MyLife Newsletter Spring 2015

Welcome to our latest newsletter!

Financial protection a barbecue topic?

The impact of injury or illness and how that can disrupt our lives – and our entire future – is not a barbecue conversation topic we usually identify with.

But research by TAL, Australia's largest life insurer, shows that stories of how financial protection helped save a friend or family in such a time of need motivated them to ensure they had their own life insurance in place.

In fact, one in five people said they had heard a story of someone close who had been saved from financial hardship by one or more types of their life cover (life, disability, critical illness and income protection[1]).

While those surveyed said this was not the key reason for taking out their life insurance, it was still a motivator for many, along with getting advice from professionals, partners, families and the workplace.

But the main reason given by people for taking out one or more forms of life insurance was that they simply made their own, independent decision, unprompted.

The second main reason was because financial protection cover was already part of their superannuation and it was a decision effectively made for them.

The third most popular reason for taking out life cover was being prompted by a family discussion, followed by a discussion with a financial adviser and then being motivated by a real-life story of death, illness or accident.

Nevertheless, this shows that stories of how life cover has protected someone they know from financial hardship due to illness or accident can be a reason in ensuring they themselves obtain cover.

Unfortunately, however, it often takes a tragic trigger story before people start to consider the importance of life insurance.

While life insurance often only becomes a topic of barbecue conversation when there is a personal connection to a story of someone falling on hard times, financial protection most definitely should not be a taboo topic: quite the contrary.

Interestingly, those from Generation Y (those Australians under the age of 25 years) are more likely to be independently initiating the decision to take out financial protection than any other generation.

And the research found that while almost one in five were prompted by an adviser or financial planner to consider their life cover requirements that figure rises to 26% among Gen Y, compared to just 14% for Gen X and 17% for baby boomers[2] .

A financial adviser can help you explore the options best suited to your situation.

Source: TAL

1 Life cover is a collective description for the four main forms of life insurance: Life – lump sum upon death; Trauma/Illness – lump sum for defined illnesses; Disability – lump sum upon permanent and total disability; and Income Protection – regular income payment upon defined illness/disability.

2 This survey was undertaken online by Galaxy Research with 1,260 Australians, from the ages of 18–69 years old. Age, gender and region quotas were applied to the same and the dataset was weighted to national proportions.

Important changes to the age pension in 2017

From 1 January 2017, there are some important age pension changes that could impact your benefits and warrant some pre-emptive action.

Before you set up a self-managed superannuation fund (SMSF) you need to ensure you are eligible to be a member and trustee, and understand your responsibilities.

What's changing?

The lower asset threshold that determines your eligibility for the full age pension will increase. This threshold varies, depending on your relationship status and whether or not you own a home. It is also indexed periodically by the Government. To find the current thresholds visit humanservices.gov.au.

The age pension payable will also be reduced by $3, for every $1,000 you hold in assets above this threshold. The current reduction amount, known as the 'taper rate', is $1.50 per $1,000.

How will these changes impact your entitlements?

Currently, your age pension entitlements are assessed under both an income and assets test and the impact of these assets test changes will depend on a range of factors. Generally speaking, you will:

not be impacted if your assessable assets are well below the current and 2017 thresholds, at which the full pension entitlement starts to reduce
receive higher payments if you only have assets which are not classified as 'financial investments', and your age pension entitlement is determined by the assets test
receive lower payments if your financial investments are above the current threshold whereby the full pension starts to reduce, but below the amount that will apply from 1 January 2017, and lose your entitlement altogether if your assets exceed the threshold from 1 July 2017 where the age pension payments will cease completely.

Broader implications

The thresholds apply exclusively to home-owning couples and the dollar values would be different if you are single and/or not a home-owner. The best way to determine how you may be affected is to make an appointment with your adviser to review your financial position. The earlier you do this, the more you may be able to take advantage of strategies that could retain your current entitlement, increase your entitlement and improve your overall financial position.

Strategies that could help you

Strategies you may benefit from could include:

- improving or upgrading your home
- pre-paying your funeral expenses, and
- gifting money within the permitted limits to relatives or others.

But great care should be taken when considering strategies that could dramatically lower your assessable assets, as they may be short-sighted. For example, if the income test deeming rates (which are at historically low levels) were to rise significantly the benefits of reducing your assessable assets, could be reduced considerably. To find out how the changes could impact you and discuss strategies that may assist you, contact your Adviser.

Source: NAB Group

Should you have any queries in relation to this newsletter, please feel free to contact our office on 03 9017 4114 or email admin@mylife.com.au .

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Record low interest rates. Great for mortgages, but what about your super?

When interest rates are low, house prices tend to rise since home-buyers get a boost of confidence from lower mortgage rates, and that pushes demand for home ownership.

Interest rates in Australia are at a record low, but will property and superannuation thrive?

Interest rates have hit a record low in Australia. There are many ways you may be able to benefit from these historically low rates.

The Reserve Bank of Australia (RBA) has cut the official cash rate from 2.50 to 2.25% in February 2015 and then in May by a further 25 basis points leaving the cash rate at a record 2.00% , citing weak economic growth, low inflation and a higher rate of unemployment.

However, less growth in the economy is not always bad news. Property and superannuation, for instance, may thrive.

When interest rates are low, house prices tend to rise since home-buyers get a boost of confidence from lower mortgage rates, and that pushes demand for home ownership. In his statement announcing the rate cut, the governor of the RBA, Glenn Stevens, said credit growth had picked up to moderate rates in 2014, with stronger growth in lending to investors in housing assets. He added that the Bank is working with other regulators to assess and contain economic risks that may arise from the housing market.

So if you're thinking of down-sizing, your house may fetch a higher price if you decide to sell.

A lower interest rate can also lead to greater investment in the sharemarket as more people search for a better yield in shares. This in turn can have a positive impact on many super funds. Asset values can increase since many savers may be prompted to include more assets with higher expected returns in their portfolios.

Speak to a financial adviser who can help you decide how best to invest your super, depending on such matters as the amount of time you have before you retire, whether you still have dependent children and the level of risk you're comfortable with.
Source: Colonial First State

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