

Issue: Winter 2009

Welcome to Focus

There is no doubt that the current economic climate presents a number of challenges for us all. But in facing life's adversities we all need resilience, fortitude and a positive outlook. That's why we've included some bright ideas to help you with these uncertain times.

And although Australia is not technically in recession, the prospect of retrenchment is top of mind for many. This issue looks at the tips and traps of redundancy. We also discuss the value of professional advice and the difference it can make to your financial situation.

Please contact us if you would like more information on any of the topics covered in this edition of Focus.

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Words of wisdom

"It takes as much energy to wish as it does to plan."

~ Eleanor Roosevelt

Bright ideas in a volatile market

The current economic climate certainly presents a number of challenges for us all. During times of volatility it is all too easy to fall into the trap of focusing on the short-term, but as history shows, instability is not permanent. By making the most of the current market conditions you can make sure you emerge from the financial storm in the best possible shape. Here's a few ideas to consider.

Make the most of the market rollercoaster

Nobody can pick the perfect time to invest. We all know that markets go up and down, so how do you know when it's the right time to get back in the market? In times of uncertainty it might be a good strategy to return to some of the basics of investing, such as dollar cost averaging.

Dollar cost averaging is a simple timing strategy based on investing equal dollar amounts regularly and periodically over specific time periods (such as \$100 a month) into a particular investment or portfolio. By doing so, more shares are purchased when prices are low and fewer shares are purchased when prices are high. Over time, the result is a lower average cost per share of the investment.

Maximise a redundancy payout

With industry experts predicting Australia's unemployment levels will continue to rise, more people will find themselves managing a redundancy payout. The approach you use to manage a termination payment can make a vast difference to your financial security and your financial adviser can ensure you make the most of a redundancy payout.

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Bright ideas in a volatile market (continued)

Switching investments into superannuation

Even in volatile markets the tax effectiveness of superannuation remains the same. The concessional tax benefits in superannuation are available to help you maximise your superannuation savings and achieve your retirement goals. Your financial adviser can help you understand the potential range of benefits to be realised by moving investments into superannuation.

A cost effective way to pay for life insurance

If you're like most people, you're probably monitoring your budget a little more closely these days. A way to help ease the burden of the cost of protection is to pay for it through a superannuation fund which can provide a tax efficient means of funding the cost of life insurance, particularly if you are on a higher marginal tax rate.

Low income earners who make personal superannuation contributions to pay for their life insurance within superannuation may also benefit from the government co-contribution. It also reduces the level of premiums, meaning more protection coverage can be purchased for the same cost, compared to holding the insurance outside superannuation.

Transition to retirement

If you are approaching retirement, you are no doubt looking for ways to maximise your income in retirement, particularly as falling markets impact your retirement savings. A Transition to Retirement (TTR) strategy could help. The Federal Government introduced Transition to Retirement rules to allow you to make a gradual transition to retirement from age 55, by drawing on super savings which are taxed less, or not at all if you're aged over 60.



A TTR allocated pension can be used as part of a tax-effective savings strategy, while you continue to work and could help you get your retirement savings back on track in the current climate, without impacting your income.

Accelerating your wealth through gearing

If you're ready to invest you might want to consider gearing your investments. Benefits of responsible leveraging include:

- increased investment portfolio (as a result of purchasing more units at a lower market prices)
- potential tax savings
- potential for greater diversification as portfolio size can increase
- earnings and growth being multiplied in a positive market.

Transferring UK pensions to Australia

Do you have money in UK-based pension funds? Over the past year the Australian dollar has weakened against the British pound, so it may be a good

time to transfer funds to Australia. Transferring UK pension funds can be complex and your financial adviser can help you consolidate your superannuation.

Don't delay – act now

If you would like to know more about how any of these bright ideas might be beneficial for your personal situation, or if there are other financial or investment matters with which we can assist, please contact us to arrange an appointment.



The value of advice

Quality financial advice can help you make informed decisions about your financial situation. A financial adviser can help you determine your short and long term financial goals and create a realistic plan to help you achieve them.

Benefits of financial advice include:

- helping to protect and build your income or investments
- assisting you to plan for major changes in your personal circumstances such as a retirement, redundancy or illness
- providing accurate information about changing laws and investment markets
- providing you access to new investment opportunities
- giving direction and meaning to your income or investments
- access to up to date research and market insights

How does a financial adviser help you?

The Financial Planning Association (FPA) suggests a financial adviser can assist you:

- develop a sound financial plan
- make your money work to your best advantage
- suggest financial products that are tailored to your needs
- educate you to understand risk and determine your personal risk profile.



Don't underestimate the value of good advice

Professional financial advisers can provide a high level of support in a range of areas:

- financial counselling to stem panic and ensure that quality assets are not sold unnecessarily
- long-term financial planning to manage economic downturns
- recognizing that redundancy can be a complex issue at a time of anxiety and uncertainty and helping you not only manage but maximize any termination payments
- ensuring you are positioned to take advantage of new opportunities such as the current low market prices

By using a licensed financial adviser you also have the security of an industry regulated by the Australian Securities and Investment Commission and added protection under your adviser's professional indemnity.

Surviving redundancy

In 2008, unemployment reached its lowest level for 33¹ years but it seems we're in for a tougher time over the next few years.

Currently around 5.5%, forecasters expect the unemployment level to rise significantly in the next few years with some predicting it could rise to above 6% this year, and to about 8% in 2010².

If you think your job may be under threat, how should you prepare? And if redundancy does happen, how can you ensure you understand

what you're entitled to and, when you receive a redundancy payment, that you use it in the best way?

Be prepared

Unexpected events such as sudden illness, redundancy and unemployment can – and do – happen. However, unlike illness or disability, sudden unemployment can't be insured against (though mortgage insurance may cover your home loan repayments for a period of time).

Being financially prepared is an alternative type of insurance so

it's important to have a budget and ensure your debt levels are under control. At the same time, it may be beneficial to try and save some cash for that 'rainy' day.

Understand your entitlements

Redundancy entitlements vary between companies and employment contracts. If your employment is terminated you would normally be paid your unused annual leave and unused long service leave, but you may also be entitled to a further payment.

¹ Media Release, The Hon Julia Gillard MP, Labour Force March 2008

² 'Ads fall bodes ill for jobseekers', Adrian Rollins, The Australian Financial Review, 10/02/09

Surviving redundancy (continued)



Minimise tax

Like it or not, taxes on redundancy payments do exist so it's important to structure any payout to minimise the tax payable. The unused leave portion of your redundancy is subject to tax, but is set at 31.5%³ for payments up to the Employment Termination Payment (ETP) cap amount while some of the redundancy payment may be tax-free, if your employee leaves due to ill-health or was employed prior to 1983.

Any payment made in addition to the unused leave and the tax-free portion is called an Employment Termination Payment and the taxation of this depends on how much you receive, how old you are and how long you have been with your employer.

Generally, Employment Termination Payments cannot be rolled over to superannuation, but there are

exceptions. You should clarify with your employer exactly what you're entitled to and whether or not you have the option of rolling your Employment Termination Payment over.

Optimise your redundancy payment

In deciding how best to use your redundancy payment, there are a number of options. These will depend on your financial situation and personal circumstances (for instance, how long it will take to find a new job or whether you are you planning to retire).

They include:

- using the payment to reduce any debts you have, eg: mortgage, credit cards and personal loans
- rolling over the Employment Termination Payment into superannuation, potentially saving

tax. The ability to do this is limited but if you can, it may be tax effective. Access to such funds will be restricted until you reach your preservation age and retire so make sure to consider this

- saving the money as you may need to it to pay day to day living expenses until you find a new job

We're here to help

With the trend in employment redundancy unfortunately increasing, many of us may be made redundant at some stage of our lives.

At times like this, we can help give you the clarity you need to make the right decision for your circumstances. There are many things to consider if you are facing redundancy including making key financial decisions and ensuring you are aware of any Centrelink payments you may be entitled to.

If you're facing redundancy and would like financial advice for your personal situation, please contact us.



³ For the 2008–9 financial year the ETP cap amount is \$145,000

Disclaimer: The information contained in this article is of a general nature only. It does not take into account your particular objectives, financial situation or needs. Before making an investment decision, you need to consider, with or without the assistance of a financial adviser, whether the information is appropriate for your particular needs, objectives and financial circumstances.