

## Risk insurance

# Are you covered?

*Recently left or lost your job? Taking extended leave? Considering a change in career? It may be time to take a closer look at your life insurance contract.*

When taking out personal risk insurance policies, it's easy to take a set and forget approach. However one certainty in life is change and when events in your life do change, it may have a material impact on how your personal risk insurance policies are assessed at time of making a claim.

This is especially true when it comes to a change in your employment status or occupation. A change in your employment status will usually affect the claims assessment of your income protection and total and permanent disability cover, as outlined below.



### Income protection insurance

Income protection insurance provides a financial benefit to replace lost income as a result of being unable to work due to suffering an illness or injury. When you make a claim against your income protection policy, the claims manager will assess your ability to work in your 'own' or 'usual' occupation, to determine the material loss on your income earnings. Your policy may then pay you a full or partial benefit until you are able to return to full-time work.

If you currently have income protection insurance and have been unemployed over a long period of time (greater than 12 months) and are actively seeking work, the claims manager will may no longer assess your ability to work against your 'own' or 'usual' occupation and will may revert to a more restrictive assessment of your ability to work in 'any' occupation. Your benefit period may also be shortened to a maximum of two years.

In most cases, once you have returned to full-time employment for a period of 12 months, the policy wordings will revert back to the original and more liberal definition of occupation. It is important to check with your adviser or your insurance provider how your policy deals with this issue if you have been made redundant or

are considering taking leave without pay or long service leave for an extended period of time.

Another point to consider is how a change of occupation may affect your current income protection policy. Generally, the claims manager will assess your 'own' occupation just prior to suffering the illness or injury and not the occupation when you initially bought your policy. This may be of consequence if you have changed occupation from, say, professional or white collar to a blue collar or manual occupation. The latter occupation classes usually have less defined and more restrictive boundaries around your 'own' occupation.

### Total and permanent disability insurance

Total and permanent disability (TPD) insurance pays out a lump sum of money if you are totally and permanently disabled. Two types of TPD are available. 'Own' occupation TPD, which assesses your ability to ever return to your own occupation, or 'any' occupation TPD, which assesses your ability to ever return to any occupation for which you are reasonably suited by training, education or experience. Sometimes an 'any' occupation definition can be deferred or altered to an 'activities of daily living' definition.

If you currently have TPD cover and have been unemployed over a long period of time (greater than 12 months), the policy conditions in most cases will change from 'own' or 'usual' occupation and will revert to a more restrictive 'activities of daily living' assessment, which will usually be much harder to meet. In most cases when you return to full-time employment for a period of 12 months the policy wordings will revert back to the original definitions.

Like income protection cover, any change in your occupation may potentially impact on how your existing TPD cover is assessed at claim time. But unlike income protection cover, the policies vary as to whether your occupation is assessed at claim time based on your occupation just before making the claim. This may have a material impact on whether you are eligible to receive a payment or not.

A change in your employment status or occupation could have a significant impact on any benefits available to you should you need to make a claim against your income protection or total and permanent disability policies.

**If your circumstances have changed since you last reviewed your personal risk insurance cover, speak to your adviser to ensure your policies are still suited to your needs.**

## News bites

### Pension payments: where do they come from?

In the lead up to retirement, we are encouraged to contribute to superannuation in order to build a significant nest egg to fund our retirement years. But many of us wrongly believe that the funds that are paid out to us in our retirement years are a direct result of the money we've contributed in the years before retirement. In fact, only 10% of the money that is used in retirement comes from contributions to super. Around 30% comes from earnings on your contributions during your working life, and a huge 60% comes from earnings during your retirement years when you have stopped contributing.

Because your super balance is at its highest when you stop work, it has its highest earning capacity at this time, which means that it's important that your funds keep working for you when you move from accumulation to pension phase.

### Different expectations

Research by online bank RaboPlus has found significant differences between men and women when it comes to investments, research and performance expectations. When researching investments, the study

found that women prefer face-to-face discussions and are 20% more likely to use a financial adviser than men. Men tend to prefer using the internet as their main source of information. And women's preference for investing in physical assets (for example, property), often means that women's investment portfolios end up less diversified than men's.

Women also tended to have a more optimistic outlook for investment returns, with women aged 35-49 expecting average returns of up to 14.5% per annum, while men expected around 12% per annum, both of which are still a little above the current five year return on Australian shares which is around 11%.

### Positive signs on the horizon?

After months of turmoil in economic markets around the globe, several positive signs are starting to emerge, including results from the latest ING Investor Dashboard Sentiment Index. The index revealed an 82% increase in investor sentiment from the first to second quarter of this year. The index found that 46% of Australian investors believed the economic situation had improved, up from 6%, 39% of investors believed the rate of return on investments had increased, up from 9% and 36% of investors said their

personal financial situation had improved, up from 13%.

Source: Money Management, 17 July 2009

### Upcoming Centrelink changes

A reminder that many of the Centrelink Federal Budget changes take effect from 20 September 2009.

Centrelink changes coming into effect on 20 September include:

- an increase in the pension payable
- a new pension/seniors supplement which combines a variety of existing payments
- changes to the income test taper rate, and
- a new 50% work bonus to replace the existing pension bonus scheme.

The Government will also be increasing the qualifying age for the Age Pension. Due to commence July 2017, the Age Pension age will increase by six months every two years to reach age 67 on 1 July 2023.

**If you're currently in receipt of a Centrelink benefit, you might notice a change in your payments from this date, so if you're unsure of how you will be affected, speak to Centrelink or your adviser.**



## Fixed interest

# Risk and return

**A year ago term deposit investors were able to pick up around 8% per annum. With interest rates dropping by 4.25% in the past year, high term deposit rates are a distant memory.**

As your term deposits approach maturity and you seek to secure the same level of yield, a word of caution – while you may be able to secure similar returns, you must realise that it will come with a much higher level of risk in the current markets.

The purpose of any investment is to provide a return for a certain level of capital and liquidity risk. The challenge for any investor is to fully understand the risk/reward trade-off from fixed income investments.

In reviewing your choice of fixed income investments, to allocate funds you'll need to ensure you understand where on the risk spectrum various products sit. To help with your assessment here are some key characteristics of fixed income investments.

A fixed interest investment is one which has regular pre-determined interest payments (or is discounted in price to reflect interest payments) at a fixed interest rate for a specified period of time.

They are also known as debt securities as these investments may be traded on the fixed interest secondary market.

Fixed interest investments include:

- Sovereign bonds (e.g. Commonwealth Government bonds, in the case of Australia) and treasury notes

- Semi-government bonds issued by state authorities
- Corporate bonds (issued by companies)
- Company debentures, promissory notes and unsecured notes
- Bank bills

Despite the recent turmoil in credit markets, some fixed income investments are currently providing their most attractive yields in years and once again rewarding investors for the level of capital and liquidity risk they are prepared to accept. Carefully chosen fixed income investments can better fulfill their traditional purpose of providing regular income, capital security and liquidity within the new framework of better disclosure and transparency.

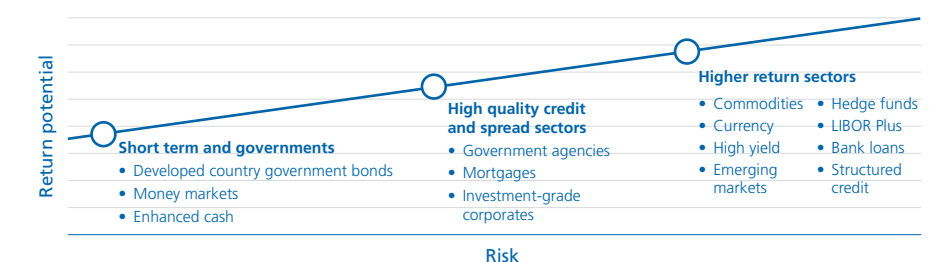
They also have a role to play in portfolio diversification, and in the current environment can provide a shelter from share market storms and generate income to keep pace with increasing interest rates and inflation.

One message that must be learned from recent events is that investment return must always be rigorously assessed against the inherent risks of the investment structure and underlying assets that ultimately pay for the return.

With the macroeconomic outlook highly uncertain, investors should continue to hold a cautious approach to investment into credit, favouring investment grade over high yield. Avoiding problem credits will be a major driver of portfolio performance over the coming months, as it has been for the last year.

**For specific advice about incorporating fixed income investments in your portfolio, speak to your Genesys wealth adviser.**

### Global fixed income risk/return spectrum



Source: Goldman Sachs Asset Management For illustrative purposes only. The risk and return potential of any individual sector will vary with market conditions

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Good versus bad

# Battle of the debt



*Sometimes a little financial re-arrangement can make the world of difference to your overall financial situation. It sounds simple, and it is.*

You may have heard of 'good' debt and 'bad' debt. Basically, good debt is debt that's being used to help you increase your overall wealth (e.g. a loan to buy shares) and bad debt is debt on items that decrease in value, such as a car (luxury, collectible cars excluded!). Credit card debt also falls into the bad debt category.

Another indicator of good or bad debt is tax deductibility. For example, while in many ways your home is good debt (it will generally increase in value over time), it's not tax deductible.

So, can you turn your good debt into 'great' debt? Yes.

## Pay off your property

A mortgage on your home is generally considered good debt as you have a tangible investment (asset) and somewhere to live. However, it is still a large debt and the sooner you pay it off, the less interest you will pay. What's more, interest on a home loan is non-deductible i.e. there are no tax advantages.

Early repayment of your home loan, through extra repayments, may save you thousands of dollars off the overall cost of the loan. Be careful though – some lenders charge early repayment fees.

While extra repayments are all very well in theory, if you're already stretched there are a number of other strategies that can help you beat bad debt.

## Make money from recycled debt

If you have equity in your home, or other assets, you can borrow against the value of these to purchase investments such as managed funds. The interest charged on these types of loans is tax deductible. This

strategy is commonly called gearing and can help with reducing tax and generating income. Please note there is risk involved in borrowing against your home and risk associated with investing. Therefore it's important you consult your wealth adviser before making any financial decisions. Gearing strategies are appropriate for clients with a growth or high growth investment risk profile, a long term timeframe and regular disposable income.

If you have equity in your home, you could also redraw against your home loan to pay off other debts such as credit cards, personal loans and car loans. This can help make repayments more manageable, and also substantially reduce interest payments as home loans tend to have lower interest rates than other forms of credit.

## Recycle your investment income

Any cash dividends that you receive from managed funds and other investments can be recycled into

paying off non-deductible debt like your home loan.

## Recycle your tax savings

The interest on investment loans is tax-deductible (as long as you use the loan to earn assessable income on investments). Once you've received your tax deduction, you can recycle it by making extra payments on your home loan.

## Debt consolidation

A number of providers now offer debt consolidation loans, where you roll all your debts into one loan with a lower repayment. By carefully choosing the right loan, you can substantially reduce repayments, put some money back in your pocket and make long term savings over the life of the new loan.

However, if you are taking out a debt consolidation loan, it's important to continue to pay as much as possible each month off the balance of the loan, otherwise you could still be paying your debts off for many years to come.

## Reducing your household expenditure

# Saving our planet

*Global warming is one of the most persistent problems of our time. It can be tempting to do nothing. After all, what can only one person achieve?*

While it's up to governments to grapple with energy policies and emissions trading schemes, you can make a difference by making some simple changes to your daily routine. And the good news is that helping to save the planet can also save you money.

## Reduce your energy usage

- Buy energy-efficient appliances. All white goods now come with an energy star label – an international standard for energy efficient products. For example, the running costs of an energy efficient washing machine can be up to 25% less than other machines over its lifetime.
- Turn appliances off at the power point and potentially save up to \$100 a year.
- Install solar panels and take advantage of the \$8,000 federal government rebate.
- Install fluorescent light bulbs. By using just one 15-watt fluorescent light bulb instead of a 75-watt standard bulb, you could save about \$10 a year on your energy bill. That may not sound like a great deal, but a household with 20 light bulbs for example could save up to \$200 a year.

## Help save water

- Install a free water-efficient showerhead and save up to 21,000 litres of water a year. That's up to \$100 a year on your water bills
- Install water-saving products like rainwater tanks and greywater systems while taking advantage of incentives such as the National Rainwater and Greywater initiative, which offers rebates of up to \$500.

## Save money on petrol and keep fit

- Take public transport, walk or cycle to work. The train generates 14 grams of carbon per kilometre compared with up to 270 grams in a car. The cost of running a normal car per year is between \$5,200 and \$16,000 compared with, for example, \$1,800 for a typical yearly public transport ticket in Melbourne.

Directing money that you have saved from adopting energy efficient practices into your investments can contribute to a more financially secure future for you and your family.



## Budgets

# Back to basics



*While many of us know the value of having and sticking to a budget, in reality not many of us put budgeting principles into practice.*

Regardless of the size of your pay packet, a budget can help you determine where your money is going, and whether you could potentially be putting some of that money to better use. While setting a budget may seem like going back to basics, it never hurts to take a step back and check how you're travelling.

Those who don't have a budget often believe that they don't have any spare money that could be used to build savings, create an investment portfolio or make extra mortgage payments, but a well constructed budget can reveal whether this is actually the case.

To create your budget, you'll need to analyse your income and expenses. It can be easy to underestimate your spending, so to get a better understanding of your expenses, you could track your daily expenditure (for a minimum of eight weeks), use your credit card statements (if you use them for most costs) or use a budgeting tool (such as the budget planner available on the Australian government website [www.understandingmoney.com.au](http://www.understandingmoney.com.au)).

Your budget will reveal one of three results:

- 1 Your income is greater than your expenses (allowing capacity to save).
- 2 Your total expenses are greater than your income, but you can make cuts without drastically affecting your ability to pay for essentials.
- 3 Your essential expenses are greater than your income, which means you'll need to closely look at your financial position.

Depending on the outcome of your budget, you may be in a position to put a structured savings or investment plan into place. But if your budget is stretched, you'll need to look carefully at your income and expenses, so that you can improve your financial position.

Budgeting is the cornerstone of saving, and gives you a realistic idea of how long it will take you to achieve your goal. Saving often provides great motivation to stick to your budget, as there is usually a reward once the goal is reached.

If a financial windfall means you've seen extra money in your pocket, you'll need to do something constructive with it in order to build your wealth. For example, recent rate cuts may have seen your mortgage repayments decrease – but instead of splurging it, make extra payments or allocate it to a savings account and watch it grow!

If a budget is too restrictive, it's likely that you will fail in following it. Likewise, if your goals are unrealistic, you will probably undermine your plan, so be flexible.

The most important part of a budget is regularly reviewing it, particularly when you are new to budgeting, and after a couple of months, you will likely have tweaked it to a point where it can be reviewed on an annual basis.

At this point, you'll probably only need to come back to it if there are events that trigger the need for a review, like getting a new job or pay rise, getting married or having a child.