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GEORGE SPARIS & ASSOCIATES
ACCOUNTANTS, REG. TAX AGENTS AND BUSINESS ADVISORS

Closing the superannuation gap

On average, Australian women are retiring with just over half as much superannuation as their male counterparts.

This disparity in super balances is made even more problematic by the fact that women have significantly longer life expectancies, meaning that many women have to live off less money that is also stretched over a longer period.

There are many factors that contribute to women's lower levels of superannuation savings. Superannuation contributions are based on lifelong income, meaning that as women typically earn less than men, their superannuation contributions are also lower.

Additionally, women are more likely to have taken time off from the formal workforce in order to look after children or elderly relatives. Statistically, women are also more likely to be the head of a single parent household, which results in a significant financial burden that makes extra superannuation contributions challenging.

While the gender-based superannuation gap is slowly closing amongst younger generations, Australian women continue to earn 17% less than men. The fact that many women are engaged in part-time employment or do not earn enough to qualify for the compulsory employer contributions is an additional barrier.

Here are some preliminary steps that women can take to address their superannuation needs:

Work out how much you have

The first step in taking control of your superannuation is to ensure that all of your super has been consolidated into a single account. Having your superannuation spread between multiple accounts means that you are most likely paying excess fees. Once all of your superannuation has been consolidated, you can see how much you have and start planning accordingly.

Make extra contributions

If it is possible, you should start making extra contributions towards your superannuation. Even the smallest of contributions, concessional or non-concessional, can make a world of difference when the time comes to retire. The earlier you start making extra contributions, the more your balance will accumulate over time as it attracts investment returns.

Discuss options with your partner

If you have a partner, you should have an open and honest conversation about what actions you might be able to take to make your superannuation more equitable. For example, if you are taking time off from work to care for your children you could ask your partner to contribute to your super account as well as their own. This option comes with some attractive tax offsets.

GEORGE SPARIS & ASSOCIATES

Liability limited by a scheme approved under Professional Standards Legislation.

LEVEL 1
SUITE 2.09
203-205 BLACKBURN RD
MOUNT WAVERLEY
VIC 3149

TEL (03) 9802 3600
FAX (03) 9802 6100
EMAIL
admin@georgesparisaccountants.com.au
WEBSITE
www.georgesparisaccountants.com.au

DIRECTORS
George Sparis
Emmanuel Sparis
Tia Sparis

Accountants
Registered Tax Agents
Business Advisors
Vehicle & Equipment Finance

Guide to income insurance

Income insurance is designed to protect you and your family in the event that you become unable to work due to illness or injury.

Protecting your income becomes particularly important if you have ongoing bills or debts, such as a mortgage, or if you have a spouse or children who are dependent on you.

Choosing income insurance can be tricky, and there are a lot of considerations that need to be taken into account. Generally speaking, when choosing an income insurance policy there are three decisions that you will need to make.

You will need to decide how long you would like the payouts to last if you do become unable to work, how long you would be willing to wait before the payments kick in, and what proportion of your current income you would like the payout to represent.

Variations on these three factors can make a significant difference to your premiums, but also to your quality of life in the event that you do become unable to work.

There are two different types of income insurance: indemnity and agreed value. Indemnity insurance is based on your income at the time that you become unable to work. This type of policy is typically provided by your superannuation fund, with the premiums simply being deducted from your account.

If you are provided with indemnity income insurance, it is worth investigating the specifics of your policy, to confirm that you have a level of cover that suits your needs.

Agreed value policies, which are generally very expensive, will cover you for the income you were earning at the time that the policy was taken out, regardless of any fluctuations. This can be a worthwhile investment for high income-earners who experience significant fluctuations in their income. You should also be careful if there is anything unusual about your income on paper, as it may not fall within what is classified as 'assessable' income under your policy.

There are two more things that you should look at when assessing your income insurance options. The first is guaranteed future insurability, meaning that you can increase your level of cover if you want to (this might be particularly important if your circumstances are likely to change).

The second is whether or not the policy is non-cancellable, which will mean that the premiums cannot be redefined based on any health problems.

Fixed rate vs. variable home loans

At the end of the day, there is no way to accurately predict what direction interest rates are going to go, making deciding between a fixed rate, variable or combined home loan difficult.

If your budget is flexible enough to cope with higher mortgage payments some months, you may wish to keep your entire loan variable. The advantage of a variable loan is that you can make additional repayments without incurring any fees.

Fixed rate loans offer the security of consistent repayments, but may see you miss out on interest rate drops. If you are unsure which option is best-suited to you, it is worth investigating a split loan, meaning part will be fixed rate and the other variable.

Diversifying your portfolio

It is never the wrong time to start thinking about diversifying your investment portfolio.

One of the keys to investment success lies in knowing how to diversify as a precautionary measure, before it becomes a necessity. However, being overly cautious can limit your capacity to attract good returns.

The real art to amazing investment portfolios lies in knowing how to strike the perfect balance between caution and risk. This is known as your 'risk tolerance' or 'risk profile'. Ultimately, this will depend on what your investment goals are. The trick is making sure that your actions are aligned with your determined risk tolerance, and you are not making rash decisions.

In good times, it may seem that you should diversify by entering into high-return investments. However, it is always advisable to retain a portion of your portfolio in an asset class that is subject to minimal volatility, because downturns can and do happen.

As far as equities go, general guidelines state that you should aim not to have a significant concentration in any one industry, and to spread your investments between several different companies.

Diversity between asset classes is also important to creating a robust portfolio. As a general rule, bonds and stocks tend to move in opposite directions, so by spreading your portfolio between both you will be better protected from market volatility. A certain degree of geographic diversification is also advisable, in order to insulate your portfolio from any domestic downturns.

It is hard to overstate the value of professional advice on diversifying your investments. Even if you are a confident and able investor, it never hurts to get a second opinion.

Mortgage vs. superannuation

Deciding whether you should prioritise paying off your mortgage or boost your superannuation balance is an important decision, and there are many factors that should be taken into consideration.

The first thing that you should think about is how likely it is that you will want to access the money before your retirement.

If you have funnelled your extra cash into additional mortgage repayments, then you will usually be able to redraw in the case of an emergency, or if you wish to restructure your finances, for example by purchasing an investment property. On the other hand, if you have chosen to direct the extra money into your superannuation, you will have to wait until you reach preservation age before you can access it.

If you make extra concessional super contributions by salary sacrificing, there can be some significant tax breaks. Currently, you can make concessional superannuation contributions of up to $30 000 (note that this includes the compulsory contributions made by your employer) that, for most people, are taxed at the low rate of 15%. Additionally, individuals aged 49 or over at June 30 2014 have had their concessional contributions cap lifted to $35 000.

The potential advantage of making extra concessional super contributions over the years is that you can repeatedly capitalise on the low tax rate. Alternatively, if you wait until you have paid off your mortgage before you start salary sacrificing, you may have a limited number of years in which you can use the concessional contributions tax breaks.

Some individuals who choose to salary sacrifice into concessional super contributions at the expense of paying off their mortgage as fast as possible plan on using the balance of their superannuation to pay off the remainder of their mortgage once they have reached preservation age.

While this can be a great tax minimisation strategy, there are a couple of risks you should be aware of. There may be changes to the way superannuation is taxed in Australia, meaning you could be disadvantaged. Another possibility is that there will be a market downturn when you plan on withdrawing your super, meaning that the balance may not be as high as you had initially anticipated.

An old-fashioned investment

The question of whether or not precious metals, such as gold and silver, make good additions to an investment portfolio is subject to a lot of debate.

On the plus side, precious metals have a steady long-term performance, meaning that many people consider them to be very safe investments.

On the downside, gold and silver can be subject to significant short-term price fluctuations, which can potentially be detrimental for investors who chose precious metals as an asset class based on their liquidity.

One thing that can be comforting about having a portion of your portfolio invested in precious metals is that, generally speaking, they will rise in value during periods of market uncertainty. This means that gold and silver can potentially be used to fine tune the risk-profile of your portfolio by offsetting high-risk assets.

Precious metals also have international value, meaning that they will be largely shielded from domestic or regional market fluctuations. Extremely adept investors who actively speculate upon the price of gold and silver can also stand to reap significant returns.

There are two main ways to invest in precious metals: you can purchase them physically from a bullion dealer, or you can invest in an exchange traded fund, many of which are listed on the ASX.

If you choose to invest in the physical metals, usually in the form of coins or ingots, then there are some additional costs that may be incurred including storage, insurance and transaction fees.

It is also possible for SMSFs to invest in precious metals, and this can potentially be a great way to diversify the fund's investment portfolio.

However, you need to remember that if your fund will be reaching pension phase soon, then precious metals will not pay dividends or attract interest, meaning that they might not be the most effective investment strategy.

Despite the long-standing reputation of precious metals as a security investment, they remain speculative and therefore it is always advisable to seek independent advice before making a decision.

Choosing an investment property

Choosing your first investment property is an exciting time.

However, you should bear in mind that the criteria that you used to select your first home may not necessarily guide you well in the world of investments.

In choosing an investment property, your main concerns should be how easy the property will be to rent, and how costly it will be to maintain.

Here are some general guidelines for choosing an investment property:

- It is generally not advisable to purchase an investment property off the plan. Capital returns on brand new apartments tend to be lower, and there is always a certain degree of uncertainty.
- Try to avoid purchasing a property that will have significant up keeping costs, for example a pool.
- Choose a property that has all of the essential basics (parking, sunlight, etc.)
- Consider the transport and infrastructure of the area, including any future development plans, as this can have a significant impact on rental values.

Saving for your children's education

The cost of supporting your children through their education has been steadily increasing.

With the price of private school fees being anywhere up to $20 000 per child per year, not including uniforms and excursions, sending your children to the school of your choice may be one of the biggest investments of your life.

On top of this, with the government plans to increase university fees and index HECS debts to the 10-year bond rate instead of the CPI, many parents are also wondering how they can help their children avoid starting life with a debt burden.

The trick is to start saving for education costs early, and to put some thought into the most effective savings scheme.

If you own your own home, then a mortgage offset account can be a great educational savings option. You will simultaneously minimise your interest payments and your tax liability, and then you are able to draw from the account when the time comes.

Family trusts are another effective means of saving for educational costs, but only in specific circumstances. If you or your spouse has a low income, then this is a great way to minimise the tax liability on your savings. Trusts are also a good option if you are planning for educational costs for children once they are over the age of eighteen, as children under the age of 18 are taxed at an extremely high rate from discretionary family trusts (up to 66%).

If your employer is open to the suggestion, having your children's school fees paid as a fringe benefit is also a great way to cover the costs, as it essentially amounts to an interest-free loan from yourself.

If you are struggling to find the cash to cover twelve years of private school education, especially for families with more than one child, then a reasonable compromise might be to send them to a private school for their final years of secondary school only.

It is also worth noting that while allowing your children to incur a HECS debt may go against your gut instincts; it is actually not such a bad idea.

Even if HECS debts do become indexed to the 10-year bond rate, this will still attract less interest than a mortgage and will also be lower than the rate of return on a typical investment portfolio.

Testamentary guardians and trusts

For most people, providing for their children's future is their top priority when putting together their will.

This may include specifying what assets will be left to them in the event of your death, and also who will take guardianship of them if they are under the age of eighteen. This person is known as a 'testamentary guardian.'

The testamentary guardian is not the same as the trustee, who is the person who will take control of your assets upon your death (although one person may take on both roles if you wish). This means that the testamentary guardian does not necessarily have control of the estate, which may potentially lead to conflict over decisions about how funds should be spent. For this reason, it is important that you have a relative degree of confidence that your testamentary guardian and your trustee will be able to make decisions in a harmonious manner.

Many people, especially if they are relatively well-off, are also concerned about the possibility that young beneficiaries may misuse or squander their inheritance. If this is a concern for you, it is possible to set up a testamentary trust. A testamentary trust is a trust that you create in your will, but which will only come into existence upon your death. Your trustee will take control of the trust, and make payments on your children's behalf for purposes that you have specified.

Testamentary trusts for education costs are a common feature in many wills. You can dictate exactly when funds will be released and for what purpose. For example, you could specify that when your youngest child reaches secondary school funds will be released from the trust to pay school fees at an institution of your choice.

A testamentary trust can include the entire balance of your estate, a specified amount or a particular asset. It is possible to create multiple trusts for different beneficiaries or purposes. You can also include specific conditions that will dictate when the beneficiary will be able to take control of the trust, for example, when they have completed a bachelor's degree or reached the age of twenty-five.

Above all, it is important to remember to reconsider your will regularly, and update it any time there are relevant changes to your circumstances. You may, for example, wish to stipulate an inheritance for a stepchild, niece or nephew. Significant changes to your financial circumstances, particularly if the value of your estate has increased substantially, may also lead you to specify different conditions pertaining to the distribution of funds to beneficiaries.

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