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Your Retirement and the current market

You've retired and now markets have dropped. What does this mean for your retirement savings?

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Your ability to earn an income is your most valuable asset.

Will I have enough for my retirement?

Everyone is different and how much you need to live comfortably in retirement will depend on a range of factors including whether you are married or single, if you have dependants, how you plan to spend your time, your hobbies and interests just to name a few.

The **Association of Superannuation Funds of Australia** (ASFA) has put together a guide which shows how much you will need for a comfortable standard of living and the types of things you may need to spend your money on. They have estimated that retired singles will need to spend \$38,611 per year and couples \$51,727 per year to live comfortably.

It's also a good idea to talk to your Sentry financial adviser who can help you with tips and strategies to improve your retirement savings.

How much will I need to make sure I have the retirement I want?

How much you will need to live comfortably in retirement will depend on a range of things. To work out if you have enough to retire there are three things you need to think about:

1. How much income you'll need in retirement
2. How long you expect to be retired
3. How much you expect your investments to earn in your retirement years

It is important to be mindful that people are generally living longer and it is not unusual to live more than 20 years in retirement. So when doing your calculations don't underestimate how long you will need to rely on your retirement savings.



Whether you are close to retirement and think you have enough, or whether you are going to work for a few more years, your Sentry financial adviser can help you make sense of the things you need to consider for retirement.

You should also talk to your Sentry financial adviser who can guide you through the range of options and strategies that are available to help you save more money for your retirement and reduce the amount of tax you pay.

How can I protect my retirement savings in these changing markets?

With share market volatility now a part of daily news, it's only natural to be concerned about how the fluctuations might be affecting the value of your investments.

It can also be tempting to move your money into less risky investments.

But selling or switching investments during times of volatility can mean you sell at a reduced price and miss out on gains when markets rebound. So before you make any decisions about moving your money it is important to seek quality advice.

Sit down with your Sentry financial adviser and review the plan you have in place. Together you should assess whether that plan still meets your long term needs and goals and adjust your investments accordingly.

Your Sentry financial adviser can also help you with tax and other strategies to make the most of your retirement savings.





How can I grow my super?

Depending on your financial circumstances, the 9% Superannuation Guarantee payments may not be enough for your retirement. If this is the case, there are a number of strategies you can use to really boost your super.

Consolidation

If you've had more than one job in your life, chances are you have may have more than one super account – you may have even lost track of some of them! Consolidating your super is about finding all your super monies and moving them into one account.

One of the biggest advantages of combining your super accounts is the potential savings in fees (e.g. administration fees).

Generally, the larger your super account balance the smaller the proportion of fees you're charged for that account. So if you're paying fees on multiple accounts with smaller balances, you can reduce the amount of fees you pay by reducing the number of super funds you have and increasing the balance of your chosen fund at the same time.



Another advantage of consolidating your super is less paperwork. Having one super account means you only have one set of paperwork to manage. This could make it easier to keep on top of your super and understand exactly how it's performing.

Consolidating your super is not just about saving money in fees, it's also about giving your super the potential to really grow. With the power of compounding returns, the money you save in fees could really help grow your super balance. It also reduces the likelihood of you ending up with lost super in the long run.

The case for consolidation, a difference that's really worth treasuring

This guide shows you how simple it is to seek out all your super funds and put them into a single fund¹. This could add thousands to your super balance at retirement.

Here's a hypothetical example of how:

- Jenny has one super fund with a balance of \$10,000.
- George has 5 super funds, each with \$2,000.
- They both pay an annual administration fee of \$5 per month for each fund.
- Over 30 years, Jenny's super balance grows to \$93,830 compared to George's balance of just \$66,642.

A difference of \$27,188 over 30 years, simply because Jenny decided to consolidate¹.

¹ Example based on net annual returns of 8%p.a. reinvested. No allowances have been made for inflation or taxation. This assumes that the only fees paid by the member are administration fees of \$60p.a. per fund and doesn't take into consideration any additional contributions made to any funds.

Government co-contributions

With the Government's super co-contribution scheme, if you are eligible and your total income is less than \$31,920 (for 2009/10; indexed in subsequent years), you will receive \$1 from the Government for every after-tax dollar you contribute to super up to a maximum of \$1,000. The co-contribution amount decreases by 3.333 cents for every dollar earned over \$31,920, until it reaches zero at \$61,920 (2009/10).

Salary sacrifice

A tax effective way of making additional contributions to your super is through salary sacrificing. Contributions can be made from your pre-tax salary and because they're taxed at just 15% in most cases, it can not only boost your retirement savings but it can also be a useful tax-effective investment strategy. You should consider your concessional contributions cap when undertaking salary sacrifice to super.



Find lost super

There are over 6 million lost super accounts with a total value of approx. \$13bn. Some of that \$13bn could be your money, and it could be working harder if consolidated with your current account. The Australian Tax Office (ATO) provides a free 'SuperSeeker' service to help people locate super accounts they've lost track of. If you've changed jobs more than once, chances are you're likely to find some super money through the ATO. To use 'SuperSeeker', visit www.ato.gov.au/super or call the ATO on 132 865 and make sure you have your Tax File Number ready.

Things to be aware of before moving your money


There are some things you should consider before you move money out of a super fund.

Firstly, although a number of Super Funds generally don't charge exit fees*, some super funds do. This means you could incur withdrawal or exit fees for moving your money out of these funds.

Depending on the number of super accounts you currently have, your exit costs could end up being higher than your total savings in administration fees.

Secondly, your decision to move money out of a super fund could impact the level of insurance cover or other benefits you had with that fund. For example it's possible your insurance cover could be discontinued when you move between funds, or you may not be able to obtain equivalent cover in the new fund.

It is recommended that you consult with your Sentry financial adviser and he / she will check any exit fees that may be payable to your other fund(s), and any insurance cover you may have that cannot be replicated, before making the decision to move.

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Questions about housing prices in Australia

There is no doubt that the media loves sensationalist comments on the housing market. The more dramatic and simplistic a statement, the easier it is to write a catchy headline and attention grabbing story. The truth, of course, is usually a little bit more complex and requires a bit more work to capture.

Will prices in the housing market always rise?

This question need only be posed for the answer to be obvious. Of course there will be times when housing market does not rise. There could even be times when it falls, as the recent experience in the US has shown. The fluctuations in value of any asset class, including the housing market, is known as 'volatility'.

So how volatile is the Australian housing market?

The well known economics, finance and real estate commentator, Christopher Joye, recently considered this issue. He examined the volatility of a range of asset classes from 1982 through to December 2009 and found that the annual volatility of the Australian housing market was relatively low. In fact, the volatility of the Australian share market has been 5.6 times higher than that of the housing sector.

He also pointed out that most of the economic crises we have seen in recent years (the 1987 crash, the Long Term Capital Management bailout, and the 2001 tech wreck) involved the equities markets. Even the Global Financial Crisis saw the stock markets of Australia, UK and US fall by 40-50%, but the housing market decline by just 4%, 14% and 30% respectively.

Are Australian housing prices high relative to household incomes?

In recent times, some commentators have suggested that the Australian housing market is expensive, relative to household incomes. This has led the 'price to income ratio hawks' to suggest that a pricing correction is imminent.

However, as the deputy governor of the Reserve Bank of Australia, Ric Battellino, pointed out, this analysis is based on flawed data. The hawks were using house price data from capital cities and comparing it with income data from across the whole country. Since house prices tend to be higher in cities, this overstated the real price to income ratio. If these city house prices were compared to the incomes of people living in the cities, they were much more reasonable.

Christopher Joye delved even deeper into the issue. The basis of his analysis was the Rismark national home price-to-disposable income ratio, which includes all types of dwellings in all regions and compares it to the Australian Bureau of Statistics' quarterly measure of average disposable household incomes (not just average weekly earnings). Using this measure,



Australia's housing prices are 4.6 times disposable income. Furthermore, this is virtually exactly the same as Australia's seven year average since the end of the last housing cycle in December 2003.

Is there an undersupply of housing in Australia?

Although there was some debate about this issue in years gone by, it seems now to have been conclusively settled. The Federal Government's National Housing Supply Council released their second State of Supply report in April 2010. They estimated the cumulative undersupply of housing stocks in Australia at 178,400 and predicted that this undersupply would grow to 308,000 by 2014.

Essentially, there are not enough new dwellings being constructed and high development costs (including

government fees and charges) are restricting new projects. Finance for construction projects is also hard to source. On the other hand, population continues to grow and unemployment remains low.

What does all this mean for the housing market?

Predicting the future is always a hazardous business. The performance of any market can be affected by a range of factors and a strong housing market in one city can be offset by a weaker market in another city. Nevertheless, the demand and supply fundamentals and Australia's persisting economic strength continue to suggest that the Australian housing market has solid foundations and is likely to continue to at least hold its value for the foreseeable future.

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Your ability to earn an income is your most valuable asset.

Income protection (also known as 'salary continuance') pays a monthly benefit of up to 75% of your annual income if you're unable to work due to illness or injury.

The money helps you meet regular financial commitments and stay on top of debts during what could be a very stressful time.

Many policies also provide optional protection to help you focus on rehabilitation and recovery. Some will cover your superannuation (SG) payments as well and premiums are usually tax-deductible.

How long do I wait to receive payment?

Waiting periods – the period of time waited before payment is received – can range from 14 days to two years. Generally speaking, the longer a waiting period, the lower the premium will be.

Most commonly, people opt for somewhere between a 30-day and 90-day waiting period:

- 30 days – as payments are made monthly, in arrears, the first payment is made after 60 days.
- 90 days – premiums for this option are lower than the 30-day option. However, you'll need to ensure sufficient emergency funds will be available to cover expenses during this period (e.g. sick pay from work).

How long will I continue to receive payment?

The length of time you receive payment is known as the 'benefit period'.

Most commonly, benefits are paid up to age 65 (the age most people work to). Other benefit periods are also available, including two years, five years and to age 55, 60 or 70.

Not surprisingly, the longer the benefit period, the higher the premium.

How much does it cost?

You'll be surprised just how affordable income protection is — especially given that premiums are generally tax deductible.

- As an example, a 34 year-old non-smoking female clerical worker can take out cover for \$2500 per month for around \$2 per day.
- A male carpenter with the same criteria can also obtain cover for around \$2 per day.

For many people this will be a similar cost to insuring your car — yet in the scheme of things, the cover offered through income protection is far greater and significantly more important.

I think I have cover elsewhere...

"Workers' comp will look after me."

The majority of serious accidents actually occur outside the workplace. As a result, work cover would not apply. Additionally, the bulk of claims are, statistically speaking, a result of illness rather than accident.

"I've got private health insurance, that's all I need."

That's fine when it comes to paying medical bills, but what about living expenses, mortgage repayment and education expenses?

"I already have insurance in my super."

When it comes to insurance through super, it's important to check the type of cover you have. The amounts you're insured for may not be adequate for your needs. The policy may not include income protection, and the claims process could be quite restrictive too.

"Isn't there a Centrelink benefit I would be entitled too?"

Yes, but these benefits are assets and means tested. Further, will the maximum entitlements even replace 30% or 40% of your income? Funding your lifestyle may fall well short.

To find out more, please speak to your Sentry Financial Adviser.

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For further information contact your Sentry Financial Adviser

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