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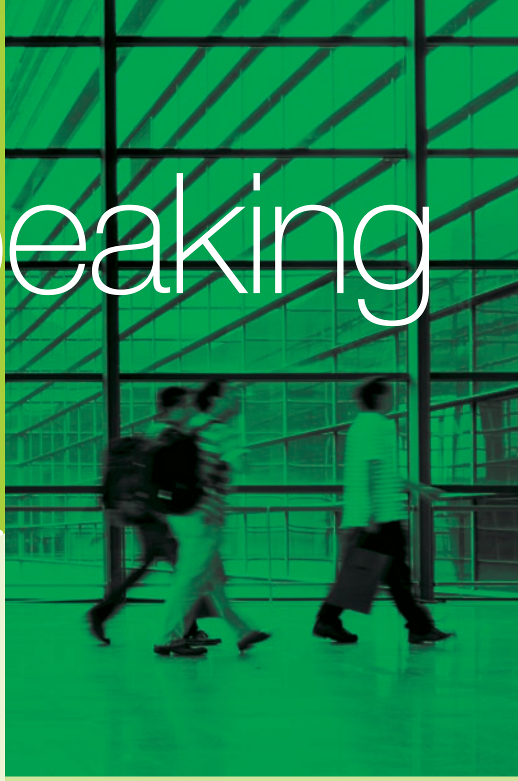

Growth delicately poised

Global growth slowed in 2013 but there are signs that growth could rebound in 2014, led by the developed economies of the US and Europe.

However, it is not clear whether the recovery is sustainable and structural problems remain hidden below the surface.

Global growth forecasts have continually been revised down during 2013, with the international monetary fund recently reducing its 2013 growth forecast to 2.9 per cent from 3.2 per cent. A new trend of slowing growth in emerging economies and recovering growth in developed economies has emerged.

Despite the global slowdown, there is growing optimism that the US is gaining momentum and that Europe is showing the first signs of recovery. In addition it seems China has stopped slowing and has stabilised at around 7.5 per cent growth. Indeed, it is expected that emerging economies will soon benefit from a recovery in the developed world and hence global growth should rebound in 2014 to around 3.6 per cent, according to international monetary fund forecasts.

Structural issues

Despite increased momentum leading into 2014, there remains structural problems in each region.

In the US, the recovery is patchy and requires extraordinary monetary stimulus

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Growth delicately poised continued

from the US Federal Reserve (Fed) to keep interest rates very low and the USD weak. The tricky part for the Fed will be exiting this program. We have already seen markets 'front-running' the Fed when it indicated mid-year that it was considering tapering its bond purchasing program. Bond yields rose aggressively, the USD rallied and capital began to flow out of emerging markets and back into the US. The Fed seemed to be alarmed at the sharp market reaction and subsequently delayed plans to taper in September 2013.

In addition, the issue of reducing the US budget deficit and public debt without harming economic growth remains a divisive issue for Congress. The public debt has grown to US$16.7bn, or 100 per cent of GDP, while the budget deficit is around US$650bn, or 4 per cent of GDP. To be fair, the budget deficit is the lowest deficit in five years and has been reduced from around US$1.2 trillion in the years immediately following the GFC.

However, the public debt will continue to grow unless the deficit is returned to surplus and hence the Republican controlled lower house is becoming increasingly active over the budget and the self-imposed US$16.7bn debt ceiling. The recent budget stand-off in Congress forced a Government shutdown that may hurt the US recovery but financial markets remained calm on the assumption that the budget and extension of the debt ceiling would eventually be approved, which indeed it was.

In Europe, the recovery is fragile and there still remains sovereign debt and bank solvency issues in the southern countries. There is also the larger question: can the European monetary union succeed without a proper fiscal, banking and political union (of the kind that we see in the United Kingdom or the US)? We suspect not, but we expect the EU to forge closer integration over the long term.

In China, its economic model for the past 40 years of export and investment led growth is becoming unbalanced and unsustainable. There is a concern that property and infrastructure development has become too large at 50 per cent of the economy and has run ahead of income growth. More wealth needs to be distributed to its citizens to boost incomes and hence consumption.

China's new leaders recognise the need for reform to drive the economy towards more sustainable and diversified growth across consumption, business investment, housing, government spending and net exports.

In Japan, the new Abe government is trying to get the country out of a debt deflation trap that has existed since the 1990 property bubble burst. Japan's sovereign debt is very high at 240 per cent of GDP and the central bank has a substantial money printing program aimed at keeping interest rates low and encouraging inflation but also keeping the currency weak. In addition, Japan is also dealing with an ageing population and increased manufacturing competition from South Korea and China.

The structural issues mentioned above are all major issues and are not going to be solved overnight. It will take many years for each issue to be resolved or, in the worst case, emerge as a crisis. We can't know how they will all turn out but it pays to be aware of them when investing.

Australia

Compared to the US, Europe and Asia, Australia has relatively few issues. The budget deficit and public debt are low to moderate, the banking system is strong, the economy is diversified and the Government should be more functional after the recent election. The issues in Australia are more around encouraging growth outside of the mining sector and improving productivity.

However, one structural weakness could be the build-up of housing debt which is relatively high at around 100 per cent of GDP. But the debt is being serviced and impairments are very low. Household debt is not likely to be an issue unless unemployment rises and/or credit becomes much more expensive, both of which seem unlikely given that the economy continues to grow, inflation remains subdued and the banks are well capitalised.

Conclusion

A recovery in the US and Europe should lead to a rebound in global growth in 2014. However, we remain wary that the recovery is still fragile and there are still some major problems below the surface.

At this stage, we are retaining our largely neutral growth, underweight bonds and overweight cash stance. If we can gain greater comfort on the sustainability of the global recovery, we will look to increase growth weightings and reduce cash.

To find out how these changes impact your investment portfolio, speak with your financial planner.

Source: Lonsec, October 2013




The importance of trauma cover

Thanks to modern day treatments, cancer survival rates are on the rise. But can you afford to be treated?

This article will help you understand the importance of trauma cover when facing serious illness.

One in two Australians will develop cancer before the age of 85 and one in five will die from the disease, according to a report from the Australian Institute of Health and Welfare (AIHW).

But while the incidence of all cancers rose by 27 per cent in the 25 years to 2007, deaths from the disease have actually fallen by 16 per cent. This proves just how far modern medicine has come and the calibre of treatments available to treat the various forms of this illness.

In fact, this report has revealed that cancer patients are increasingly living longer with 66 per cent now surviving for at least five years (for all cancers combined in the period 2006-2010) – a large increase from the 47 per cent survival rate for all cancers in the period 1982-1987.

According to Anne Bech, spokeswoman for AIHW, "While overall cancer survival is improving in Australia variations still exist between types of cancer."

The cancers with the largest so-called survival gains from 1982-1987 to 2006-2010 were prostate and kidney cancer and non-Hodgkin lymphoma. Survival rates for lip, larynx and brain cancer along with chronic lymphocytic leukaemia didn't improve. Between 2006 and 2010 the cancers with the highest survival rates were testicular, prostate and thyroid cancer, along with melanoma of the skin. All had a five-year survival rate of 90 per cent or more.

Sadly pancreatic cancer and mesothelioma remain incredibly lethal and have the lowest survival rate, with less than ten per cent of patients surviving five years following diagnosis.

The report also revealed that cancer sufferers, who have survived for five years, had a 90 per cent chance of living for another five years for all cancers combined. This is all good news right? Well, if you have enough money to cover all the necessary (and ongoing) treatments then absolutely! But, what if you can't afford to be treated?

One might be forgiven for thinking that a combination of income protection insurance, private health insurance and Medicare are enough to cover the treatment of serious illness. But the truth is, in the case of cancer, where it can take years of treatment including many rounds of chemotherapy, radiotherapy and even surgery, serious illness can come at a huge cost which can mean hundreds of thousands of dollars out of your pocket.

Take Kathy for example...

Kathy, aged 41 and with two sons, was diagnosed with breast cancer. She had two rounds of surgery, chemotherapy and radiotherapy, not to mention the reconstructive surgeries on top of that. After Medicare and the health fund had paid their parts, the gap costs came to tens of thousands of dollars.

Read on to find out why she wished she had listened to her planner's recommendation to take out trauma cover sooner.

It's important to speak with your planner to understand the difference a lump sum payment can make in the event of suffering a pre-defined traumatic event such as cancer.

Not only will trauma cover help to meet any out of pocket expense you might face, but it could help you on the road to recovery by removing some of the added financial pressure created by the need for ongoing and often expensive treatments.

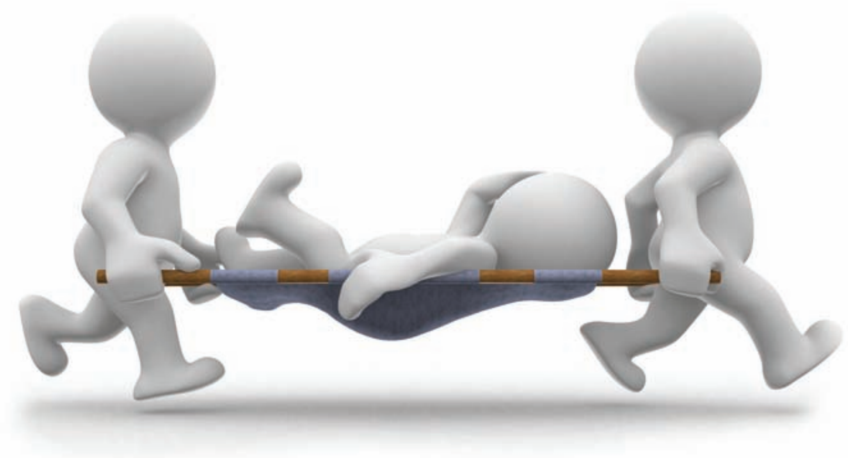
Consider the incremental increase in survival rates for all cancers combined:

- 1982-1987 – 47%
- 1988-1993 – 52%
- 1994-1999 – 58%
- 2000-2005 – 62%

Are you financially prepared for the treatments that go along with surviving serious illness?

For more information on trauma cover to put your mind at ease, contact your financial planner.

Source: Zurich, November 2013



What contributions can you make to your superannuation?

In the years since the introduction of contribution caps (generally from 1 July 2007), the maximum amount you may contribute to your superannuation has changed quite a few times. As the 2013/14 financial year sees us in the midst of another period of change, it is timely to consider what level of contributions you can make to superannuation now and in coming years, and at what rate those contributions will be taxed. Also, as mistakes can and will occur, we will consider whether remedies are available if the maximum limits are exceeded.

Contributions

In general the two types of contributions are:

- concessional contributions, and
- non-concessional contributions.

Concessional contributions are payments made to a superannuation fund by you or others, such as employers, for your retirement benefits. A tax deduction is usually able to be claimed by you or the entity paying the contributions. Conversely, concessional contributions are included in the taxable income of the fund (ie they are subject to tax).

Employer contributions include those required to be made by legislation (superannuation guarantee) or employment award obligations. Contributions made under an arrangement (salary sacrifice) between you and your employer are also concessional contributions.

With respect to your personal contributions you may only make concessional contributions if you meet certain tests which indicate you are predominantly self-employed.

Non-concessional contributions are not taxed on receipt by the superannuation fund. Similarly, no tax deduction is available to you, as contributor. In other words, non-concessional contributions are paid using money that has already been taxed.

A number of types of contributions fall under the heading of non-concessional contributions. For example, Government super co-contributions and contributions arising from capital gains on the sale of business assets are classified as non-concessional contributions, but are not included under the standard limits for non-concessional contributions.

Contribution limits

Concessional and non-concessional contributions, up to specified limits, are permitted to be made by or on behalf of individuals each year. Those specified limits are called contribution caps. The main contribution caps are the **concessional contributions cap** and the **non-concessional contributions cap**.

The **concessional contributions cap** has been temporarily increased to $35,000 for the 2013/14 financial year for those aged at least 59 years on 30 June 2013 (ie if you turn 60 or more in the 2013/14 year). For all others, the concessional contributions cap is $25,000 for the year.

For the 2014/15 financial year, the concessional contributions cap will be $35,000 for those aged at least 49 years on 30 June 2014 (ie if you turn 50 or more in the 2014/15 year). For all others, the concessional contributions cap will remain at $25,000 each year, with indexation in increments of $5,000, being applied in line with inflation. Indexation has been halted by the Government but it is expected to recommence from 1 July 2014.

Concessional contribution caps

Financial years	Cap for those aged 59 years or over on 30 June 2013	Cap for those aged 49 years or over on 30 June 2014	Cap for all others
2013/14	$35,000	$25,000	$25,000
2014/15	$35,000	$35,000	$25,000

Source: Australian Taxation Office

The **non-concessional contributions cap** is six times the standard concessional contributions cap and is, therefore, currently set at $150,000 (ie 6 x $25,000 = $150,000). Any increase in the concessional contributions cap after 30 June 2014 will result in a corresponding increase in the non-concessional contributions cap. For example, if the concessional contributions cap was to increase to $30,000 then the non-concessional contributions cap would also increase to $180,000 (ie 6 x $30,000.)

If you are under age 65, the 'bring forward' provisions allow you to bring forward two years' worth of contribution limits and contribute up to $450,000 in one year. If you are considering this strategy, please discuss it with your financial planner first as there are a number of 'traps' that could exist which may see you exceed your non-concessional contribution limit and the penalty for exceeding the cap could be severe.

Contribution age limits

Your age at the time contributions are intended to be made impacts the ability of superannuation funds to accept those contributions. In some instances, you must have worked for at least 40 hours in a 30 day period (work test) in the year contributions are made.

The various age limits for making contributions to superannuation are detailed in the table below:

	Age			
	Up to age 64	Age 65 to 69	Age 70 to 74	Age 75 and over
Concessional				
Super guarantee & award	✓	✓	✓	✓
Other concessional	✓	✓*	✓*	✗
Non-concessional				
Standard	✓	✓*	✓*	✗
Using bring-forward rule	✓	✗#	✗	✗
Government co-contribution	✓	✓	✗	✗

* Subject to meeting work test in the year of contribution

OK in year of reaching 65 if work test has been met

Excess contributions

Recent changes to superannuation have eased the very significant penalties which were previously applied to excess concessional contributions.

Unfortunately, no relief has been provided to the potentially heavy penalties for exceeding the non-concessional contributions cap. Any amount in excess of the non-concessional contributions cap will be taxed at the rate of 46.5 per cent – almost half the excess.

The following rules apply to excess concessional contributions:

- The amount will be taxed in the fund at the rate of 15 per cent.
- Any excess concessional contributions will be included in your personal income tax return for that relevant year.
- You will receive a 15 per cent tax offset for the amount of excess concessional contributions included in your income tax return, as compensation for the tax already applied to the contributions in the superannuation fund.
- Interest may be payable on the resulting tax adjustment.
- You may elect to have your superannuation fund release up to 85 per cent of the excess concessional contributions (ie 100% - 15% tax paid).
- The superannuation fund will pay the released amount to the ATO.
- The amount paid will be included as a credit in your income tax return.
- After allowing for the additional tax and interest, the surplus will be paid to you.
- Amounts not withdrawn will apply to the non-concessional cap.

Taxation of contributions

As mentioned previously, non-concessional contributions are not taxed upon receipt by the superannuation fund, but excess non-concessional contributions are taxed at the rate of 46.5 per cent.

Concessional contributions are generally taxed in the fund at the rate of 15 per cent. An exception to that rate applies to higher income earners (ie if you have an 'adjusted taxable income' in excess of $300,000) following recent Government changes. At least a portion of the concessional contributions made by, or on behalf of those classified as, higher income earners are taxed at the rate of 30 per cent.

To calculate the adjusted taxable income if you are a high income earner, the amount of concessional contributions is added to your taxable income (and possibly some fringe benefits) to determine if that income (your adjusted income) exceeds $300,000. If, prior to the addition of the concessional contributions, your income was less than $300,000, only the amount in excess of $300,000 will be subject to tax at the rate of 30 per cent. That tax will be calculated by the ATO and an assessment will be issued to the relevant superannuation fund.

Conclusion

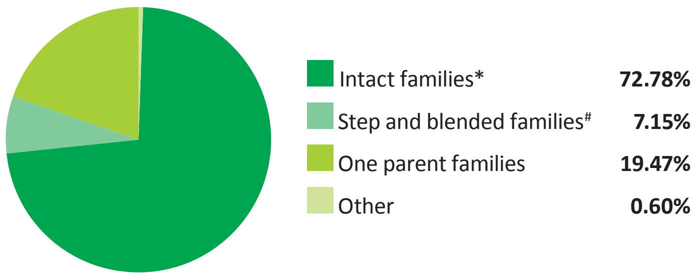
Maximising contributions to superannuation can provide significant advantages, from both a retirement benefit and taxation perspective, whilst penalties for exceeding the permitted contribution caps can result in a significant tax penalty and, as a result, a reduction in retirement benefits.

Therefore, it is recommended you check with your financial planner before making significant contributions to superannuation, so as not to waste the opportunities which exist and not to risk exceeding your limits.

Source: Topdocs, October 2013

A super solution for blended families

Did you know that one in three marriages ends in divorce[1]? It's really no surprise then, that the number of blended families in Australia is rising[2]. A blended family (or a step family) is simply a family where one, or both, parents have children from a previous marriage. If you, or someone you know, are in this situation, what does it mean for your finances?



Source: ABS 2009/10. * Includes a small number of families where one or more children had a natural parent elsewhere (eg a foster child living in an intact family). # Includes families which are not classified as intact, step or blended, for example, grandparent families or families with only foster children present.

As families chop and change what happens to the family fortune?

As you can imagine, a blended family can have a huge impact on your finances – whether it's a new home or ongoing child support just as a start. While your financial planner can help you develop a strategy to ensure that your finances continue to be managed effectively, what about your estate plan?

Perhaps one of the most important areas that is often overlooked, is the impact of these changes on your estate plan, the consequences of which can be far-reaching in the generations to come. With advice from a specialist estate planner, however, you can be sure that both the needs of your surviving spouse and all your children have been considered.

Case study – Jack and Irene

Jack has been married to Irene for five years and both have children from previous marriages. Although the step-siblings usually get on well, Jack and Irene's marriage has created a complex family structure and, needless to say, there have been a few squabbles.

A recent death in the family prompted them to start thinking about their own estate planning needs. Jack and Irene both contribute to the home they share as well as a self-managed super fund. But in the event of one of their deaths, while they wanted to ensure that the surviving partner would be able to live in the family home and have access to a lifetime pension, they also wanted their respective assets to pass to their own children once they had both passed away.

Their financial planner put them in touch with a trusted estate planner who informed them that if they did not change their estate plan, on Jack's death the assets would pass to Irene, and then on Irene's death, to Irene's biological children – leaving Jack's children with nothing from his estate. Similarly, if Irene passed away first her assets would pass to Jack and on his death to Jack's biological children only.

As much as they love their step children, Jack and Irene ultimately want their assets to go to their biological children. Their estate planner recommended some changes to Jack and Irene's estate plan to ensure their wishes were carried out after they had gone.

1 Source: ABS 2013

2 Source: ABS 2013

Jack and Irene's estate planning strategies included the following:

	Jack and Irene's estate planning strategies	After death of one of them	After the death of the survivor
Home	Jack and Irene's home ownership was changed from joint tenants to tenants-in-common. This way, they each have a 50 per cent interest in the property that can be dealt with in each of their Wills which were restructured as a result.	Each of them has provided the other with a right of residence for their interest in the property. This means that the survivor will be able to remain in the property for the duration of their lifetime.	The ownership of the property would pass equally to their respective children.
Super	Jack and Irene's super was converted from a self-managed superannuation fund (SMSF) to a small APRA fund (SAF). The difference between these two types of fund is the trustee structure. In an SMSF, the members of the fund are also the trustees of the fund. In a SAF, the services of a professional trustee company are employed. So, in the event that there are family disputes, the use of a professional independent trustee ensures that the wishes of the deceased are carried out regardless.	The survivor receives a tax-free pension from the deceased's superannuation fund. The annual amount of the pension has previously been set by the deceased.	Any balance of Jack's superannuation will be paid to his children. Any balance of Irene's superannuation will be paid to her children.

As a result of the planning they have put in place, Jack and Irene have been able to ensure that the survivor is able to live comfortably and after they have both passed away their respective families will inherit their remaining wealth.

Incorporating a small APRA fund as part of their estate planning strategy, gave Jack and Irene peace of mind that their super would be distributed according to their wishes.

Did you know?

A **self-managed super fund** gives you greater control over how your superannuation benefits are invested, but it comes with strict trustee responsibilities which can become onerous. If you want the investment flexibility, but not the trustee responsibilities **a small APRA fund** may be more suitable and, as you can see from the case study above, can have additional benefits when it comes to estate planning for blended families.

For more information on financial planning and estate planning for blended families please speak to your financial planner.

Source: AET, October 2013

Time to reflect

Ready or not, the end of the year is fast approaching and now is the perfect time to start thinking about your financial future.

Many people use the Christmas/New Year period to reflect on the year that has just passed, and begin thinking about the year(s) ahead. It's a great time for you to review your financial strategies and goals in preparation for 2014 and beyond.

The importance of reviews

Changes can take place to your circumstances at any time and, while you may already be having regular meetings with your planner to ensure your plans continue to meet your needs, there are other changes that can have an impact, such as legislative and tax changes.

This is why reviews should take place on a regular basis, where you have the opportunity to make informed decisions and factor any of these changes into your financial plan.

Below is a simple guide to tidy up your finances for the year ahead.

1. Have your key financial goals changed?

Life is not constant and goals change slightly (or greatly) from year to year. Also, major life events such as serious illness, the birth of a child, inheritance, marriage and the death of a parent or spouse can all result in significant changes to your wealth management plan.

2. Prioritise your goals

It is important to rank and prioritise goals and decide in what timeframe you want to achieve them. Being realistic about your timeframe is essential to ensuring that your goals will be achieved.

3. Short, medium or long-term?

Most industry experts agree that a short-term goal is one that can be achieved within a year or so. Medium-term goals typically require two to five years, while long-term goals usually take longer than five years.

For example, reducing credit card debt is likely to be a short-term goal, whereas saving for a home deposit would often be a medium-term goal. Depending on your age, providing for retirement is a long-term goal.

4. If your financial goals have changed, how will this affect your financial strategy?

This is where the advice of a financial planner is critical. A planner has the tools and knowledge to create projections that take into account changes to your goals, and changes to your timeframes for achieving them. These projections will help you to see where your plans for savings, assets or investment contributions may need updating.

5. Be savvy

Make sure that your investments and level of protection support your level of risk and your goals. A planner can develop a tailored analysis that best suits your individual needs and provides ongoing portfolio management.

Reflecting and thinking about your financial position, as well as setting a clear path, is critical to making sure you can reach your goals. You don't have to wait until the first day of January to review your financial situation.

Contact your planner today, so that you can get the help you need to achieve your 'New Year' resolutions.

Source: Zurich, October 2013

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