

August 2014

## Homes Put At Risk by Income Protection Gap

A survey by CommInsure has found that over 50% of Australians do not hold income protection cover, with many preferring to risk the family home in the event of a three-month or longer loss of income.

According to CommInsure's 2013 Life Risk Survey, 39% of Australians would re-mortgage their home if faced with the inability to earn an income for over three months. Similarly, 32% said they would have to 'downsize' their home, and 28% were prepared to move in with family or friends to make ends meet.

Of the 34% of people who said they did hold income protection cover, over half said it was within their super fund. Less than 20% said they had topped their cover up.

A further 11% of Australians admitted to not being sure if they had income protection or not.

Many people therefore seem to be taking a set and forget approach when it comes to Life insurance by holding very limited cover in their super, typically not topping it up and not seeking advice. This can create a false sense of security that the insurance is taken care of, but a worst case scenario can leave many families ill-prepared and facing significant lifestyle adjustments.

Self-insurance is an option many people take—although more due to lack of action rather than choice or any decision making. This means choosing to take on the financial risk and consequences yourself should something bad happen such as the premature death or serious injury or sickness of a family member or business owner who brings in the income.

We believe any decision you make should at the very least be based on an educated, fully informed and conscious choice. Taking the time to conduct a proper needs analysis and consider the risks and consequences you could potentially be exposed to could save you a lot of heartache in the future.

For example, do you know what it would cost for you to shift that risk to you or your family's financial security onto an insurance company? You may be surprised how little it can be to give you that peace of mind.

If you would like to review your risk contingency plan to ensure you and your family's lifestyle is well protected against personal life risks such as death, serious illness or injury, then please make an appointment to discuss your individual needs with us.

Should you have any friends or family members that you feel would benefit from such a review, then as always we would certainly value your referrals.

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## Mortgage Broking News

*(Provided by One10 mortgage broking services)*

### RBA Announcement—August

At the RBA's August meeting, the Board left the cash rate unchanged at 2.5 per cent. Some of their reasons for this were:

- ◆ Growth in the global economy
- ◆ Financial stability
- ◆ A very low probability of any rise in global interest rates or other adverse events over the period ahead.

The RBA believes the stability in interest rates should support growth, whilst maintaining target inflation levels.

## Fixed Rates

Over the past few weeks, the big banks have been trading fixed rate reductions.

The Commonwealth Bank was the first to move with an unprecedented 0.7% reduction, down to 4.99%! Within days, the other majors followed, and you will find lenders 5 year fixed rates to vary between 4.99% and 5.29%.

Here are some competitive 5 year fixed rates from around the market:

4.99% | Commonwealth Bank, Suncorp Group, St. George Bank and Westpac

5.29% | ANZ

5.44% | Macquarie Group

## Family Guarantee loans

As the value of properties has increased significantly in recent years, First Home Buyers often require the support of their parents via a gift or loan to be able to purchase the property.

An option of support has been the provision of the parent's property as additional security.

Family Guarantee Loans cover these situations.

### Benefits of a family guarantee:

Parents do not need to use their cash funds to assist their children in purchasing a property

The Guarantee is generally limited to 20% + costs (i.e. stamp duty) of the parent's property.

The children can enter the property market before prices increase further, without having to save for a large deposit

By having extra funds available, the children may have more choice of locations for their purchase.

The children may avoid paying large fees for Lender's Mortgage Insurance (LMI).

### Negatives of a family guarantee:

The loan is effectively for 100% of the purchase price of the property plus Stamp Duty. If the property is sold for less than this amount the bank would call on the parent's guarantee.

Parents are restricted in using all the equity in their property if it is required for future funding requirements.

Once there is 20% equity in the property (as a result of the property value increasing and/or the loan balance reducing) the guarantee can be removed.

If you would like further information on Family Guarantee Loans, please ask your adviser and/or visit our website:

<http://lifestrategies.net.au/wp-content/uploads/2011/12/Family-Pledge-or-Limited-Guarantee-Loans.pdf>

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## Tax Updates

### Superannuation Guarantee Rate

From 1 July 2014, the Superannuation Guarantee Rate (SGC) has increased from 9.25% to 9.5%.

The increased rate applies to all wages paid after 1st July, even if they relate to pre 1 July earnings.

### Increased Medicare Levy

The Medicare Levy increased from 1.5% to 2% from 1 July 2014.

Employers should be aware of the following:

If an employee does not quote a TFN or a supplier an ABN, employers must now withhold 49% tax— increased from 46.5% previously.

### Tax returns\*

Life Strategies Accounting Services provide a service to complete individual tax returns starting at \$132 including GST. However should you wish to do your own, you should be aware of some changes to your options for completing your return.

### MyTax

MyTax is a new initiative of the Australian Tax Office introduced for 2013/14 returns.

Based on the ETax service, it offers a fast and more streamlined option to lodge a tax return

for those with straightforward returns.

In many cases, information provided by banks and employers will prefill, so the information just needs to be verified before lodging.

Refunds are usually processed within 12 working days and there is an option to track the progress.

To use MyTax, the following criteria must be met:

- ◆ You must be an Australian resident for the financial year.
- ◆ Your income is only from salary & wages, allowances, bank interest, dividends or Australian government payments.
- ◆ Deductions are only for work-related expenses, expenses relating to dividend income or interest, donations and the cost of managing tax affairs.

Before starting a tax return using MyTax or ETax, users must set up a myGov account and link their ATO record to it using their tax file number.

For more information, please visit these websites:

<https://www.ato.gov.au/Individuals/Lodging-your-tax-return/Lodge-online/MyTax/>

<https://my.gov.au/LoginServices/main/login?execution=e2s1>

\*FPSA is not responsible for any accounting services provided to you by Life Strategies.

## Recent Training attended

Sharni—

- ◆ AQR—10 years in Australia
- ◆ QV Equities—IPO Teleconference
- ◆ Topdocs—Macquarie Cash Management Account integration demonstration
- ◆ FPA - Aged Care
- ◆ Sydney Chapter Women in Financial Planning Lunch
- ◆ Macquarie Asia New Stars No. 1 Fund—Macquarie Investment Management Teleconference

Michael—

- ◆ FPA—Aged Care
- ◆ TAL—Business Insurance Master Class

Sharni and Michael both attended the FPSA Professional Development Day covering a range of topics including:

- ◆ The Good, the Bad and the Ugly: Estate Planning & Litigation
- ◆ A presentation by an Insurance Underwriting Manager explaining how Insurers will view certain health conditions, to assist in developing the best insurance offer for our clients.
- ◆ Age Care Reform—changes introduced 1 July 2014.
- ◆ The journey out of QE/Quantative Easing—Magellan’s views
- ◆ REITS - comparing Australian and Asian markets on income and growth, expectations and risks



*Download the QR code application on your smartphone then scan this code and it will take you directly to our website!*

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## Would your family or friends benefit from reading our newsletter?

*Please feel free to forward our newsletter to them if there are items you think would be relevant and could benefit them.  
If you require extra copies please do not hesitate to contact our office.*

*Sharni Tucker and Michael Huskic are Authorised Representatives of Financial Planning Services Australia Pty Ltd AFSL No. 225982 ABN 55 010 521 810. Life Strategies Financial Services ABN 70 490 902 616 is a Corporate Authorised Representative No. 298686 of Financial Planning Services Australia Pty Ltd AFSL No. 225982 ABN 55 010 521 810.*