

Autumn 2011

INVESTMENT SOLUTIONS

Welcome to the Autumn edition of Investment Solutions. We have a fresh new look, with industry and market commentaries as well as handy tips to help you stay informed and make wise choices about your investment strategies.

As we fast approach financial year-end, we look at some pros and cons of arranging insurance inside and outside of your super fund, and the tax benefits of investing in property by borrowing through a self-managed super fund. If you're approaching or over 50, now's the time to think about giving your super a boost with some tax-effective strategies.

Our hearts go out to fellow-Australians who have suffered personal and property loss and damage in the recent floods, cyclones and bushfires. These natural disasters have highlighted the need to look at our home and contents insurance and ensure you know what you're covered for, and that your coverage is adequate.

If you own a car you're probably frustrated by increasing traffic congestion and running costs. We take a look at some of the reasons why Australians are getting back on their bike.

Finally, what's in store for the asset classes in 2011? See our Market spotlight for our investment experts' view on the year ahead.

I hope you enjoy reading this edition of Investment Solutions and I look forward to working with you to help you achieve your financial goals in 2011.

INSURANCE: INSIDE OR OUTSIDE SUPER?
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INSURANCE: INSIDE OR OUTSIDE SUPER?

We all know insurance is an important part of any financial plan. The burning question is: should you arrange cover inside or outside of your super fund? Personal insurance helps to protect your quality of life and provide support for your loved ones if you get hurt, can't work as a result of an injury or worse, lose your life.

We often hear how important it is to ensure you have sufficient cover. But it's just as important to be smart about structuring your insurance so that the dollars you pay for premiums work harder for you.

TAKING INSURANCE THROUGH SUPER

Standard insurance through super generally covers your life and pays a lump sum if you're totally and permanently disabled. Your employer may arrange your cover automatically, which means you don't need to have a medical examination or fill in forms.

If you take out insurance within your super fund your insurance premium payments can be deducted from your super contributions. So with insurance through super you're effectively paying for cover with pre-tax dollars. If you were to take a similar level of cover outside super it would cost more as you'd be paying premiums with after-tax dollars.

As the table below shows, the higher your marginal tax rate, the bigger the potential saving.

As premiums are generally cheaper inside super, you could choose a higher level of cover than you may consider when choosing insurance outside super. However it's important to remember that the higher your premium, the less money you're investing in your super.

Using a salary sacrifice strategy to cover the premiums could help bridge this gap. For example, if your premiums are \$400 per month and you arrange with your employer to salary sacrifice \$400 per month to your super fund, you still pay the premiums using pre-tax dollars. You also maintain the same level of investment into your super.

WHAT ABOUT INSURANCE OUTSIDE SUPER?

Depending on your individual situation this strategy may suit but it's important to get expert financial advice. Here's a look at some plus points about insurance outside super.

1. Avoid delay in getting benefits: As your super fund is designed to provide you with savings for when you retire, it's harder to access your money. Any insurance benefit you're entitled to is paid to your super fund, not to you directly. Sometimes this could mean a delay in getting your money. That's why some types of insurance (such as cover for trauma) are arranged outside of super.

2. Protecting your income: You can claim a personal tax deduction for premiums for insurance to protect your income. As there's no tax advantage in arranging this type of insurance through super, it's generally arranged outside of super.

3. Making the most of your contributions cap: Pre-tax super contributions are taxed at the concessional rate of 15%. At present, these 'concessional' contributions are limited to \$25,000 per year if you're under 50, and \$50,000 if you're 50 or over. Depending on your circumstances, it may be more tax-effective to organise insurance outside super instead of diverting contributions to cover insurance premiums.

For example, if you're 48 years old with a sizeable insurance policy through super and you're paying \$10,000 in premiums, the amount you can contribute towards your super within your cap is effectively reduced from \$25,000 to just \$15,000. Any additional contributions above this cap would be taxed at 31.5% in addition to the 15% concessional tax already paid.

GET EXPERT ADVICE

Insurance both inside and outside of super has its advantages, but it does need to be tailored to your personal circumstances and needs. Talk to us today about how to structure your insurance cover effectively for you.

Taxable income more than	Marginal tax rate (includes Medicare levy)	Pre-tax cost outside super	Pre-tax cost in super ¹
\$37,000	31.5%	\$1,460	
\$80,000	38.5%	\$1,626	\$1,000
\$180,000	46.5%	\$1,869	

Source: BTFG Life Insurance.

¹ Assumes insurance is arranged through a taxed super fund. Premiums are deductible in the fund's tax return and effectively offset any tax payable on the contributions.

TIME TO BOOST YOUR SUPER

If you're aged 50 or over, some changes that affect how much you can 'top up' your super contributions may be coming your way.

So start thinking about how you can give your super a real boost now to help increase your retirement savings. The 15% tax rate on concessional contributions makes super one of the most tax-effective ways to save for retirement.

TAKE ADVANTAGE OF YOUR SUPER CAP

If you're aged 50 or over and still working, your current annual super contributions cap of \$50,000 may potentially be reduced to \$25,000¹ from 2012–13. To give your super a boost, now's the time to take advantage of the current super cap and tax concessions.

Concessional (pre-tax) contributions: these include an employer's compulsory Super Guarantee contributions, amounts deducted from your pre-tax salary under a salary sacrifice arrangement and any amount you're allowed as a personal super deduction in your income tax return.

You can still contribute more than your super

contributions cap, but the extra amount will attract excess contribution tax of 31.5% — that's in addition to the 15% concessional tax already paid.

WHAT ARE THE TAX BENEFITS?

Whatever your marginal tax rate, you'll be paying just \$1,500 tax on a \$10,000 contribution (provided your contribution cap has not been exceeded). The example below shows how much tax you can save if you contribute an additional \$10,000 to super instead of taking it as part of your salary.

CASE STUDY: CAROL'S SALARY SACRIFICE STRATEGY

Carol, aged 52, arranges a regular salary sacrifice of \$1,000 a fortnight starting from 1 July 2011. For the 2011–12 financial year, Carol's salary sacrifice contributions will total

\$26,000 (a net contribution of \$22,100 for the year after \$3,900 concessional tax is deducted).

Carol's marginal tax rate is 46.5% (including Medicare levy). If she were to take the \$26,000 as part of her salary she would receive just \$13,910.

With a salary sacrifice strategy Carol has just boosted her super investment and benefited from an additional tax saving of \$8,190.

MAKE THE MOST OF IT

Investing more now means you can increase your chances of growing your wealth for a comfortable retirement. So if you're reaching or over 50, give me a call to discuss how you could give your super a boost.

Taxable income	If your marginal tax rate (including Medicare levy) is	Tax payable on \$10,000	Net amount in your pocket	Concessional tax at 15% on \$10,000 super contribution	Net amount invested in your super	Tax saving
\$37,001–\$80,000	31.5%	\$3,150	\$6,850	\$1,500	\$8,500	\$1,650
\$80,001–\$180,000	38.5%	\$3,850	\$6,150	\$1,500	\$8,500	\$2,350

¹ While the government has proposed to maintain a \$50,000 per year concessional contributions cap for individuals aged 50 or over with a total super balance of less than \$500,000, this has not yet been legislated.

FREE WHEELING

Bikes are booming, powered by riders wanting to get fit, glide through traffic, do the right thing environmentally, and yes, save money — which you can, lots of it. Just 40kms per week by pedal, not petrol, power, can save you around \$1,200 a year.

Our first bike is a milestone of childhood. But these days plenty of adults are re-embracing bicycles, an option that delivers plenty of benefits including savings on fuel and greenhouse gas emissions while providing a good physical workout. According to a 2008 report by consumer group Choice, around half the car trips taken in Australian cities involve distances of less than five kilometres — an easy bike ride.

YOUR CAR COULD BE COSTING OVER \$11,000 ANNUALLY

Running costs could range from \$75 a week for a one-litre hatchback to \$360 a week for a

4.5L 4WD. If we take a midpoint cost of \$220 a week, your car could be setting you back up to \$11,440 each year. These cost estimates from NRMA are based on an annual driving distance of 15,000 kilometres and include depreciation, registration, comprehensive insurance and other expenses. To see how much your particular car is costing, visit the NRMA's car operating costs calculator at www.mynrma.com.au.

HIT THE ROAD FOR UNDER \$1,000

Now let's compare the costs associated with bikes.

At the lower price end, expect to pay around \$400 for a basic urban road bike. Add in bike shoes, gloves and a helmet, and you could be pedaling your way to big savings for well less than \$1,000.

The NRMA says a medium-sized car will cost you around 62 cents per km. So using your bike to travel just 40 kilometres each week could generate savings of about \$100 each month or \$1,200 each year — a handy amount of money you could be investing.

Think of the benefits. No more gym fee. Gliding through frustrating traffic jams. And the chance to save some money coupled with the fun of freewheeling down the road.

MARKET COMMENTARY

While uncertainty about global recovery still exists we remain positive on the outlook for growth assets in 2011. However volatility is likely to continue so investors should exercise caution and aim for portfolios that are liquid and uncomplicated.

ECONOMIC OVERVIEW

By the end of 2010 global economic growth prospects appeared more robust, prompting many economic commentators to increase their forecasts for the year ahead. The Chinese economy, the driver for a lot of the global growth last year, continued its impressive growth. The end of 2010 also saw increased market volatility amid mixed economic data, reasonable corporate earnings results and lingering sovereign debt concerns.

We expect to see more volatility this year and with continuing uncertainty about global recovery, investors can reduce the risks by including uncomplicated, liquid assets in their portfolio.

OUTLOOK FOR THE ASSET CLASSES IN 2011

Equities

We expect that concerns over the European sovereign debt crisis among others, will cause volatility and keep gross returns down

at around 5% in the first half of this year. Equities should deliver higher returns — around the 15% mark — in the second half of 2011, as a more positive tone returns to the market and volatility subsides.

Fixed interest

The first half of 2011 should be positive both for global developed and emerging market sovereign bonds, and corporate credit. We believe developed market sovereign bond prices will decline as markets anticipate monetary policy in the key economies to gradually return to normal. Emerging market sovereign bonds and credit markets are likely to decline less than developed market sovereign debt during this period. Fixed interest investments should see aggregate returns of around 7% over the year.

Currencies

As the US economy gains more economic impetus relative to its trading partners, we expect to see a weak US dollar gather strength against most major currencies. Emerging market currencies should also gradually appreciate over the year. The

Australian dollar should strengthen during the early part of 2011 but then weaken somewhat against the US dollar, British pound and emerging market currencies later in the year.

Commodities

Commodity markets should remain modestly strong in the early part of the year and then gather upward momentum, delivering returns of around 21% over the course of the year. Supply bottlenecks, sizeable institutional investment flows and broad investor appeal for real assets as a hedge against higher inflation, are likely drivers that will buoy this sector.

Listed property

We anticipate domestic and global listed property markets to deliver returns slightly below equities in the short term but move sharply higher later in the year as investors search for yield and protection against higher inflation. Investors can expect listed property to return around 16% over the year.

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