forever because it's quick and easy to find your missing super using the ATO's free SuperSeeker tool. And soon we'll also be able to track down your lost super for you with just your tax file number – watch this space for more information.

Keeping more than one super account

In 2012 there were nearly 32 million super accounts in Australia, which is an average of almost three accounts for every worker.[2]

If you have different super accounts, you could be chipping away at your super savings by paying multiple administration fees and insurance premiums. That's why it pays to always keep your super in one account. It will also cut down on your paperwork and make it easier to keep track of your super if you change jobs.

But before you move all your super into one fund, make sure you're clear on any termination fees you'll have to pay and any insurance benefits you might miss out on.

Assuming your employer's default fund is right for you

Every Australian employer has to offer their employees a default super fund. If you don't choose a separate fund to pay your super to, this is where it will all go.

Around 80% of Australian super fund members[3] are in their employer's default fund – and for many, it could be the right choice. That's especially the case now that the Government's MySuper regulations have created a new breed of default super funds, with lower costs and standard insurance benefits.

But if you would like more control over how your money is invested, you might prefer a fund that offers more investment choice. And if you're a confident investor with the time to manage extra administration responsibilities, you might even consider starting your own self-managed super fund (SMSF). The average wage earner won't even have half the super they need for a comfortable retirement.

Relying solely on super guarantee contributions

Your employer must contribute 9.25% of your salary to super under current laws. But research shows that at this rate, the average wage earner won't even have half the super they need for a comfortable retirement[4]. That's why it's worth considering options like pre-tax salary sacrifices or personal contributions from your take-home pay to help grow your super nest egg.

Leaving it too late to boost your super

Even if your retirement is still a long way off, it pays to start building your super sooner rather than later. You might be surprised at how a small increase to your super now could have a big impact in the long run. Try our Super Calculator to see just how much super you'll need, so you can have the retirement you want.

If you need help, then consider talking to a financial adviser. They can help you create the lifestyle you want today, without sacrificing your future financial security.

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1 Making it easier to find lost super', Media Release, The Treasury, 4 February 2011 **2** Lost and Unclaimed Superannuation Money
3 Stronger Super, Australian Government Treasury, 2013 **4** ASFA Retirement Standard, June 2013

At Innovative Financial Solutions (QLD), our aim is to help you achieve financial success and peace of mind by providing you with a personalised financial strategy.

About us

We are a boutique financial planning practice providing strategic financial advice solutions for clients in areas such as wealth creation, superannuation, risk management and retirement. We strive to provide you with a plan that will create and protect your wealth over the long term, while dealing with your day to day financial needs.

We are committed to service excellence and ongoing adviser education. All of our advisers are qualified, financial experts with the experience to ensure the best financial out come for you. Our quality financial advice puts you in control.

Our advisers

Our highly accessible and expert professional advisers are the key to our first-class client service. They will provide clearly communicated, tailored solutions and practical recommendations to ensure you grow and succeed in today's challenging environment.

Their capability is constantly improved through training, professional development and workplace programs.

The value of advice

Making the right decisions about your finances has never been so important. A financial planner can help you do this by understanding your financial situation and helping you develop a financial plan to meet short and long-term goals.

The right financial planner has the potential to provide outstanding value for money - creating a benefit that reaps rewards far in excess of the cost involved.

Of course, 'value' often goes beyond dollars and cents. It can be the peace of mind and security that comes with being prepared for the future. Or it may be the helping hand that arrives at a time of personal upheaval. Sometimes it's the clear sense of direction an expert can provide when we arrive at one of life's crossroads.

Whether you have definite personal goals, like saving for retirement or funding your children's education, or you're facing a raft of financial challenges, a financial planner can make a difference. Put one of our financial planners to the test and you will be offered sensible, achievable solutions that identify opportunities and help you avoid costly mistakes that could derail your future plans.

Our Services

Personal insurance
Superannuation

Retirement Planning
Investment Strategies

Small Business Planning
Estate Planning

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