JustInvest
Financial Planning

Strategy. Structure. Performance...& Peace of mind

Wealth News: March 2010

Super: How much do I need to Retire?

The answer is different for everyone, as people have different spending habits. A general rule of thumb is that we'll need approximately 65% of our pre-retirement income. This is a little easier for people closer to retirement to work out...if you're further away from retirement, perhaps the easiest way to think about this is to think about the lifestyle that you want.

The Association of Superannuation Funds (ASFA) believe a couple can live **comfortably** in retirement with an annual income of $51,132 pa, and to live **modestly** would require approximately $27,695 pa. Definitions follow:

Modest

- No eating out
- Clothes from discount chains
- Entertaining at home
- No private health insurance
- Cheap holidays in Australia

Comfortable

- Eating out occasionally
- Clothes from department stores
- Entertain at home fortnightly
- Private health insurance
- Overseas holidays every five years

In today's terms, you would need a combined super balance at retirement of $770,000 if you want a comfortable lifestyle, or $417,000 for a moderate lifestyle (Source: Colonial First State. Estimated lump sum, in today's dollars, required to fund modest and comfortable retirement lifestyles – not including any Centrelink age pension entitlements. Assumes an investment return of 7.7% p.a. after fees and taxes, inflation of 3% p.a. and retirement of 25 years).

If you're planning to rely on the Government Aged Pension, beware: it's only about $27,500 per year in total for a couple. So if you're thinking you'll need more money to fund the lifestyle you want, you'll need to check you have enough saved before you retire.

For more information, speak to us about JustInvest's **Financial Dashboard** program to get you on track to meet your goals.

One Client: Three claims in a year!

We often get questions about Income Protection and Trauma policies – here's an example of one of our clients who (unfortunately) has plenty of experience in claiming in recent times:

Steve was 49 years old when told he needed open heart surgery in January 2009. As he had a Colonial Policy for Trauma (and Life) cover, Colonial paid Steve $267,000, plus $13,000 as a 5% loyalty bonus as a tax free lump sum payment. In addition to this $280,000 payment, Steve had a Colonial Income Protection policy which paid him 75% of his salary for his time off work for three months.

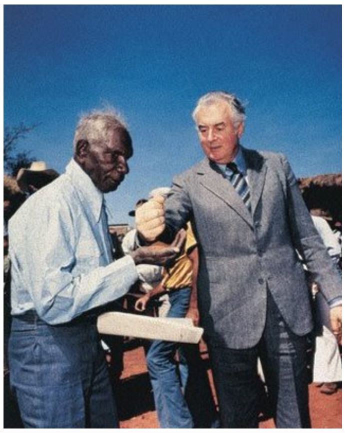
In late 2009, Steve claimed again on his Income Protection policy. He had recovered from his heart surgery and gone back to work, but had decided to change employer. Having time off before starting his new job, Steve was fixing his backyard pergola when he injured his back, rendering him unable to start work with his new employer. Even though Steve wasn't actually working at the time, he was able to claim on his Income Protection policy, as the injury prevented him from being able to return to work.

Steve was offered his Trauma cover back after 12 months, and his Income Protection policy is still in place. However he tells me he isn't planning to make any more claims in the near future!

From little things: Industry Super Funds

The new Industry Super campaign uses Paul Kelly's song 'From Little Things'.

What this song has to do with Industry Super funds, other than borrowing the song title, is anyone's guess. It describes how the Gurindji people's claim sparked the Indigenous land rights movement.



Gough Whitlam pouring the land back into the hand of Vincent Lingiari

In 1975, 3,236 km² of land was handed back to the Gurindji people. The protest led to the Commonwealth Aboriginal Land Rights (NT) Act 1976, which gave Indigenous people freehold title to traditional lands in the NT and the power of veto over mining and development on those lands.

Over $20m was spent on advertising by industry funds in 2006 alone. The advertising still continues, despite calls for a cap on spending. The funds are 'not for profit', however they argue that advertising is a legitimate business expense for members.

Case Study: 'Compare the Pair'

We keep seeing 'compare the pair' ads on TV which show differences in client Super balances, based on long term projections. The projections are based on 'no Adviser fees' being paid, as well

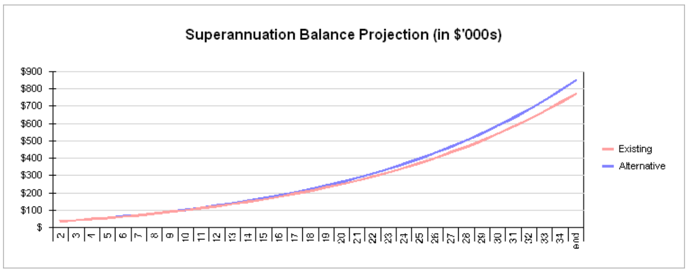
An Industry SuperFund

as other assumptions, for example that industry fund fees will remain static over time (questionable, given the cost of TV advertising!).

So here is a response: a Case Study of how seeing an Adviser could easily reverse the tables: John Smith is a 30 year old, earning $50,000pa, with a Super balance of $30,000 and his employer contributes 9% Super into C-Bus Super fund on his behalf.

Scenario 1: John leaves his Super in the 'default' Balanced option. His balance would be worth $827,512 at age 65

Scenario 2: John sees an Adviser who recommends that he changes his investment option to 'Growth' over the long term (or shift from High Growth to Growth, then to Balanced over time). His balance would be worth $912,864 at age 65



Therefore John would be $85,352* better off at age 65, all things being equal. But what about the impact of paying adviser fees? Our Adviser would suggest that John make an after tax contribution to Super, to get free money from the government in the form of a Super co-contribution – a strategy which could fund his fees! (Note: refer to Appendix for assumptions)

Industry funds do offer advice, and promote the value of advice – however, if you want it, the cost is $220 per hour. This is not factored in to any of their figures (Source: www.iffp.com.au)

There are some industry funds that perform well. There are also some that perform badly (MTAA Balanced: -24.6% to June 30, 2008). There are more than 40 industry funds, so it's about the individual fund, and the strategy the member takes within their portfolio that will determine performance.

*See Appendix for assumptions. Talk to James to find out more: 08 9325 2299 or james@just-invest.net

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The 'e'-list: ethics in question

Woolworths: 'The Pokies People'

Did you know that Woolworths is Australia's biggest poker machine operator, with over 11,000 machines across the country?

Poker machines are one of the most addictive forms of gambling. Almost 1 in 20 poker machine users become problem gamblers, and each problem gambler affects, on average, seven other people. Up to 250,000 Australians are hooked on poker machines.

A leading poker machine operator has in effect admitted that 57% of their revenue comes from 15% of pokies players, the people who lose $100 plus per visit.

Monash University research shows that Woolworths has collected an estimated $1.89 billion from Victorian poker machines since 2004 as part of a joint venture operation.

Dr Charles Livingstone, of Monash University's department of health science, said many of Woolworths' gaming venues were located in Melbourne's most disadvantaged suburbs.

He said "They tend to be outer suburbs with fewer recreational opportunities and higher levels of mortgage stress where the likelihood of problem gambling is so much higher".

Woolworths also run promotions, such as meal deals and free entertainment, to lure families with children into their pokies venues. Once there, children are exposed to the sights and sounds of gambling. This early exposure can make children see gambling, and particularly playing the pokies, as acceptable, everyday activities – leading to problem gambling later on.

While Woolies donated over $17m to charities in 2008, World Vision CEO Tim Costello accused the retailer of 'whitewashing': "You can't claim to be a community-focused grocery chain when one of your major revenue streams contributes to crime, suicide and the destruction of families" he said.

Speak to James to find out how to avoid investing in companies which support gambling.

Sources: Houston, C. The Age, 2009, www.crikey.com; www.nickxenophon.com.au; www.pokieact.org

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60 second guide to...Sovereign Debt

News headlines are warning of potential sovereign debt defaults of the 'PIIGS' (Portugal, Ireland, Italy, Greece and Spain), not to mention Dubai and many other countries who look like their high debt levels could lead to defaults. So what is Sovereign Debt, and why does this news sends jitters through markets?

Beware of Greeks bearing debts…….

What Is Sovereign Debt?

'Sovereign debt' refers to the debt of a country. Countries sell bonds in order to raise money to pay for programs ranging from armies to public healthcare.

A 'default' refers to a nation's inability (or refusal) to repay its debt. Whether a US homeowner sends 'jingle mail' (home keys via post) because a lost job makes mortgage payments impossible or because a drop in home values makes paying the mortgage uneconomical, the effect on the bank is the same: they lent money and now they're not getting it back.

The same goes for investors who've purchased sovereign debts. This is critical, as nations' debt is often viewed as safer than corporate debt since countries have the ability to raise taxes and increase tariffs in order to raise money to pay their debts.

But ‘safer’ is not the same as ‘safe’ and certainly not guaranteed. There are risks in owning sovereign debt, as with any asset. Defaults by Argentina in 2002 and Russia in 1998 are recent examples in the long history of sovereign debt defaults going back to the Spanish empire in the 1600s.

Countries that default on sovereign debt often have the common trait of a **High Debt-to-GNP Ratio.** As a country’s debts start to approach the size of its total economy (or GNP), it gets harder to make the payments, just like a individual whose debts start to eat up their income.

Countries like Australia, the US and UK have triple-A ratings, meaning they are considered the strongest in terms of the ability to repay debt. However, some experts worry about those pristine ratings being in jeopardy as we continue to accumulate massive debts to pay for spending, and to take on the recession.

Few investors seriously worry about an imminent default by the US, UK or Australia. But with worries about the PIIGS’s ability to pay their debts shaking markets across the globe in recent weeks, investors are on guard about which other countries might be in dire financial straits. Source: Yahoo Finance 2010

Time to reassess your Car or Home Insurance?

Perth’s recent ‘Perfect Storm’ has many of our clients assessing their general insurance policies. Do you understand what you are covered for? Contact us to talk to specialist General Insurance Brokers: clientsupport@just-invest.net

We Want You!

If you’re happy with our service, JustInvest asks you to mention us to friends, family or colleagues who may need some financial advice. We don’t do big advertising campaigns – we rely on our valued clients to refer like-minded individuals. Thanks for your support.

Who We Are

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Upcoming Events Calendar

April 20th , 21st	**Australian Ethical Investments:** Ethical investment: investing for change & the Climate Advocacy Fund: engaging for change (Public Seminars in Perth & Fremantle)
May 19	**JustInvest: Federal Budget update**
May (TBC)	**JustInvest ‘Professionals Series’:** Business Succession Planning
Watch this space!	**JustInvest Movie Night**

Appendix

Assumptions used in this analysis – ‘Compare the Pair’
All projections are based on an expected return. The expected return is estimated based on a risk profile as determined by your advisor; this is assumed constant over the projection. In reality your risk profile can alter substantially as you move closer to retirement.

- You should be aware that the value of your investments will rise or fall, and past performance is not necessarily indicative of future performance
- Fees and charges attached to financial products may alter during the projection, and this will change the outcomes
- The information in this report does not entail tax advice
- Earnings (including capital gains) are taxed at 15% p.a. unless specifically changed on a monthly basis
- Contributions are taxed at 15% p.a. and are applied on a monthly basis
- MERs are paid out of investment options earnings before tax unless otherwise indicated
- All other fees are paid out of earnings after tax on a monthly basis
- Income used to determine any contribution is indexed by inflation
- All percentage fees are applied to the Net Asset Value (NAV) at the end of the month
- Earnings rates with fee aggregation are net of fees (assumed to be 1.6% pa)
- 2009/2010 and future years tax rates are used where applicable
- No withdrawal/ETP tax has been taken into consideration in calculating the final lump sum
- Statutory assumptions and ‘Global Settings’ are considered to be constant over the duration of the projections. These however in reality are subject to change over time
- Fees and charges are generally obtained from the platform’s PDS, and in some cases given the complex nature of fees structures are estimates only

Source: MidWinter Projection Software 2010