

## Trauma insurance

# How can trauma insurance help?

*What would happen if you suffered from a traumatic illness and had to take time off to recuperate, or were unable to return to work in the same capacity?*

Who depends on your income? How you would pay for your mortgage or children's school fees? How you would maintain your current standard of living?

Trauma insurance is one way to help you and your family cope financially with the impact of a defined major trauma event such as cancer, heart attack or stroke. If you suffer a defined major trauma event during the term of your plan a lump sum benefit is paid, which can be used to ease the financial stress due to a loss, or reduction, in income.

While it is hard to think about the possibility of suffering a major trauma event in your lifetime, the likelihood is very real. Currently one in three Australian men and one in four women will be diagnosed with cancer by the age of 75.<sup>1</sup>

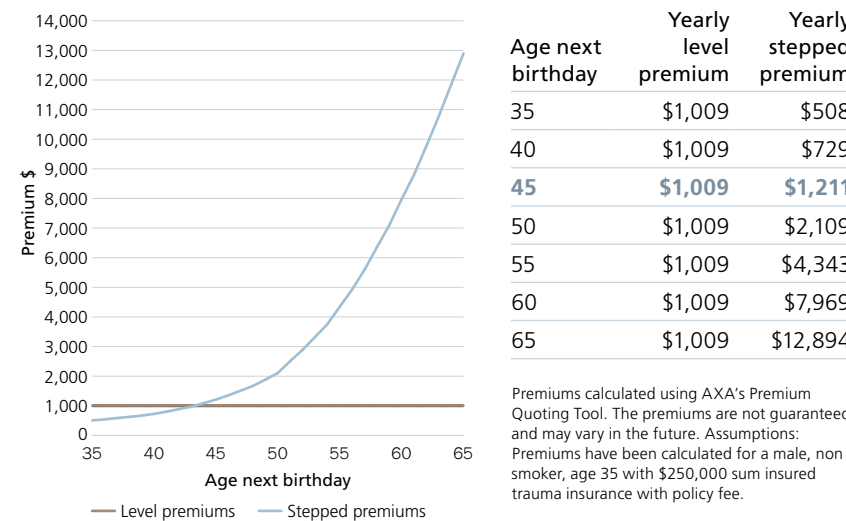
Although death from a major trauma can be a reality, mortality rates for many of our leading health concerns are falling due to better diagnostic tools, earlier detection and improvements in the treatment of trauma events. Research shows great gains in the five-year relative survival for people diagnosed with cancer in the early 2000s, compared to those diagnosed in the early 1980s. For the 50-59 age group, survival increased from 50 per cent in 1982-86, to 71 per cent in 1998-2004.<sup>1</sup>

These survival statistics are positive news. However, those who do survive a major trauma may face ongoing costs associated with their care, rehabilitation and existing financial commitments.

### Choosing a trauma plan to suit your needs

When taking out trauma insurance you can generally structure your premiums in one of two ways: stepped premiums or level premiums. Each option provides the same benefits for any given sum insured, however the premium paid over the life of each plan differs:

- **Stepped premiums** are linked to age so the premium rate increases, or 'steps up', each year in line with your age, reflecting the higher risk of a claim being made.
- **Level premiums** are only varied in line with increases in the general product rates, not age. Level premiums are fixed at a flat amount until age 65, beyond this the premium reverts to a stepped structure.



### What are the benefits of stepped versus level premiums?

The answer to this question depends on your personal circumstances, including your age and how long you will require the cover.

Stepped premiums are likely to be the cheapest option at the beginning of your policy with lower payments than level premiums at the outset. However, as time goes by, stepped premiums overtake level premiums and can become prohibitively expensive around the same time your chances of claiming become more likely (typically between the ages of 40-55 according to historical claims).

Consequently stepped premiums may suit those, for example, who need a short-term insurance solution, during periods of high financial exposure, such as a home mortgage or business loan.

In contrast, level premiums may be more suitable for those seeking long-term protection, such as supporting a family and children until age 18 and beyond. While level premiums are more expensive at the outset, they remain constant, potentially making your premiums more affordable as you get older and your chance of making a claim increases.

### Blended premiums

A third option, offered by several insurers, is blended premiums. This hybrid option fills the gap between stepped and level premiums and offers the best of both worlds. Premiums are priced somewhere between stepped and level at the outset, rise during the first stage of cover and then level-out to a fixed rate. At a set age the blended premium reverts to stepped for the remainder of the policy.

Whether you choose stepped or level premiums, or a combination of the two, it is important to ensure you have a sufficient level of protection to cover any financial obligations in the event of the unexpected.

## News bites

### Can't save? Blame your brain

Research conducted in the UK has revealed that a person's ability to save money is closely linked to the side of the brain they predominantly think with.

Those who tend to use the right sides of their brains – typically creative and impulsive types – have a carefree 'live for today' attitude, credit card debt and little or no savings.

But deeper thinkers – those with a careful, logical thinking style, who predominantly use the left side of the brain, were found to be far more comfortable managing their finances.

The research showed that more left-brain thinkers paid off their credit card balance in full every month than right-brain thinkers, and more left-brain thinkers have money in savings.

The good news is that it is possible to exercise both sides of your brain, with activities like playing a musical instrument, memory exercises and brain teasers.

<http://money-watch.co.uk/7008/better-managing-money-brain>

### The rich are getting richer

During a study of wages going back to 1920, Australian National University economist Professor Andrew Leigh has found that the income share of Australia's best paid workers has been rising at a rate far outpacing ordinary workers.

The top one percent, those on more than \$200,000 a year, have doubled their share of household income wealth since 1980. While the top 0.1 per cent, about 1,000 people on more than \$700,000 a year, have tripled their share of household income over the same period.

"It's not that the poor are actually getting poorer, it's just that they are not enjoying the same gains from growth that the top are," Professor Leigh said.

Professor Leigh expects that the returns are due to cuts to top tax rates, companies sourcing international executives on international wages and technology changes.

Australia's experience has been mirrored in other English-speaking western countries like Britain, the United States and Canada.

\*Nation's rich are getting richer: study, www.theage.com.au, 7 April 2010

### Baby boomers are struggling to fund a comfortable retirement

Home upgrades, renovations, children staying at home longer and ageing parents are forcing a larger number of baby boomers to carry debt into retirement. This is putting a drain on already under-funded super and may force many to work longer or accept a lower standard of living in retirement.

The average super account balance for males aged 60 to 64 is just \$135,000. For females it is less than half that at \$62,000.<sup>1</sup> Both of these amounts are well short of what is needed to fund a comfortable retirement.

Women are losing out as they spend more time out of the workforce, generally have lower incomes and are more likely to work part-time or casual jobs where their income may fall below the \$450 a month required for employer super contributions.

This further reinforces the importance of ensuring that you maximise any super growth opportunities to ensure that you don't have to rely on the Age Pension.

According to the Westpac/ASFA Retirement Standard, a couple living in Sydney requires \$50,783 p.a. or \$1,952 per fortnight for a 'comfortable' retirement<sup>2</sup>, well above the basic Age Pension amount of \$973.20 per fortnight.<sup>3</sup>

- 1 Baby boomers face going into retirement saddled with debt, Sydney Morning Herald, 24 March 2010.
- 2 Westpac AFSA Retirement Standard, www.superannuation.asn.au.
- 3 As at 20 March 2010.



VOLUME 2, 2010

## The two sides to the real estate story

Australia's love affair with residential real estate has been given an enormous boost by a 13.6% surge in home prices in the year to December, following four flat years between 2004 and 2008. In Melbourne, Australia's property 'hot spot', the ride has been even wilder with prices surging 20% in 2009.

Should these price hikes be seen as an investment invitation or a red flag? That depends on your point of view. Economists tend to describe this surge as a bubble that could be pricked at any time, leaving heavily geared investors deep in debt. However, real estate and property investment marketers tend to be bullish, believing there are solid reasons for the jump in prices. They can't both be right, so investors should carefully examine both arguments before committing to a hefty mortgage.

The economists would argue against property investment at this time, claiming Australian residential property is already 50% overpriced and these inflated values cannot be sustained. Critics also point out that Australia already has the most unaffordable housing in the world, based on the ratio of median household income to median house prices.

Current average house prices in Australian capital cities are equivalent to over seven years of average earnings, up from three in the 1980s. In other words, these analysts warn, Australian home prices are inflated and the bubble could burst at any time, leaving investors with a mortgage worth more than the property itself. This risk is highest for first-time buyers and speculative investors who tend to borrow heavily, making them more susceptible to even small interest rate rises. (A recent survey reports that after only a 0.75% cumulative interest rate increase in 2009, 45% of new first home buyers were in mortgage stress and/or defaulting on their loans).

On the other hand, those who argue that steep increases in Australian home prices are the result of underlying economic realities rather than dangerous overheating also have some strong arguments on their

side. The Real Estate Institute of Australia counters that housing affordability, the ratio of average home price to average income, is not the deciding factor and suggests that other issues such as supply and demand, population growth and rental demand, should also be considered. Certainly, with one of the world's strongest economies, a fairly stable interest rate regime and few inflation worries, Australia is one of the most desirable places in the world to live. Since government projections are that the population of Australia is set to double in the next 50 years, all those extra people have to live somewhere. Undoubtedly, the demand for rental property remains high. In Sydney, for example, the rental property vacancy rate was 0.53% in March 2010, a strong incentive to become a landlord.

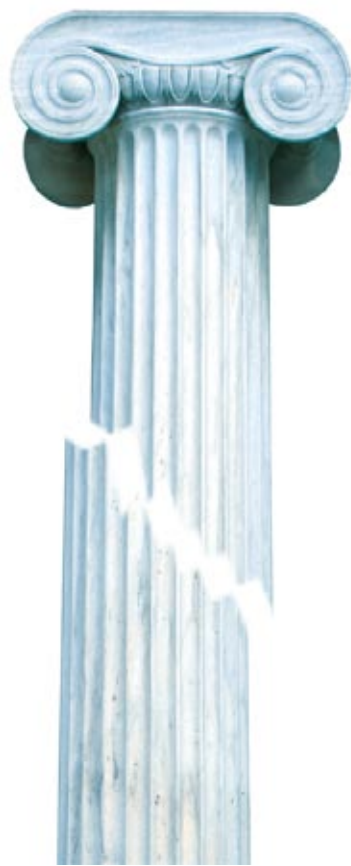
So, is this a good time to invest in a residential property, or time to steer clear? Only hindsight will give the answer, but we suggest that if you go ahead and invest, take care not to over-commit and leave yourself vulnerable.

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<sup>1</sup> Source: Australia's Health 2008, Australian Institute of Health and Welfare (AIHW).



# The Greek crisis

## A real drama for Australians, or a non-event?

Until recently Greece was a Mediterranean playground where the world flocked to enjoy blue skies, sparkling seas and white beaches. Now it has become a monetary war zone with the threat of national bankruptcy poised to destroy the Euro and the fiscal credibility of the European Union (EU), and damage the world economy. Somewhere between these two extremes lies the truth and the all important answer to the question of how the Greek crisis could affect Australian investors.

It all started in 1968, with France and Germany determined to create a single European community, a strategy to make themselves and Europe more competitive against the economic superpowers. The European Union (EU) began with six members – France, Germany, Belgium, Italy, Netherlands and Luxembourg – but by 2007 the group had grown to 27 countries, including less robust economies such as Greece, Slovakia, Cyprus and Bulgaria. In 1999 the Euro was introduced as the common currency in all member countries, except the UK which kept the pound sterling.

The EU was never a group of equals. Its member nations included the large and small, the rich and poor, all sharing a common currency and customs union. None of that seemed a problem while times were good and Europeans prospered from a common market. But the 2008 financial crisis has mercilessly exposed flaws in the union as more and more European countries – from once mighty Britain to recently prosperous and newly poor Ireland – faced rising unemployment, stagnant growth, and a slow road to recovery. However, it took focus on the Greek debt crisis to bring Europe to the brink of disaster.

Why? Because Greece threatened to cross the line into national bankruptcy and

default on its foreign loans. An economy under pressure with growth at zero or going backwards is one thing; it is quite another if that country can no longer cover its debts. Greece was the first EU member to pose this threat, but is by no means the only one or even the largest.

Thirteen of the 27 EU countries have debt levels above the agreed limit of 60% of gross domestic product, including Britain and France. Estimates based on International Monetary Fund (IMF) data suggest German banks alone hold €28 billion in Greek bonds, half held by banks newly owned by the German taxpayer. Greece does not have the resources to service these and many other foreign loans.

But Greece also owes Portugal US\$10 billion, Portugal owes Spain US\$86 billion, Spain owes German and French banks upwards of US\$550 billion, and so on. If Greece defaulted there would be repercussions not only in the lending countries, but all over the world. Not surprisingly, international markets went into shock as investors feared Greece would trigger yet another major financial meltdown.

Clearly, Germany and France could not allow Greece to fall – there was too much at stake. The future of the battered Euro and of the EU itself were threatened. The

result was an IMF-sponsored €110 billion bailout package to get Greece back on its feet and pull other struggling European economies, and the Euro, back from the brink.

This package, announced on 2 May 2010, seems to have averted the immediate danger of a worldwide financial implosion, but is it a bandaid or a long-term solution? This is the question economists are asking, for there is no doubt that Greece's problems were in part caused by its inability to cut infrastructure spending and its notoriously inefficient tax system. Understandably, these problems will not simply be fixed with a bailout package.

Fortunately for Australian investors, the Greek crisis has so far not meant another market meltdown, largely because of one dominating reality: Australia's economic future is linked to China, not Europe, and the Chinese economy continues to forge ahead and purchase mountains of Australian resources, irrespective of events in Europe. Unlike Greece, we have succeeded in moving away from debt, not into it. We saw proof of this in the Budget projections that the borrowings to finance the stimulus package last year would be repaid within three years instead of six, and the Australian economy would be back in the black by 2013.

## Ethical investment Sometimes the good guys win!

Ethical investment is no longer seen as investment where returns take second place to social conscience, an option for those who want to make money but not at any cost. In fact, over the past seven years ethical funds have given conventional managed funds a run for their money, and now some mainstream fund managers are launching new ethical funds.

An ethical investment strategy aims to change the world for the better by refusing to invest in companies whose activities harm the environment or the social fabric. Ethical funds don't invest in tobacco, armaments, alcohol or coal-fired electricity, but invest in alternative energy companies, sustainable agriculture or 'neutral' industries such as banking. However, the question has always been: How much growth and investment return do you lose by filtering out the nasties, or excluding blue chip companies that have one or two nasty subsidiaries? The truth is that most companies do not produce environmentally or socially harmful products, so the core companies in an ethical fund's share portfolio overlap with many of those in a mainstream fund.

This is one reason why research by the Responsible Investments Association of Australasia (RIAA), the ethical investment industry body, has revealed that ethical funds have not only kept pace with mainstream funds in terms of returns, but have often marginally outperformed them. The RIAA benchmark survey for 2009 reported that the average ethical share fund outperforms the average conventional Australian share fund over 1, 5 and 7 years, while the average ethical balanced fund does the same over 1 and 5 years.<sup>1</sup>

Another reason may be that ethical funds are more likely to be pathfinders, investing in emerging industries such as renewable energy.



Ethical investment is a fast-growing but still small segment of the managed fund market, with around \$16 billion under management – less than 2% of the total market.<sup>2</sup> At the same time, there are now more than 40 ethical funds offering investment and superannuation portfolios in Australia so you have a real choice – not only of managers, but also of investment philosophies. Finally, ethical share funds must always disclose their screening criteria and list the companies in their portfolios – so you never invest blind when you invest green!

<sup>1</sup> Responsible Investment 2009, the RIAA benchmark report, Nov. 2009.  
<sup>2</sup> Responsible Investment 2009, the RIAA benchmark report, Nov. 2009.

## Life in numbers

When you add up the numbers, it's a busy life we lead.



Australians' laid-back reputation is well deserved. The long summer break between Christmas and Australia Day is sacred – whole suburbs retreat to the beach and the bush for a lazy few weeks catching some waves and listening to the cricket. Being chained to the desk is definitely not seen as the Aussie way.

So it might come as a surprise to learn that Australian employees put in an average 1,855 hours a year at work, making us some of the hardest workers in the developed world – still some way behind the Koreans, who put in an eye-watering 2,390 hours a year, but way ahead of the Dutch, who bring up the rear with a relaxed 1,309 hours.

Either the Australian way of life is changing fundamentally or there's a fair amount of Blackberry bashing down at the nation's surf life saving clubs. All this hard yakka adds up to about 86,000 hours of labour over a lifetime.

Here are some other interesting facts about work, money and leisure:

- Life expectancy (men) – 79 years or 2,493,050,400 seconds<sup>1</sup>
- Life expectancy (women) – 84 years or 2,650,838,400 seconds<sup>1</sup>
- Average wage (men) – \$67,995.20 p.a.<sup>1</sup>
- Average wage (women) – \$56,097.60 p.a.<sup>1</sup>
- Cost of raising a child – \$1,028,093<sup>2</sup>
- Groceries cost for Australian families (no alcohol) – \$7,950 p.a.<sup>1</sup>
- Average tax refund – \$2,351<sup>3</sup>
- Average home loan balance – \$253,200<sup>1</sup>
- Average assets at retirement – \$572,224<sup>4</sup>
- Average amount spent per year by smokers – \$2,500<sup>5</sup>
- Average distance driven per year – 15,000 km<sup>6</sup>
- Number of sick days each year – 8.62<sup>7</sup>
- Average number of hours worked – 86,000<sup>8</sup>
- Average retirement age (men) 61.5<sup>1</sup>

<sup>1</sup> Australian Bureau of Statistics.  
<sup>2</sup> McCrindle Research.  
<sup>3</sup> Bankwest Tax Return Report 2009.  
<sup>4</sup> Access Economics.

<sup>5</sup> <http://www.news.com.au/smokers-spend-17-days-a-year-smoking-2500-on-habit/story-0-1225737434217>.  
<sup>6</sup> <http://www.abc.net.au/science/features/greener/>.  
<sup>7</sup> <http://www.couriermail.com.au/news/queensland/sickies-costing-employers-27b/story-e6freoof-111118038670>.

<sup>8</sup> <http://www.careerfaqs.com.au/employment-news/719/Australians-work-longest-hours>.  
<sup>9</sup> <http://www.dailymail.co.uk/femail/article-517958/Women-spend-33-000-shoes-lifetime.html>.  
<sup>10</sup> <http://corsinet.com/trivia/s-triv.html>.

# Budget 2010/11 wrap-up

The announcements outlined below could affect your financial plans, so ensure that you speak with your adviser to understand the impact on your personal circumstances.

**Savings incentive** Starting 1 July 2011, a 50 per cent tax discount will be available on up to \$1,000 of interest income earned by individuals. This includes interest earned on deposits held in authorised deposit-taking institutions (for example, eligible banks, building societies and credit unions), plus bonds debentures and annuity products. An individual on a 30 per cent marginal tax rate will derive a maximum benefit of approximately \$157 and approximately \$232 for an individual on the top marginal tax rate.

**Concessional contributions cap extended for persons aged 50 or over** From 1 July 2012, the \$50,000 concessional contributions cap will be extended permanently for individuals aged 50 or over, with total superannuation balances of less than \$500,000. This will allow eligible individuals to make larger contributions to super in an effort to boost their super balances prior to retirement in a tax-effective manner.

**Increase in superannuation guarantee rate** From 2013, there will be a phased increase in the superannuation guarantee rate from 9 per cent to 12 percent by 2020.

**Superannuation** A number of other smaller superannuation changes were also announced including:

- The superannuation co-contribution scheme matching rate will remain at 100 per cent, making the maximum contribution payable \$1,000.
- A new Government contribution for low income earners will be available up to a maximum of \$500 for individuals who make concessional contributions of over \$3,333 to super.
- An increase in the superannuation guarantee age limit from 70 to 75 will mean individuals aged 70 to 74 will be entitled to receive superannuation guarantee contributions.

**Net medical tax offset** From 1 July this year, the threshold above which a taxpayer may claim the net medical expenses tax offset will increase from \$1,500 to \$2,000. The offset allows taxpayers to receive a tax offset equal to 20% of net medical expenses above the threshold. The increase in the threshold may reduce the number of people eligible to claim this offset and reduce the level of offset available.

Despite government claims to the contrary, and talk of fiscal restraint, the Federal Budget 2010/11 has many of the traditional hallmarks of an election year budget. Many of the measures announced simply reconfirmed the Government's response to the Henry Tax Review, and only a small number will impact financial planning.

**Marginal income tax rate cuts** The tax cuts announced in last year's budget were reconfirmed, which will provide a small saving for many.

2009/10 financial year		2010/11 financial year	
Taxable income \$	Tax rate %	Taxable income \$	Tax rate %
0 – 6,000	0	0 – 6,000	0
6,001 – 35,000	15	<b>6,001 – 37,000</b>	<b>15</b>
35,001 – 80,000	30	<b>37,001 – 80,000</b>	<b>30</b>
80,001 – 180,000	38	<b>80,001 – 180,000</b>	<b>37</b>
Over 180,000	45	Over 180,000	45

**Standard tax deduction** From 1 July 2012, a standard tax deduction of \$500 for work-related expenses and the cost of managing tax affairs will be available, increasing to \$1,000 from 1 July 2012. Those with deductible expenses greater than the standard deduction amount will still be able to claim their higher expenses.

**Reduction of company tax rates** From 2013, the company tax rate for eligible small businesses will be cut to 28 per cent. The general company tax rate will be reduced to 29 per cent in 2013/14, and then 28 per cent in 2014/15.

**Write off for small business assets** From 1 July 2012, small businesses may immediately write off all assets costing less than \$5,000 and most other assets (excluding buildings) may be depreciated in a single pool at a 30 per cent rate. This is an improvement on the existing depreciation concessions available to small businesses, which currently limit write-offs to assets that cost less than \$1,000.

**First home saver accounts** To increase the flexibility of First Home Saver (FHS) accounts, the government will allow savings accrued in FHS accounts to be paid into an approved mortgage after the end of the minimum qualifying period. This will benefit those with FHS accounts who purchase a property before the four year minimum qualifying period. Previously the balance of FHS accounts had to be transferred into superannuation if a property was purchased before the end of the four year period.

**Note:** The changes outlined in this summary are proposals only, and will not take effect until the passage of relevant legislation.