FINANCIAL PLANNING NEWSLETTER

Redundancy – it's not personal

As the mining boom slows and many Australian businesses struggle to remain competitive in a global market, cost cutting and retrenchments have become a normal part of being in the workforce. Being made redundant is never an easy experience, but if it's handled well it can be financially and personally rewarding.

Australia's unemployment rate edged up to 5.8 per cent in August and is forecast to reach 6.2 per cent in 2014.[1] In a tough economic environment, even well established businesses are cutting costs by introducing labour-saving new technologies and outsourcing. But the news is not all bad.

The strongest job markets

According to the latest CommSec *State of the States* report, Western Australia still has the best performing economy but the strongest job markets are NSW, Victoria and the ACT.[2] As new investment in mining and engineering falls, commercial and residential construction activity is picking up in all states and territories except Tasmania.[3]

Public sector positions grew the most in the year to August, although the new federal government is promising cutbacks. Other sectors providing job growth are transport, wholesale trade, education and training as well as health and community services.[4] Lower interest rates are also expected to provide a boost for retailers.

Employment is shrinking in the agricultural and manufacturing industries, although both industries still employ more people than the mining sector.

The ever-changing workplace

When redundancy strikes, the important thing is not to take it personally. Redundancy is not a reflection of the worker but the constantly changing nature of the workplace. The challenge is to make the most of your situation financially.

What you do with your payout will depend on your age and stage of life. If you are close to retirement and in a good financial position, a large payout can help feather your retirement nest. If you are young and have a job to go to, a large payout can be a windfall. But if your future employment is uncertain, you need to proceed with caution.

Whatever your circumstances, it's vital to get as much out of your payout as possible. The first thing you should do when you are made redundant or considering voluntary redundancy is to check the details of your payment. Your adviser can help with this and work with you to prepare a financial strategy.

As you take stock of your financial position you need to know what government assistance you may be entitled to. It is a good idea to contact Centrelink to check your eligibility for income support, the Age Pension and a Health Care Card.

In the meantime, you could consider parking your payout in a bank cash account or a mortgage offset account until your plans are clearer. Money in an offset account helps reduce the amount of interest you pay on your mortgage but it can be withdrawn at any time.

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Yenbase Pty Ltd trading as
TIPS Financial Services
52 060 138 427

9 Roberts Street West
Osborne Park
WA 6017

David Banfield
Ossie Mansfield
Grant Wells
Joe Di Mauro
Monica Nguyen
Simon Johnson

PO Box 1493
Osborne Park DC
WA 6017
Phone: (08) 6465 5400
Fax: (08) 6465 5499
Email: info@tipsfs.com.au
Web: www.tipsfs.com.au

Redundancy – it's not personal continued

Review insurance and loans

As soon as practical you should also review your insurance. You need to check if any death, TPD and income protection policies you hold, both inside and outside super, are affected by your loss of employment. If you find work in a new occupation, you need to check if your work rating will change. You may need to top up your premiums.

If you are retrenched unexpectedly, you may have loans or other financial obligations that become hard to manage. You may be able to reduce or suspend payments for a period but the earlier you discuss your situation with the lender the better.

Topping up super

If you don't have a mortgage and you are over 55 you might consider putting some or all of your payout into your superannuation fund. Before you do this, make sure you understand your age-based contribution caps because there are hefty tax penalties for exceeding them.

If you are over 55 you may be able to set up a transition to retirement pension to supplement your income while you look for work. Once you find work, you can continue the pension and salary sacrifice some of your wage back into super (depending on superannuation caps) to rebuild your nest egg and save tax.

We recommend you seek help from your financial adviser to explain this in more detail.

Trying something new

Some people find that being made redundant gives them the push they needed to try their hand at something completely new. Government support is available for people who wish to start up their own small business or you might decide to retrain for an entirely new career.

Whatever you decide to do, having a sound financial plan is the key to success and happiness after redundancy.

1 Trading Economics, 2013, viewed 26 September 2013, http://www.tradingeconomics.com/australia/forecast

2 CommSec Economic Insights, State of the States, 22 July 2013, http://www.investing.commsec.com.au/media/119240/e130722.pdf, p.1

3 ibid

4 M. Emerson, 'Economy builds some muscle', Sydney Morning Herald, 21 September 2013, viewed 26 September 2013, http://newsstore.smh.com.au/apps/viewDocument.ac?page=1&sy=smh&kw=michael+emerson&pb=smh&dt=selectRange&dr=week&so=relevance&sf=author&rc=10&rm=200&sp=nrm&clsPage=1&docID=SMH130921HS5DBVU2GVA

Volunteering provides benefits for all

We're all familiar with the role of financial advisers in helping us to make wise choices with our money but when it comes to an equally important facet of our lives – time – we're pretty much left to our own devices. If there was such a thing as 'time advisers', one of their investment recommendations would surely be to add volunteering to our portfolio.

Like any good investment, volunteering has a history of positive returns, has established strong community-minded fundamentals, provides employment opportunities and performs in good times and bad. The returns are also well documented, both academically and anecdotally.

In a study completed in 2012 by Dr Lisel O'Dwyer, a Senior Research Associate in the University of Adelaide's School of Social Sciences, it was found that volunteers contribute more than $200 billion a year.[1] This figure outstrips revenue from mining, agriculture and the retail sector.

More than 6.4 million people volunteer their time in Australia, which is double the number in 1995.[2] "Volunteers get a lot of satisfaction from helping others, enhancing the quality of their life and their health. The benefits to the recipients are obvious and there are also positive spin-offs for governments and workplaces," Dr O'Dwyer stated in *Positive Ageing: Think Volunteering*, published by Volunteering SA & NT early in 2013.

The concept of volunteering dates back to military actions in 1600s; a tradition proudly carried on by our own troops in numerous conflicts for more than a century. Today, the GoVolunteering website lists almost 5,000 organisations offering more than 12,000 programs that welcome assistance from interested and motivated Australians.

Even the corporate world is embracing the benefits of volunteering. A survey of more than 4,000 corporate employees conducted by the Macquarie Graduate School of Management last year found that up to two thirds have participated in corporate volunteering over the past 12 months.

As Dr O'Dwyer reported, corporate volunteers gain a broad range of new skills that are transferable to their workplace. "They are healthier, fitter, more mentally alert and more socially connected than people who do not volunteer. These benefits may even act as a pathway to other forms of employment," Dr O'Dwyer said.

So next time you feel that your life's ledger has slipped into the red, consider a change of 'time investment strategy' with a stint of volunteering.

1 The research calculated the hourly rate for volunteers at around $7 per hour or 25 per cent of the equivalent paid job.

2 'Volunteers worth more to Australia than mining', 28 August 2012, University of Adelaide, viewed 26 September 2013, http://www.adelaide.edu.au/news/news55621.html

Planning your route to financial freedom

Before you climb Mt Everest, you have to reach Base Camp. Before you reach Base Camp, you have to reach Lukla. Before you reach Lukla, you have to reach Kathmandu. Any major goal requires several crucial steps to complete the journey, and it's no different to your finances. So before you plan your summit assault, here are a few tips to get you started on the path to success.

Talk to the experts

Seeking financial advice can be a daunting experience. If you're already struggling to make ends meet, paying a financial planner may seem like another cost you don't need. It's worthwhile meeting with a few before choosing an experienced planner you can connect with on a personal level.

Plan your route

Base your financial plan on a wish list. Write down everything you want. When do you want to retire? Do you want to change careers or spend more time with the family? Even if you can't afford it all, put it all down. A financial plan focuses the mind on what is most important and what your future financial aspirations are. It will help you work out what you can afford and what is out of the question.

Avoid the crevasses

Insurance can be just as important to your financial planning as other strategies. It can help to provide financial security and peace of mind, and enable you to protect your ability to earn an income in the event of accident, sickness, disability or even death. Regularly assess the importance and level of insurance as your life circumstances change.

Taking the steep path

It's essential to think about how well you cope with risk and talk about it with your financial adviser. Having a range of investments across asset classes will help to spread the risk so that when one area is not doing well, another may compensate. Taking a long-term view of the eventual summit will also help you deal with the peaks and valleys along the way.

Keep the camp clean

Do you have a pile of statements and paperwork gathering dust and awaiting attention? Managing your financial plan is as important as starting one. The various types of paperwork help you keep track of what money you have. Try setting aside a set time each week to keep the financial house in order, or use the family desktop with an online or electronic record of your financial activity. There are many online tools available to help sort out your financial paperwork. Opt for electronic statements, which are more efficient for filing and environment friendly.

Consider these tips and you'll be on the way to planting your financial icepick on the summit of your financial dreams.

Capturing investors' interest

It may have taken a brilliant mathematician, such as Albert Einstein, to declare that "compound interest is the eighth wonder of the world'' but it took a brilliant investor, Warren Buffett, to prove the theory in all its wonderful glory.

Mr Buffett, one of the canniest investors around, explained that his "wealth has come from a combination of living in America, some lucky genes and compound interest".[1]

While many of us cannot rely on living in the US nor be born with gold-plated DNA, we can aspire to growing our wealth using compound interest.

It works by adding to your savings with regular interest payments that merge with the original deposit, so the next time interest is paid, it is on the total sum – the original deposit plus previously earned interest. This pattern continues and compounds as long as withdrawals are avoided.

For instance, $2,000 invested at 5 per cent will be worth $2,100 a year later. Keep the deposit intact and the following year that $2,100 earns another 5 per cent and grows to $2,205. After 15 years, the compounding interest has doubled your money to more than $4,150.[2]

Adding deposits over time turbo charges compound interest

Naturally, the greater the rate of interest you are paid, the bigger the multiples of compounded value over time. If you are lucky enough to attract 10 per cent interest, a $2,000 deposit would more than quadruple to $8,354 after 15 years.

Currently, in these times of Reserve Bank of Australia induced low interest rates,[3] a standard savings account is unlikely to deliver enough income to keep deposits ahead of inflation.

However, as your financial planner, we can advise you on other types of savings strategies with greater compounding qualities to fulfil your future wealth ambitions.

With the right investment, a 30-year-old putting $1,000 away at 8 per cent interest could collect more than $14,000 on retirement without ever having added to the original deposit.

Even at half that interest rate, making an initial deposit of $1,000 on the birth of a baby and then $20 a week thereafter would, with compounding interest of just 4 per cent, deliver almost $30,000 by the time the child is 18 – enough to buy a car.

That is the wonder of compounding interest – the ability to effortlessly multiply savings over time. If you have a savings target in mind, speak to your financial adviser to help you put the right building blocks in place.

1 My philanthropic pledge, Warren Buffett, Fortune/CNN Money, 16 June, 2010, viewed 30 September 2013, http://money.cnn.com/2010/06/15/news/newsmakers/Warren_Buffett_Pledge_Letter.fortune/index.htm

2 About.com Mathematics, 2013, viewed 27 September 2013, http://math.about.com/library/blcompoundinterest.htm

3 'RBA keeps rates on hold at 2.5pc', Adam Creighton, The Australian, 1 October, 2013, viewed 1 October 2013, http://www.theaustralian.com.au/business/economics/rba-keeps-rates-on-hold-at-25pc/story-e6frg926-1226730893529

Aged care choice open to confusion

Transparency and choice are emerging as the key benefits from the new aged care funding arrangements under the Government's *Living Longer, Living Better* reform program.

From 1 July 2014, all residents who can afford to will have the choice of paying for their accommodation in three ways; through a fully refundable lump sum or a rental style periodic payment, or a combination of both.[1]

The so-called Refundable Accommodation Deposits is similar to the current accommodation bond for low level care (hostel) and extra services high care (nursing home) and will be paid by residents going into residential accommodation. Residents entering a care facility will be able to choose how they wish to pay for their accommodation rather than facilities dictating how the fees must be paid.

Indeed, going forward there will no longer be a distinction between high and low care accommodation.[2] Favourably, where a resident pays a refundable accommodation deposit, a facility will no longer be allowed to deduct amounts referred to as the retention amount – currently $331 per month for a maximum period of 5 years. Instead, unless the resident chooses for daily payments to be deducted from the refundable accommodation deposit, the resident or their estate will receive the full amount of the deposit back.

Better transparency

Unlike the current accommodation bond amount, which could be arbitrarily set by a provider and negotiated with the incoming resident, a maximum level of Refundable Accommodation Deposit has been set by the new Aged Care Financing Authority (ACFA) for certain facilities and anything over this must be applied for and approved in accordance with specified guidelines.

To further help consumers make an informed decision, each aged care provider will be required to make its accommodation fee schedule available on its website and published in written materials to anyone that requests it. The information will also be published on the My Aged Care website.[3]

Providers will not be allowed to choose between people on the basis of how that person intends to pay for their accommodation and residents will not need to decide how they will pay until they have entered care.[4]

The ACFA, already in operation and whose primary role will be to advise the Government on pricing and financing issues in aged care, must also approve the periodic payments to be charged by a facility.

Periodic payment equivalents of a Refundable Accommodation Deposit charged by a facility must also be advertised, and various examples given so that consumers understand the options in terms of how they pay for aged care.

These will be known as Daily Accommodation Deposits and like the Refundable Accommodation Deposit, will be based on the value of the accommodation services being offered.

Similar to the way periodic payments are currently made, a Daily Accommodation Payment is a product of paying the maximum permissible rate of interest – a rate set by the Government each quarter – on a Refundable Accommodation Deposit.

So for example, a Daily Accommodation Payment on a $300,000 Refundable Accommodation Deposit at the interest rate of 6.6 per cent would be about $54 a day.

More choice for consumers

Deciding whether to pay a Refundable Accommodation Deposit or Daily Accommodation Payment is one of the many important financial decisions an individual or their family members may have to make and one where professional financial advice is strongly recommended. Choosing whether the accommodation payment is paid as a lump sum or periodically may impact Centrelink assessment of the former home so it is crucial to seek advice.

While the new Coalition Government has indicated its commitment to the implementation of the *Living Longer Living Better* reform program introduced by the previous Government, it is widely anticipated within the industry that there will be further changes to proposed pricing models.[5]

Under the current proposed plan, the maximum an aged care provider will be able to charge is $455,000. Where a facility wants to charge more than $455,000, the prices must be justified against agreed criteria and approved individually by the Pricing Commissioner.

How much a prospective resident pays will largely be dependent on what beds and prices are available at their residence of choice as well as their assessable assets.

Facilities will be able to offer prospective residents different rates depending on 'approved' individual pricing of rooms.

The big difference is that the charges will be more transparent to prospective residents with higher Refundable Accommodation Deposits being approved by ACFA.

These changes should allow residents to get better value.

An important change under the new regime is that a Means Tested Fee (to replace the Income Tested Fee) will include the Refundable Accommodation Deposit as an asset. This amount is to be capped at $25,000 (indexed) a year with a lifetime cap of $60,000 (indexed).

As is the case now, the provider must leave anyone paying an agreed Refundable Accommodation Deposit with a minimum of $44,000. For the purposes of paying a Refundable Accommodation Deposit or Daily Accommodation payment, the full value of the home is included as an asset, unless an eligible person remains in the home. However, for means tested care fee purposes, the assessable value of the home is capped – up to a maximum of $144,500 (indexed to approximately $153,905 in July 2014)

The likely impact of this broader means testing is that more people will be co-contributing to their care than may have been previously, which is a specific goal of the Government in order to help deliver an affordable aged care system for all.

Advice is critical

On top of the Refundable Accommodation Deposit (or Daily Accommodation Payment) and asset and income tested care fee, there will be a Basic Daily Fee, which is the equivalent to 85 per cent of the Basic Age Pension. Whether someone needs care in an aged care facility or at home, the decisions around where to go and how to pay for it remain complex, are open to change and generally require specialist financial advice.

1 Australian Government, Department of Health & Ageing, 2013, viewed 24 September 2013, http://www.livinglongerlivingbetter.gov.au/internet/living/publishing.nsf/Content/Residential-care

2 Ibid

3 Australian Government, Department of Health & Ageing, 2013, viewed 24 September 2013, http://www.livinglongerlivingbetter.gov.au/internet/living/publishing.nsf/Content/accommodation-payments-for-entry-into-residential-care-from-1July2014

4 Australian Government, Department of Health & Ageing, 2013, viewed 24 September 2013, http://www.livinglongerlivingbetter.gov.au/internet/living/publishing.nsf/Content/ageing-aged-care-review-measures-factsheet-8.htm

5 http://lpaweb-static.s3.amazonaws.com/Coalition%202013%20Election%20Policy%20%E2%80%93%20Better%20Aged%20Care%20-%20final.pdf