



Australia is in saving mode. Are you?

Australians are not spending money like they used to; they are saving it instead. In fact, we saved around 10 per cent of our total household income last year¹, more than twice the household saving rate in 2006².

Australian households are saving at rates they have not achieved since the mid 1980's, making a concerted effort to pay off debts such as credit cards and mortgages³. If you're doing neither, but would like to increase your savings or decrease your debt so that you can create savings, there are two basic ways to do it: by eliminating unnecessary spending, and by spending more wisely.

Negative saving: eliminate unnecessary spending

If your current car is reliable enough to give you a couple more trouble free years, why replace it? Is an even bigger TV screen one of life's essentials? These are the kind of questions more and more Australians are asking, and answering by keeping their wallets in their pockets.

Planned saving: stick to a budget

Saving is not just about avoiding buying new things, it's also about changing your current buying habits and the best way to do that is to review your current spending, draw up a monthly budget and try and stick to it. Living on a budget is a little like being on a diet. You need some willpower to stick to it, but if you take care not to eliminate too many pleasures from your life, you'll find it gets easier over time.

The other thing you could do is mothball the credit cards. A 2009 survey shows that Australians already use twice as many debit cards as credit cards⁴. Why not convert to a debit card for all future purchases and pay off the high interest credit card as fast as you can?

Positive saving: think before spending

This means not only making a conscious decision about what to buy, but also where to buy. Should you buy it online, for example, where prices may be significantly cheaper? Positive saving is not just about price, but also about value. Most Australians are not giving up their family holidays; in fact, many are heading overseas to take advantage of a high Aussie dollar and cheap airfares.

**Are you a spender or a saver?
The choice is yours, but many
Australians have already made
up their minds.**

1 Weekend Business (SMH), Sept 17 2011 – Gittens: Thrift is paying big dividends..." quoting Reserve Bank figures in the national accounts
2 The Australian, May 7, 2011, George Megalogenis. "The New Thrift"
3 ABS data, September 29 2011
4 <http://www.creditcardfinder.com.au/credit-card-statistics>

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

Trauma insurance is one way to help you and your family cope financially with the impact of a trauma event such as cancer, heart attack or stroke. If you suffer a trauma event during the term of your plan a lump sum 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 75.¹

Although death from a major trauma can be a reality, mortality rates for many of our leading health concerns are falling due to

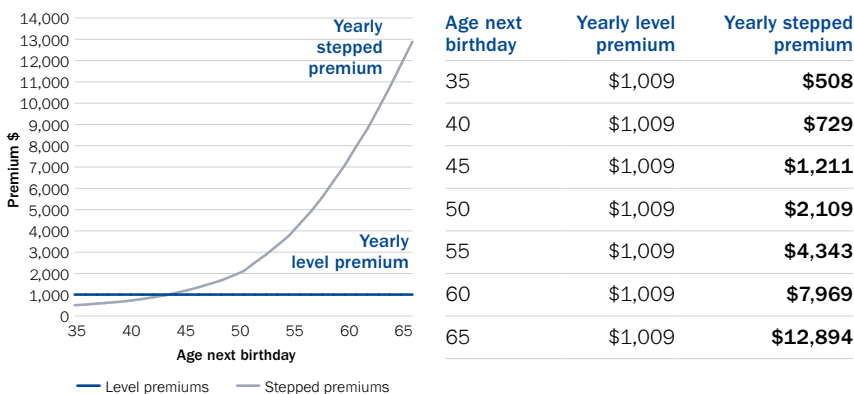
better diagnostic tools, earlier detection and improvements in the treatment of trauma events. Research shows great gains in the five-year relative survival for people diagnosed with cancer in the early 2000s, compared to those diagnosed in the early 1980s. For the 50-59 age group, survival increased from 50 per cent in 1982-86, to 71 per cent in 1998-2004.²

These survival statistics are positive news. However, those who do survive a major trauma still face the 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** remain the same throughout the duration of your plan, although premiums can be indexed for inflation if required. Premiums are averaged over the term of the contract however, at a predetermined date, level premiums will change to stepped.



Premiums calculated using AXA's Premium Quoting Tool. The premiums are not guaranteed and may vary in the future. Assumptions: Premiums have been calculated for a male, non-smoker, age 35 with \$250,000 sum insured trauma insurance with policy fee.

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.

Speak to us for more information on the right level of cover and the right premiums for your needs and your budget.

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

2 Source: Australia's Health 2008, Australian Institute of Health and Welfare (AIHW).

Europe's sovereign debt – a king size headache?

Some think that sovereign debt – in simple terms, borrowings by a national government against securities issued by the Treasury of the same government – can be the world's riskiest form of lending.

The reason? There is no security or collateral for these loans beyond the financial stability of the borrower, expressed as their international credit rating. If Country A were to default, for example, then the lenders (Country B; Bank C), can't lay claim to a city or a few suburbs to get their money back; they just take their losses. But Country A will struggle for years to get another loan at reasonable interest rates.

Some smaller economies in Europe, notably Portugal, Ireland and Greece, have been unable to service their sovereign debt. Greece has been targeted as the worst offender, having gone to the brink twice since January 2010, before being rescued by French and German financing each time. But problems remain and a third bailout package may be needed. While this drama unfolds, there are fears that Italy and Portugal are on the same path.¹

Australia has been largely unaffected by this European angst to date. Our government has no exposure to European sovereign debt and our commercial banks, which at one stage were relying heavily on wholesale borrowing from European banks to finance their domestic lending, are no longer widely exposed to a deteriorating European lending climate. So why did treasurer Wayne Swan warn us that the Greek financial crisis could result in global turmoil which could involve Australia?

A real threat?

The reason is that, in a worst-case scenario, the European sovereign debt crisis could escalate and spread across the Atlantic to the USA. At the moment, American banks have approximately \$41 billion of direct exposure to Greek debt, plus problems with their own national debt levels.²



This combination of US and European uncertainty could ultimately lead to in bank failures reminiscent of the Lehmans collapse which, some argue, triggered the Global Financial Crisis.³

The only way for the weaker members of the European community to remain solvent and honour their obligations to repay their sovereign debt is to obtain further financial aid from the stronger members of the group. The problem is that both France and Germany have already committed billions of Euro to Greece, and French and German taxpayers are objecting to any further aid. Plus, the interest rates on new emergency loans will be so high it's feared Greece will never be able to repay the debt.⁴ France and Germany, with the European Central Bank, are urgently seeking a viable solution. A recent proposal is that Greece be allowed to default on part of its debt, resulting in losses to the bond holders, but a smaller and more manageable national debt.⁵

Building a solution

Though some lenders might have to take a slight 'haircut' after a partial default, it might be a better outcome for the European banks than the far more drastic alternative. This 'alternative' is simply that Greece defaults on its sovereign debt. This would mean all its debts would be written off or discounted, which did happen in Argentina in 2001.⁶ This proposal may have some appeal to many angry Greek citizens who took to the streets in protest against the austerity measures announced to qualify for the last European

handout. Not surprisingly, a default on this scale has far-reaching implications. While Argentina ended its sovereign debt crisis by defaulting, to this day it can't borrow money overseas.⁷ On the flip side, their economy took just three years to recover.

A further complication for Europe is that a cashed-up China is standing by to pick up some pieces. China recently acquired Greece's largest container terminal in Piraeus at a bargain price, gaining an important entree into the European shipping market. It is now looking for more bargains.⁸

Within Europe, France and Germany have the strongest incentive to continue supporting the weaker economies in the euro zone – particularly as the amounts of money involved may look huge but are not that large in relative terms.⁹ Greece represents only 3 per cent of Europe's gross domestic product (approximately \$311 billion vs. \$16 trillion) and currently owes France the equivalent of 34 per cent of its GDP and Germany 21 per cent.¹⁰ Given this relativity, France and Germany will hopefully once again pull a rabbit out of the euro hat to protect the currency and the European trading zone.

If that happens, we can echo federal treasurer Swan's statement of June 2011: "There's no doubt there are great challenges in Europe and there's no doubt there were great challenges in Europe this time last year ... but fortunately we're in the right part of the world at the right time. The Asia-Pacific is relatively strong, our economy is strong."¹¹

1 Financial Times – Interactive time line – Greek debt crisis – www.ft.com

2 Global Credit Crisis: Greek Debt Hits U.S. Banks – Money Morning Reports, Jun 26 2011, <http://www.incomestarters.com/global-credit-crisis-greek-debt-hits-u-s-banks-money-morning-reports/>

3 News Ltd Greek mess may cause second GFC <http://www.news.com.au/money/david-and-libby-koch/its-a-big-fat-greek-mess/story-fn7kicly-1226082521170>

4 EU leaders differ over Greek default, Financial Times, July 8, 2011 <http://www.ft.com/cms/s/0/5c05b8de-a994-11e0-a04a-00144feabdc0.html#ixzz1Rf0BnyEw>

5 Financial Times, July 10, 2011, EU stance shifts on Greece default <http://www.ft.com/cms/s/0/5f5eabf0-ab09-11e0-b4d8-00144feabdc0.html#ixzz1RkAljwhl>

6 The Guardian, July 10 2011: Defaulting rescued Argentina. It could work for Athens too, <http://www.guardian.co.uk/business/2011/jul/10/european-debt-crisis-argentina-imf>

7 Easybourse, 18 April 2011, "Euro zone crisis escalates on Greek debt fears" [tp://callback.easybourse.com/bis/default.asp?c=&p=o1_apEb_banniere zone 2011 Copyright © 2011 Reuters](http://callback.easybourse.com/bis/default.asp?c=&p=o1_apEb_banniere zone 2011 Copyright © 2011 Reuters)

8 BBC News, Greece 25 June 2011-07-09, www.bbc.co.uk/2/hi/programmes/from_our_own.../9520732.stm

9 NY Times, April 5 2010 – As Greek Bond Rates Soar, Bankruptcy Looms, <http://dealbook.nytimes.com/2010/04/09/as-greek-bond-rates-soar-bankruptcy-looms/>

10 Why Greece Sovereign Debt matters to Australia. July 2011. <http://www.theotherschoolofeconomics.org/?p=984>

11 Perth Now. June 27, 2011, "Australia well placed economically, says Treasurer Wayne Swan" From: AAP

News bites

Retiree cost of living increases

Due to the ongoing rise in the cost of living, retiree incomes need to gain an extra \$600 a year for comfortable living.

The Association of Superannuation Funds of Australia has published a report showing that living costs during retirement increased by 1.3 per cent in the March quarter 2011 from the December quarter 2010.

The largest increase in prices was recorded in Melbourne followed by Sydney and Adelaide. A significant factor to the increase was in the rise of the price of fruit at 14.5 per cent, the price of vegetables rose by 16.0 per cent, and with transportation there was an increase of 2.7 per cent and 8.8 per cent in petrol prices.

To achieve a comfortable lifestyle in retirement, speak to us to ensure that you are on track with your retirement plans.

The Flood Levy – know the rules

The Government has introduced a temporary flood and cyclone reconstruction levy otherwise known as the flood levy to provide additional funding to rebuild essential infrastructure. The levy has been created to help affected communities recover from the floods earlier in 2011.

Individual tax payers who have a taxable income of more than \$50,000 in the 2011/12 financial year will have to pay the flood levy. For individuals earning salary and wages, the flood levy will automatically be included in the tax taken out of their salary and wages by their employer. For individuals who pay instalments towards their expected tax liability, the flood levy will be automatically included in the instalment rate, for example, self-employed individuals and self-funded retirees.

Exempt individuals are those who have a taxable income of less than \$50,000 or fall into an eligible Australian Government Disaster Recovery class.

Individuals entitled to a recovery payment will receive a flood levy exemption declaration form from the Australian Taxation Office (ATO).

Tax rebate for low income earners

The Government recently announced plans for a new measure to help boost the superannuation of lower income earners. If the proposal is approved, individuals earning less than \$37,000 would receive a refund on the 15 per cent superannuation contribution tax, to be directed back into their super.

To be eligible for the payment, an individual must have made or received a concessional contribution to their super fund or retirement savings account and have lodged an income tax return for the relevant year. There will be no age test applied, so this measure allows people of all ages to take advantage.

The Government expects it will add some \$1.75 billion to super accounts and will assist an estimated 3.5 million Australians.

Capping to the max

When there is a chance to cut the tax bill, most of us want to take a closer look. By increasing your superannuation contributions now you may have a chance to build your retirement benefit and possibly cut your current and future tax bills.

Why? Because once you have turned 60, your super pension is tax-free, this allows you to put as much as possible into super while you still can.

If you already have more than \$500,000 in your super and are over 50, this financial year will be your last chance to contribute up to \$50,000. From 1 July 2012, it is proposed that the concessional contribution cap for those aged over 50 with more than \$500,000 in super will be halved from \$50,000 to \$25,000, the same cap applying to the under 50s.

However, if you are over 50 with less than \$500,000 in your super – one of 275,000 Australians according to government estimates¹ – the cap will stay at \$50,000.

But always remember, if you breach your cap you may be liable to pay the top marginal tax rate of 46.5 per cent on the excess contribution.

Tax-free earnings

Super becomes more attractive once you are in the pension phase, as all money earned within the fund is tax-free. That is an instant saving of 15 per cent tax on interest earned or dividends paid on your retirement investments.

Once you turn 60, both your pension income and all your drawdowns are tax-free.

There are also potential tax savings from salary sacrificing. Even if you are not in pension phase, you will only pay 15 per cent contributions tax rather than your full marginal tax rate which may be up to 46.5 per cent².

Transition to retirement

The tax break on salary sacrificing into super is one of the key reasons why a transition to retirement (TTR) strategy is recommended for over 55s. Under a TTR strategy, you can draw money from your superannuation fund while salary sacrificing up to your concessional cap at the same time. The result may be a reduction in tax payable.



For many people, it is well worth seeking advice in relation to TTR since the tax benefits may be significant.

Given the tax-friendly super environment, you should consider increasing your contributions to super while you still have the opportunity.

- http://www.futuretax.gov.au/content/Content.aspx?doc=FactSheets/concessional_contributions_caps.htm
- <http://www.ato.gov.au/super/content.aspx?doc=/content/38172.htm%20>