



The Financial Architect

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Design your future

It only seems like yesterday that on a warm summer's day I sat down to scribe the first edition of "The Financial Architect". With the blink of an eye lid, winter has been and gone and the first half of 2005 is already behind us. The year is passing quickly and as the end of 2005 comes into sight it might be worth taking a moment to think about what has transpired thus far and how you are positioned to achieve your goals for 2005.

For those of you who have established your financial objectives, it might be worth considering some of the following topical financial services issues.

- **Super Choice** – Effective from the first of July 2005 many of you will now have the choice of which Superannuation Fund your superannuation guarantee payments are paid to and more importantly how your super is invested.
- **Superannuation Surcharge** - The Senate has passed that the superannuation surcharge will be abolished from July 2005, further enhancing the appeal of Superannuation.
- **Rising Interest Rates** - Interest rates have risen this year which affects the household bottom line in many ways. Perhaps it is time to review your mortgage to ensure you are enjoying the best interest rate.
- **Booming Stock Market** - The Australian Stock Market is at record highs. What does this mean for your portfolio and how does it affect you?
- **Estate Planning** - There have recently been some cases regarding the claims laid to estates of people who have passed away. Are you sure your will is going to do what you want it to do, and importantly do you have a will?

We are prepared to help our clients become and remain financially independent.



Super choice

What an employer must do?

Before the 29th of July 2005, Employers must have given existing employees, (who are eligible for a choice of funds and who were employees at 1st July 2005), a standard choice form. From the 1st July 2005, employers must give each new employee a standard choice form within 28 days of commencing employment. If an employee has previously provided a fund choice but wants to nominate an alternative choice, a standard choice form must be given to them within 28 days.

If an employee wants to choose a fund what do they have to do?

If an employee wants to exercise their choice they must provide their employer with details of the relevant superannuation fund and evidence that the fund will accept their contributions. Two months after the employee has given notice to their employer, their employer must ensure that contributions start going to the employee's fund of choice.

What superannuation solutions are available through the Allied Financial Group?

Allied Financial Group can tailor a solution to suit both employees and employers when it comes to choice of funds. An employee who is looking for investment flexibility and a comprehensive fee structure can utilise a variety of solutions designed to meet their needs. Those employees keen to take a hands on approach to their superannuation and looking at some additional retirement options can utilise Allied's DIY superannuation services.

*Make no little plans;
they have no magic
to stir men's blood
and probably will
themselves not be
realised.*

*Make big plans;
aim high in hope
and work,
remembering that a
noble, logical
diagram once
recorded will
not die.*



I am interested to know more about...

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Superannuation surcharge

Superannuation enjoyed a big win with the total abolition of the super surcharge on higher income earners from July 1st this year. This means that the maximum tax payable on employer contributions to super will only be 15%.

Apart from the obvious immediate benefits of a lower level of tax on super by those affected, the exciting outcome is the increased appeal of salary sacrifice.

Even allowing for the reduction in marginal tax rates for incomes in the \$57,000 - \$125,000 range over the next two years, the tax savings for most tax payers will be at least 16.5% and a maximum of 33.5% of the average income diverted into additional employer super.

For an income below \$21,600 a year, salary sacrifice into super will no longer be attractive because the super contributions tax rate of 15% will be the same as the taxpayer's marginal tax rate. The good news is that those on incomes below \$21,600 can benefit from the governments co-contribution scheme, more on that in the next edition.

Consider the momentous event in architecture when the wall parted and the column became.



Australian shares - up, up and away

The Australian Share Market, once again is at record highs adding substantial profits to the bottom line of many investors' portfolios. This is always a good time for investors however caution needs to be added to this as we know investment markets move in cycles. We are not able to predict the future and nobody has the ability to pick when the markets will turn, however we do know a couple of things.

- A diversified, and strategically planned portfolio will help manage the shifts in investment market phases
- Time in the market, and not timing of the market is crucial.
- A focus on long term returns rather than 12 months or six months return is an important guide.

Given the current market highs it might be worth reviewing your current portfolio to make sure it fits with your financial goals.

An architect's most useful tools are an eraser at the drafting board, and a wrecking bar at the site.



So you don't have a will?

Read on...you may be surprised

Most people think that if we die without a will their estate automatically passes to their spouse.

Think again

In Victoria, if a spouse with children dies without a will, their partner receives the first \$100,000 and only a third of the balance of their estate. The rest is shared between the deceased's children, regardless of their age.

Lets look at an example- a wife's estate comprises a half share of the family home worth \$500k, an investment property worth \$400k and \$100k of shares. Her estate is worth \$1m.

What would happen if she died without a will?

Her Husband would only receive the first \$100k and 1/3 of the balance i.e. total \$400k.

Her two children would receive \$300k each.

Now at some point those children may decide they want their share, forcing dad to borrow or sell the family home. Unlikely? What if they were adult children and going through a divorce? They may have no choice.

Have you separated but not divorced? Your estate assets could be at risk.

If you don't have a will in place, and are not yet divorced, your husband or your wife could end up with a significant part of your assets. If you have recently separated you should consider who you want to receive your assets and have a will prepared accordingly.

What if the person who died without a will is in a de-facto relationship but hadn't yet divorced their previous partner? Similar to the above, a formula is applied. If, for example, the deceased had lived in a de-facto relationship for between two and four years their de-facto would receive a third of the partner's share described above. The spouse would receive 2/3 with the children's share remaining unchanged. There is a sliding scale so that after 6 years together the de-facto receives 100% of the share and the spouse nil.

So, if you don't have assets split according to a government prescribed formula – have your will prepared sooner rather than later.

Not all wills are the same

Of course, having a will in place is crucial but it's also important to ensure you have the right one to suit your needs.

There are standard wills for example that may be suitable if you have assets worth less than \$300,000. However, if your assets are worth more, and particularly if you have a partner and/or children, you should consider the option of a comprehensive will. These allow you to take advantage of tax savings, assets protection benefits and the option of control by blood relatives within your will. Similarly if you have children with special needs or are from a prior relationship, you may want to carefully consider how they are best looked after.

So please – avoid the trauma

Just as a financial plan requires careful consideration of your needs and wants, so too does an estate plan to ensure the end result is the best possible outcome for your loved ones. We strongly recommend you seek legal advice regarding the presentation of your will and we would be happy to recommend someone to you.

Footnote:

This information has been prepared by Irongroup solicitors and is of a general nature only. We recommend you receive comprehensive advice to suit your particular circumstances.

Even in modern art, artists have used methods based on calculation, inasmuch as these elements, alongside those of a more personal and emotional nature, give balance and harmony to any work of art.



The trauma of trauma

The previous article deals with the handling of your financial affairs following death, but, what about if you are still alive and you suffer a serious illness or accident?

The result is likely to be:

- Unable to work, therefore no income
- Additional expenses for medical costs
- Additional stress due to financial hardship, inhibiting recovery

Loss of income and an increase of expenses results in a pretty sad story and don't think that you can simply ignore the likelihood of such an event happening to you.

You have a 1 in 3 chance of suffering a serious illness or injury by the age of 75.

Have you ever thought about what you would do if you were suddenly diagnosed with a life threatening illness such as cancer or heart disease? It's likely that our first thoughts would focus on our survival, our treatment and families. Perhaps later, though, we would need to think about the financial impact of a serious medical condition.

Coping with a serious illness or injury is tough enough without having to worry about our finances! Who wants to worry about paying the next month's mortgages or extra medical costs when in a situation like this but without sufficient funds you could be in this position.

A trauma insurance policy can eliminate this worry by paying a lump sum benefit if the life insured is diagnosed or suffers from a listed condition such as the 'big four' – cancer, heart attack, stroke, or requires coronary heart bypass surgery. Most companies also offer other specified conditions including paraplegia, loss of limbs or sight, major organ transplant and multiple sclerosis.

Funds from a trauma policy can be used in many ways to assist the injured to recovery and provide financial stability whilst they come to terms with their condition. For instance, the funds can be used for mortgage repayments and other debts, medical expenses not covered by health insurance, taking time away from work, or alternative medical treatment. It's not uncommon for other family members to take time off work to care for an individual or the realisation the whole family needs a holiday or some time away to cope with the emotional distress the illness or injury may have caused.

Trauma insurance is sold under several different names, including Recovery insurance, Crisis benefit, and Recuperator cover, reinforcing the idea that this is a product designed to help an individual recover from an illness or injury. The amount of cover required will depend upon each person's individual needs and their existing levels of cover. Your financial advisor can help you with this.

Apart from an initial 90 day waiting period for some medical conditions* there is no waiting period to satisfy and no degree of disability to prove. The payment of funds depends upon satisfying the condition defined by the life company in their policy document. Therefore it's important to speak to your adviser who can review the different contracts available in the market to select the best definitions available.

Architecture starts when you carefully put two bricks together. There it begins.

The trauma of trauma continued

What is the cost of having Trauma insurance?

When thinking about the high incidence of serious illness these days, especially cancers and heart-related diseases, it may be worth considering the potential costs without cover. But the good news is, it's not as expensive as you might think. Let's look at an example: Bill Bloggs, a 35-year-old male, would like a \$150,000 policy with TPD included. This will cost approximately \$33.00** per month, almost less than a dollar per day. (For a female of the same age, the cost would be very similar at \$38.00*** per month).

The inclusion of trauma insurance contract or benefit should be seriously considered for any individual when considering a personal wealth protection strategy. Your adviser can help you determine the right sum insured, benefits and trauma product to suit your needs. It's important to try to get this cover while you are fit and healthy, before you actually may need it!

**most companies impose a 90 day waiting period from the date of the policy commenced or was increased or reinstated for cancer, stroke and heart related conditions.*

*** based on Asteron stand alone recovery contract, stepped premium for a 35 year old non smoker male, 'own' occupation TPD cover, manager, stamp duty, monthly loading and policy fee included.*

**** based on Asteron stand alone recovery contract, stepped premium for a 35 year old non smoker female, 'own' occupation TPD, manager, NSW stamp duty, monthly loading and policy fee included.*



A house is a machine for living in

Your mortgage

Your mortgage is an important financial tool and can be used in a number of different ways as part of a wealth creation plan. Since the banks opened up the distribution of their lending products to the finance broking market, competition has seen the banks and other institutions sharpen their rates.

Via our affiliates we can currently access residential mortgages at a rate as low as 6.62% depending on the size of your mortgage. This can result in substantial savings over and above normal rates.

A mortgage used for investment can generate substantial tax deductions and when utilised in conjunction with a balanced financial plan can result in moving closer to your financial goals.

Rate quoted is based on St. George Bank professional package rate applicable to loans \$250,000 and over. Rates vary according to circumstances.

Special thanks

We wish to thank the following people and companies for their contribution to this newsletter.

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