

Why Insurance should be a family discussion

Australia is one of the most underinsured nations in the developed world. Personal insurance is designed to protect individuals and families against loss due to death, illness or injury. Protecting your financial wellbeing should be an important factor for everyone, yet many don't and the effects can have devastating consequences.

Picture this: a couple have recently retired, and are reasonably confident they have enough savings to fund the comfortable lifestyle they always hoped for.

Then they receive a phone call with some bad news – their daughter has been badly injured in a car accident while travelling overseas. The doctors are saying she's unlikely to walk again. The daughter always intended to get disability insurance – but was a little complacent and didn't get around to it.

With the bills piling up, and the realisation the daughter is set to be out of the workforce for an indefinite period, she moves back into the family home. Needless to say, the couple's retirement plans and retirement income will be impacted.

It's a natural instinct for a parent to do whatever it takes to help their children. Luckily for the baby boomer generation and their children, many have the financial resources to help out.

But what if 'helping out' meant staying in the workforce longer, or cutting back on the retirement lifestyle dream to help fund a child's mortgage, medical expenses or living costs?

What would that mean for your own financial situation – both now and in the future? The underinsurance issue should be discussed with your wider family and the following questions considered if you are a parent or Generation X or Y.

Parents

Could you:

- Afford your adult children's mortgage repayments?
- Provide full time care and support for your adult children?
- Cover all your dependents debts and still have adequate income for yourself?
- Care and provide for grandchildren (including education costs)?

Gen X and Y (adult children)

Would you:

- Be able to afford your mortgage repayments if you became ill or suffered a serious injury?
- Have sufficient savings to meet required living expenses over an extended period?
 - Survive on the disability support pension available from Centrelink[^] (maximum payment is \$670.90 per fortnight).
- Be able to afford large medical bills from a major illness or accident?
 - Still be able to meet financial obligations on a sole income? (if you or your spouse could no longer work).



These questions may sound extreme, but consider the following statistics:

- One in five families will be impacted by the death of a parent, a serious accident or illness that renders a parent unable to work[#].
- Two thirds of families with kids at home couldn't meet their expenses beyond 12 months of the main breadwinner having passed away[†].
- 95% of families do not have adequate levels of insurance[#].

Protection is important

When the unexpected happens personal insurance can provide some financial relief in a time of hardship. The best approach for your wellbeing and health is to see a financial Adviser who can ensure appropriate protection for all your family – whatever the circumstance. Could you maintain your current lifestyle and financial obligations in the event of a life changing incident?

Source: OnePath and Capstone Financial Planning

[#] 'The Lifewise/NATSEM Underinsurance Report' – February 2010

[†] 'Analysis of Insurance Needs', Rice Warner Actuaries – May 2005

[^] Centrelink Disability Support Pension, maximum single rate from 20 March 2011

Economic Highlights

- Global economic news flow set the tone for financial markets in June.
- The Greek sovereign debt crisis escalated.
- US economic growth is continuing, albeit more slowly than expected.
- Global sharemarkets lost ground for a second consecutive month in June.

The Greek sovereign debt crisis continued to dominate news flow as the situation worsened in June. Ratings agency Fitch downgraded its rating of the country by three notches. Fitch cited its concern over the scale of the fiscal challenge facing the Greek government in its attempt to reduce its budget deficit.

Given the prevailing concerns regarding sovereign debt in many European countries, there was considerable interest in the regional spread of production. Growth was strongest in the region's smaller economies, with Latvia (+3.4%) and Denmark (+2.8%) leading the way. In contrast, two of the most indebted countries, namely Portugal (-3.6%) and Greece (-3.5%), were among the worst performers.

Australia

Economic indicators released in June were mixed. In the housing sector, following a decline in each of the previous two quarters, dwelling commencements rose by 3.1% in the March quarter. The rise was nevertheless narrowly based, with weakness in public sector (-15.2%) and private house (-1.9%) commencements offset by a strong gain in private medium density (+14.7%) commencements. Commonwealth Research suggested that renewed strength in this area is consistent with an evident improvement in developers' ability to raise project financing.

The seasonally adjusted unemployment rate was steady at 4.9% in June, as announced by the Australian Bureau of Statistics (ABS) on July 7. The ABS reported the number of people employed increased by 23,400 to 11,455,200 in June. The increase in employment was driven by full-time employment, which was up by 59,000 people. This was offset by a decrease in part-time employment, which was down 35,600 people.

United States

US economic indicators released in June were poor. Inflation in the US rose to a three year high in May, with an increase of 0.2% for the month and 3.6% for the year. Gasoline prices dropped 2% after increasing 3.3% in April, however food prices rose 0.4% for a second month in a row. Core CPI (less energy and food) rose 0.3% for the month, the largest monthly increase in five years.

Given the importance of consumer spending in overall US economic activity, the headline measure of retail sales posted a disappointing result in May, declining by 0.2%. However, the result was almost entirely due to weakness in the motor vehicle (-2.9%) sector. This sector continues to be impacted by the continuing disruptions in the supply of component parts from Japan. Excluding the motor sector,

sales rose by 0.3% over the month, following a previous increase of 0.5%. Building materials (+1.2%) was a significant area of strength, as home construction typically foreshadows subsequent expenditure on furniture and fittings.

The notion that US economic activity remains anaemic was further illustrated by the May round of industrial production data. Production eked out a gain of 0.1%, however the year-on-year rate of change clearly showed that momentum is easing.

From a rate of 5.6% in January, growth has progressively slowed to its latest reading of 3.4%. Consistent with the trend decline in production, little headway has been made into reducing the level of surplus capacity. From a level of 76.8% in January, the capacity utilisation rate has remained almost unchanged, posting a reading of 76.7% in May.

In a statement following its latest monetary policy meeting, the US Federal Reserve acknowledged the moderation in US growth. It noted that "the recovery is continuing," albeit "more slowly" than expected, and consequently downgraded the mid- point of its 2011 growth forecast from 3.2% to 2.8%. The number of unemployed persons (14.1 million) and the unemployment rate (9.2%) were essentially unchanged over June.

China

Economic data from May has shown that persistent inflationary pressure remains a key challenge for the country's monetary authorities. The year-on-year rate of increase in the Producer Price Index (PPI) remained steady at 6.8%, however that of the Consumer Price Index (CPI) rose from 5.3% to 5.5%. Continuing its practice of recent months, the People's Bank of China (PBOC) responded by raising its reserve requirement ratio (RRR) by 0.5%. This was the sixth increase this year in the RRR, which, for large banks, now stands at 21.5%.

However, despite the PBOC's program of sustained monetary tightening, production and demand in China remain resilient. Industrial production posted a minimal decline, with year-on-year growth easing from 13.4% to 13.3%, while retail sales growth edged down from 17.1% to 16.9%. Of perhaps greater significance was the further acceleration in the creation of productive capacity. Over the calendar year to date, the year-on-year rate of growth in this area lifted to 25.8%, up from 25.4% previously.

Japan

Trade data for May further illustrated the scale of the challenge facing the country in its recovery from the triple disaster of early March. Exports posted a year-on-year fall of 10.3%, significantly worse than consensus expectations for an 8.4% fall. However, output data for the same month showed that progress is being made. Specifically, industrial production posted a rise of 5.7%, slightly ahead of expectations. Moreover, the Ministry of Economy Trade and Industry forecast further increases in production in June and July.

Source: OnePath

You've come a long way, Baby

As the first of the 'Baby Boomer' generation reach retirement age, we take a look at some strategies to give your super a final boost. Less conservative and frugal than their predecessors (the 'Builders'), Boomers were the first to embrace credit in building their wealth.

Born between 1946-1964, Boomers were some of the most affected by the fallout of the Global Financial Crisis (GFC). With less time to recover losses, many will either be working longer or retiring on less than they had hoped. Australia will undergo a dramatic social and demographic shift as a significant proportion of the workforce transition into retirement.

This shift will bring new pressure on the Government and on the remaining workforce. Given that the majority of people rely partially or fully on the Age Pension to survive, this pressure will be huge.

To make things more difficult, the ratio of traditional working-age people to people over 65, will fall from 5 to 2.7 by 2049-50. Put simply, that means less workers paying taxes that will provide these essential Government services to the increased amount of elderly in society.

With all this in mind, it is important for Australians of all ages to continue to save and make additional contributions to their superannuation.

Strategies for Boomers

For Boomers approaching retirement, there are a couple of strategies you can use to give your balance a final boost.

For those aged 50 years or over as at the end of the financial year, your concessional contributions cap is \$50,000 until 30 June 2012. If the mortgage is paid off and the kids are out of your hair, this could be a good time to consider salary sacrificing.

If you or your partner have surplus disposable income or have received a large lump sum, you could consider making a non-concessional contribution. By 'bringing forward' two years of non-concessional contributions, you can add up to \$450,000 into your super savings.

Everyone's path is unique and that's why we believe in the value of quality financial advice. Talk to your financial adviser about whether these strategies are suitable for you.

What are non-concessional contributions?

These are sometimes referred to as after-tax contributions. Generally, these are contributions the super fund does not pay tax on because you have paid tax already for example, personal contributions that you do not claim as a tax deduction.

What are concessional contributions?

Generally, these are employer contributions and personal contributions for which you intend to claim a tax deduction. Employer contributions include superannuation guarantee contributions and contributions made under a salary sacrifice arrangement. These contributions are taxed at 15% as they enter the fund, which is often referred to as contributions tax. Concessional contributions are sometimes called before-tax contributions.

Warning - Breaching the caps on either concessional or non concessional contributions can be an expensive tax exercise – speak to your Adviser before commencing a contribution strategy to avoid any tax penalties.

The Generations Defined Sociologically

	Builders 1925-1945 Aged mid 60s-80s	Baby Boomers 1946-1964 Aged late 40s-60s	Generation X 1965-1979 Aged early 30s-early 40s	Generation Y 1980-1994 Aged teens & 20s
Prime Ministers	Joseph Lyons Robert Menzies John Curtin	John Gorton William McMahon Gough Whitlam	Malcom Fraser Bob Hawke Paul Keating	John Howard Kevin Rudd Julia Gillard
Iconic Technology	Radio (wireless) Motor Vehicle Aircraft	TV (56) Audio Cassette (62) Colour TV (75)	VCR (76) Walkman (79) IBM PC (81)	Internet, Email, SMS DVD (95) Playstation / Xbox
Music	Jazz Swing Glen Miller Frank Sinatra	Elvis Beatles Rolling Stones Johnny O'Keefe	INXS Nirvana Madonna Midnight Oil	Eminem Britney Spears Puff Daddy Jennifer Lopez
TV & Movies	Gone With The Wind Clark Gable James Stewart	Easy Rider The Graduate Jaws	ET Hey Hey It's Saturday MTV	Titanic Pay TV Reality TV
Popular Culture	Yo-yos Roller Skates Mickey Mouse (28)	Flair Jeans Mini Skirts Barbie®/Frisbees (59)	Roller Blades Hyper Colour Tom Jeans	Body Piercing Baseball Caps Men's Cosmetics
Social Markers / Landmark Events	Great Depression (30s) Communism World War II (39-45) Darwin Bombing (42) Charles Kingford Smith	Decimal Currency (66) Neil Armstrong (69) Vietnam War (65-73) Cyclone Tracy (74) Advance Australia Fair (74)	Challenger Explodes (86) Haley's Comet (86) Stock Market Crash (87) Berlin Wall (89) Newcastle Earthquake	Thredbo Disaster Columbine Shooting (99) New Millenium (00) World Trade Centre (01) Bali Bombing (02)
Influencers	Authority Officials	Evidential Experts	Pragmatic Practitioners	Experiential Peers
Training Focus	Traditional On-the-job	Technical Data / Evidence	Practical Case Studies/ Applications	Emotional Stories / Participative
Learning Format	Formal Instructive	Formal Structured	Relaxed Interactive	Spontaneous Multi-sensory
Learning Environment	Military Style Didactic & Disciplined	Classroom Style Quiet Atmosphere	Round-table Style Relaxed Ambience	Café-Style Music & Multi-modal
Sales & Marketing	Print & Radio Persuasive	Mass / Traditional Media Above-the-line	Direct/Targeted Media Below-the-line	Viral / Electronic Media Through Friends
Purchase Influences	Brand Emergence Telling	Brand-Loyal Authorities	Brand Switches Experts	No Brand Loyalty Friends
Financial Values	Long-term Saving Cash No Credit	Long-term Needs Cash Credit	Medium-term Goals Credit Savvy Life-stage Debt	Short-term Wants Credit Dependent Life-style Debt
Ideal Leaders	Authoritative & Commanders	Command & Control Thinkers	Co-ordination / Co-op Doers	Consensus & Collaborative Feeders

A look at global resources

Over the next 25 years, it is estimated that the world will consume more copper, aluminium, nickel, steel and iron ore than throughout all of history⁴.

Looking shorter term this means:

- the growth of 600 cities to populations of over one million¹
- cars on the road reaching the one billion mark²
- a more than doubling of China's already expansive rail network
- 100 new airports in China alone³

Where is the world right now?

The global economy is experiencing a shift in power. Emerging economies like China, India and Brazil are growing at breakneck speed, while the US and other historically strong economies are beginning to slow down.

Demand is increasing: The continuing industrialisation and urbanisation of China, India, South East Asian countries and parts of South America is creating this strong demand.

Supply constraints: Many companies delayed new mining projects due to a global shortage of capital brought on by the global financial crisis. As such, supply is already stretched and there is no new supply to meet any increase in demand.

Where is the world headed?

Changes to the global economy over the coming decades will be dramatic and significant – possibly even more so than what we have experienced in the past 200 years.

With population growth a huge driver of resource demand, the United Nations predicted that the world's population will increase 41% by 2050, to 8.9 billion people, with nearly all of this increased growth coming from developing countries.

What is going to be in demand?

The International Energy Agency's 2008 forecast had global energy demand rising by 45% between 2006 and 2030.

Astonishingly, China and India alone are forecast to contribute more than half of this total rise with other Asia Pacific economies contributing a further

10%. The widening gap between energy consumption and production means these countries will become increasingly dependent on imports to meet their power, food and infrastructure requirements.

Where is the demand coming from?

By 2016, the International Monetary Fund predicts that China's economy will almost double in size, with a forecast of over US\$1 trillion. By 2020, it is estimated that China will have six provinces with an annual GDP equal to six countries the size of Canada (greater than USD 1 trillion)⁵. With economic growth and industrialisation comes massive urbanisation. Today, China dominates commodities demand, reflecting the construction frenzy currently underway. Currently, every five years, China's urban population increases by the equivalent of the population of Australia and Canada combined. This equates to 70 million people moving to cities every five years!

This process of relocating workers will result in huge demand for infrastructure such as transport, power, water, schools, factories and hospitals.

Investing offshore can mean:

- cheaper, more liquid stocks;
- better quality companies; and
- a more diverse, therefore lower risk portfolio.

In summary

The continued industrialisation and urbanisation of China, India and other rapidly growing economies around the world is increasing demand for commodities and could offer investment opportunities. Contact your Capstone Financial Adviser to discuss strategies that may be appropriate for you.

Source: Perpetual

- 1 The Guardian, No City Limits
- 2 As at 2011, the Bureau of Transportation Statistics U.S. Department of Transportation estimates that there are 600,000,000 cars on the road. The Wall Street Journal, One Billion Cars.
- 3 Chinese government announcement, reported in Chinadaily.com.cn
- 4 BHP Billiton
- 5 A speech by the Hon Kevin Rudd MP, 22 May 2011. Australia-China 2.0, the next stage in our economic partnership.



David Love
133 Alexander Street
Crows Nest NSW 2065
T 02 9965 7275
F 02 8078 0193
E david@prosperwealthsolutions.com.au
W www.prosperwealthsolutions.com.au



Head Office:
Capstone Financial Planning
Level 5, 350 Collins Street
Melbourne Vic 3000

Phone: 1300 306 900
Visit our web: www.capstonefp.com.au

AFSL/ACL No: 223135
ABN: 24 093 733 969

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