Axis Superannuation

MAGAZINE January 2012 | Financial food for thought

Looking Ahead
Market Outlook 2012

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January 2012

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Market review and outlook

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While the US failed to come up with appropriate deficit reduction measures for the next 10 years by the 23 November 2011 deadline, it appears markets are more focused on the European fiscal woes.

We talk to Felix Stephen, Manager Strategy and Research at Advance, for his thoughts on activity in Europe and other major economies, and the impact on markets.

Europe

The coordinated effort by some major central banks, led by the US Federal Reserve, to improve global liquidity conditions, may have provided a boost to markets, but has really done nothing to solve the European sovereign debt crisis.

Australia

The impact of the deterioration in global economic and financial conditions in recent months is becoming more pronounced, and in light of this, the Reserve Bank cut official interest rates for a second consecutive month in early December.

US

The latest data on the US encouragingly suggests the economy has so far been able to weather the Euro sovereign debt storm reasonably well. Growth in the final quarter of 2011 is looking good, but going into 2012, challenges remain.

UK

The Bank of England noted a downgrade in its forecasts for UK growth and inflation. This, combined with the ongoing negative impact from the European crisis, has raised the prospect of the BOE further expanding its QE programme.

Japan

Japan's economy expanded for the first time in a year during the September quarter, as exports and industrial production recovered following the March earthquake. Unfortunately, the pace of growth is set to slow.

China

In light of further evidence that China's economy is slowing, the authorities have begun to ease policy, with the People's Bank of China reducing the reserve requirement ratio (RRR) of major banks.

The crisis in Europe seems to have worsened. What are the latest developments and is there a solution in sight?

The coordinated effort by some major central banks, led by the US Federal Reserve, to improve global liquidity conditions, may have provided a boost to markets, but has really done nothing to solve the European sovereign debt crisis. Indeed, that crisis became more acute in November with debt concerns spreading to Italy.

With austerity measures intensifying, the pressure on the European Central Bank (ECB) to do more to not only support economic growth but also to solve the debt crisis remains great. ECB president Draghi has hinted further measures from the Bank are possible, but only after European governments adopt a 'fiscal compact', including stricter budget discipline and binding their economies.

Growth in the region has slowed sharply under the pressure of the crisis. GDP grew by just 0.2% quarter on quarter taking annualised growth down to 0.6% — its slowest pace since June 2009. The outlook is bleak, with data so far for Q4 very disappointing. The potential for Germany to sustain growth is being challenged. The overall manufacturing PMI for the region fell to 46.4 in November, its lowest level since July 2009, and was also the first month since mid-2009 that all countries saw output fall. This indicates the weakening in activity has spread from the periphery to the core countries and doesn't bode well for growth in the near term.

Cuts in interest rates will help the sovereign debt crisis but the answer to the situation continues to lie with European authorities coming up with a credible and workable plan to ensure fiscal viability in the years ahead. While this is being worked out, we'll potentially continue to see volatility in markets and weakness in the European economy for some months yet.

What impact have these problems in Europe had on the major global economies?

Australia

The impact of the deterioration in global economic and financial conditions in recent months is becoming more pronounced. From the Government announcing a much lower than that projected expected surplus for the 2012/2013 fiscal year, to further softness in some recent domestic economic data, the outlook is looking grey. Furthermore, with European debt concerns likely to remain a dampening influence on global growth in the months ahead, the Australian economy will continue to be vulnerable.

In light of this, the Reserve Bank (RBA) cut official interest rates for a second consecutive month in early December, reducing the cash rate by 0.25% to 4.25%, its lowest level since March 2010. Also, in its mid-year economic and fiscal outlook, the Government reaffirmed its commitment to delivering a budget surplus for 2012/13. That surplus however, is now forecast to be $1.5bn, against the $3.5bn forecast in May due to the impact of the global slowdown, national disaster relief spending and the carbon tax. To ensure it meets this new surplus target, the government announced $6.8bn in various spending cuts and tax initiatives.

With fiscal tightening on the horizon, the pressure will be on the RBA to provide policy stimulus to help support domestic activity, especially in light of the deteriorating global landscape and the slower pace of growth in the non-mining sectors of the economy.

While the business sector remains cautious, and credit data is softer, there's no denying the strength evident in business investment, particularly in the mining sector. Real total new capital expenditure increased 12.3% in the September quarter following a rise of 6.2% in the June quarter. Despite this, the global environment will continue to be the driving factor behind RBA policy in the next few months. ■

To read the full article please visit
www.asgard.com.au/axisnewsletter

Life events: why I need to think about life insurance

- Are you better at insuring your car or house than yourself?
- If you were injured and unable to work, how would you pay your bills or look after yourself and your family?
- Having insurance through your super could be one of the most cost-effective ways to ensure you're adequately covered.

Underinsurance has long been a problem in Australia. The 'lucky country' has penetrated our psyche making us think 'she'll be right'.

Many of you can access some level of life insurance cover through your super fund and this can be a very cost-effective approach. Insurance through your super fund deducts premiums from your super balance rather than your take home pay.

But do you have enough cover? Actuaries Rice Warner estimate life insurance cover within super is on average only 20% of what people need[1]. Some of you may have default cover but typically this isn't enough. So it's important to review your insurance needs regularly.

You should also consider your level of cover whenever your situation changes — maybe you marry, have children or buy a new house — you need to ask yourself some tough questions to make sure you're adequately insured.

How much cover is enough?

The level of cover suitable for one person isn't necessarily right for another.

Example 1

35-year old parents with young children. Lifewise[2] has estimated their life insurance cover needs would be 10–13 times their taxable earning. This means a parent earning $50,000 a year, would require insurance between $500,000 and $650,000[3].

Example 2

Parents with older children, six to nine times their taxable earnings or $300,000 to $450,000 is recommended.

Don't forget your partner

What would you do if something happens to your partner? If they're disabled or sick and unable to work you might lose an income. Think about who would manage the home duties and take care of the family — you could be left with sole responsibility of caring for your sick or injured spouse, your children, plus running the household.

Consider areas where you might need help to keep the household running — for example, home help in the form of a cleaner, nurse, or nanny. Estimate how much these services would cost if you had to pay someone else to do them.

How do I find out more?

For more information on life insurance in general, and to access the Lifewise life insurance calculator visit www.lifewise.org.au. This website is supported by both Asgard and AIA Australia. Or you can talk to your financial adviser. ■

1 Source: 2011 Rice Warner Underinsurance Report

2 Source: 2008 survey by the Australian Institute of Superannuation Trustees (AIST) and Industry Funds Forum (IFF)

3 Lifewise is an insurance industry group, for more information visit www.lifewise.org.au

Asgard offers

1. Life Protection insurance
2. Total and Permanent Disablement (TPD)
3. Salary Continuance Insurance (SCI)

Talk to your financial adviser about what's most appropriate for you.

Super trivia

QUALIFYING AGE FOR ALLOCATED PENSION

2023	>	67yrs
2021	>	66.5yrs
2019	>	66yrs
2017	>	65.5yrs

From July 1 2017 the qualifying age for Age Pension for men and women will increase from 65 to 65.5 years. The qualifying age for Age Pension will then increase by six months every two years, reaching 67 by 1 July 2023.

Importance of nominating a beneficiary

Taking a few minutes to let your super fund know who should receive your super when you die is an important part of managing your super. The person you nominate must be either your Legal Personal Representative (the person you nominate to execute your will), or a dependant (for superannuation purposes) at the time of your death.

Dependants for superannuation purposes, are generally classed as your spouse (married or de-facto), your children (including step-children or adopted children), individuals who are financially dependent or with whom you have an interdependency relationship at the time of your death. Conditions do apply, so check the fine print with your super fund.

It's also important to understand the difference between a binding and non-binding nomination. A valid binding nomination means your benefit will generally be paid faster and directly in accordance with your wishes. A binding nomination does expire after three years so you do have to keep it updated.

A non-binding nomination indicates to the trustee of your super fund your wish but the Trustee ultimately decides how to distribute your super amongst your dependants — even if it may not be what you had in mind.

To find out more, or to make sure your nominations are up-to-date and reflect your wishes, please call our Asgard Contact Centre on 1800 998 185 or talk to your financial adviser. ■

Boost your super

- Small contributions made regularly over time can really help boost your super balance
- Investing in super can be the most tax effective way to invest your money

Super isn't something that immediately springs to mind when thinking about taking time out of the workforce to have kids, travel or take a sabbatical to study. But having a break from work can widen the gap between the amount you end up with in your super account when you retire and the amount you really need to live on comfortably.

According to the Westpac-ASFA Retirement Standard[1], if you're 35, and expect to work another 30 years until you retire, the estimated lump sum you'll need for a comfortable lifestyle for a single person (assuming receipt of part Age Pension) is $430,000. (This assumes an investment earning rate of 7% and annual expenditure of $40,000 a year in retirement).

So:

- someone paying 9% of $50,000 in super will accumulate $183,000 by age 65
- someone paying 12% of their $50,000 into super will have $244,000 by age 65.

Both will face a retirement gap of between $186,000 and $247,000.

For most of us, it's a huge wake-up call. So what can you do to make your retirement a more comfortable one? ■

To read the full article please visit www.asgard.com.au/axisnewsletter

1 www.superguru.com.au

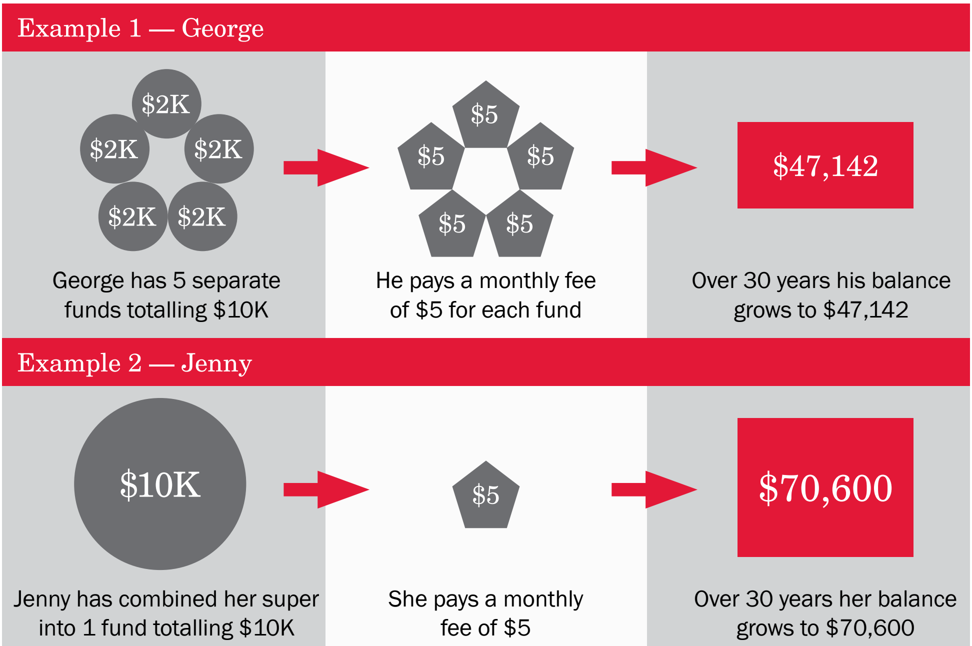
Jargon buster

Spouse contribution

Spouse contributions are deposits you make into a super fund on behalf of your spouse. If your spouse is not working or earns less than $13,800 each year, you may be able to claim an 18% income tax offset of up to $540 annually. Ask your financial adviser or go to www.ato.gov.au for more information.

It pays to have your super all in one place

You'll save on fees — by paying just one fee on one super account balance, versus multiple fees, you could really help grow your super balance. See the examples below to see how you can maximise your savings with the money you save in fees.



Example based on nominal status returns of 8% pa (compounded monthly before fees and tax). Investment earnings are taxed at 15% and a monthly administration fee of $5 applies to each fund (deducted at the end of each month). No additional contributions are considered and no allowances have been made for inflations. As with any projection over a long period, a small change in assumptions will make a significant difference to the results.

You'll have more control — one super fund means one balance, one set of fees, one set of paperwork so you can focus on the one super account that is going to help you reach your retirement goals faster.

Five steps for you. We'll do the rest

1 **Your details.** We need your Tax File Number (TFN). If you don't know it, call the Australian Taxation Office (ATO) on 13 28 61 and they'll give it to you over the phone as well as mail it to you for your records.

2 **Your other super funds' details.** We need this so your other super funds transfer the right money into your Asgard account. For each super fund you want to transfer over, we need the Fund Name, the SPIN and ABN, and your Member Number. You can **find these on previous statements.**

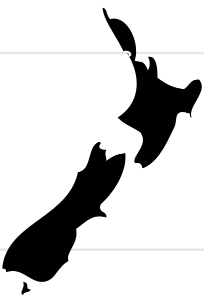
3 **Your identity.** We need you to photocopy some I.D. like a driver's licence or passport **for every super fund** you wish to transfer over. You need to have the photocopies **certified** by a local bank manager, post office representative or Justice of Peace (JP).

4 **Your authorisation.** Please **sign and date the rollover form in two places.** The first, to confirm you want your other super fund to transfer your money to Asgard. The second is to confirm you're happy for us to chase up your other super funds, so you don't have to.

5 **Send it off.** Please double check you've **signed and dated every rollover form** and that you've included a **certified copy of I.D. for every super fund.**

We'll take care of the rest.

If you need any help completing the rollover form, contact your financial adviser or our Super Specialist on 1800 022 555 or email us asgard.investor.services@asgardwealthsolutions.com.au .



Super trivia

As yet, New Zealand does not have compulsory superannuation however this is set to change with political pressure being applied to make its voluntary long term saving initiative known as KiwiSaver compulsory.

Our award-winning performance

Patrick Farrell — Advance

Asgard's award-winning fund manager Advance gives us insight into why the manager has performed so well in a tough year.

Pat Farrell
Head Of Investment Solutions.
Advance Investment Solutions,
Super & Investments, BTFG

2011 was an outstanding year for Advance. The fund manager won three accolades in Money magazine's Best of the Best Awards, including Money magazine's Best of the Best award for **Best Fund Manager in 2012**, Best Balanced Fund for the Moderate Multi-Blend Fund and Best Growth Fund for the Balanced Multi-Blend Fund, and the 2011 Financial Review Smart Investor Fund Manager of the Year.

Advance Head of Investment Solutions Patrick Farrell attributes the success of Advance to two main reasons:

"Firstly we try to do the right thing by investors — understanding them and keeping them at the centre of all our decisions."

"Our job as investment managers is to identify the right opportunities and to strategically design investment portfolios that are flexible enough to be effective in changing market conditions."

“Firstly we try to do the right thing by investors — understanding them and keeping them at the centre of all our decisions.” *— Patrick Farrell*

“Last financial year we used a number of strategies to help enhance the performance of most of our funds. By building a flexible portfolio with returns from other sources, such as alternative assets, we made the most of the investment opportunities available in difficult market conditions.”

Advance believes fund performance comes with the right mix of managers — and their associated risk — that can perform through the ups and downs of the investment cycle.

“We use mathematical techniques to choose fund managers with the right skills and philosophies. We can then blend managers more effectively and build more robust portfolios. We’ve been using this strategy of selecting, blending and monitoring our managers for over 20 years and it has proved very successful for us.

“The second thing is we have a great team of people to make decisions — it’s not only the process or a model, it’s the people. The Advance team has extensive experience and a great global network to understand what really drives markets.

“We’ve shown we are able to make the decisions necessary in changing market conditions and we are prepared to take educated risks and manage them appropriately”, Advance Manager of Strategy and Research Felix Stephen said.

“We’re not just following a trend, we’re looking for new opportunities, anticipating market changes and developing new products to suit.”

Advance’s approach to risk management — an integral component in every part of their investment process — sets them apart. The team firmly believes there’s a need to take risks where it can potentially enhance returns for investors but this must be managed by ensuring the risk is appropriate. ■

To listen to Patrick Farrell’s interview where he explains the benefits of an experienced team visit www.asgard.com.au/patrick .

Super changes — what's in store

The Government has announced a number of proposals in relation to superannuation. These are some of the main proposals the Government is hoping to implement.

Increasing the Super Guarantee

The Government's most important proposed change to super is the announcement to take the Super Guarantee from 9 to 12% over a seven year period.

Studies have found a gap between retirement needs and super balances. Raising the Super Guarantee will go some way toward closing that gap for Australian workers.

The table below outlines the proposed stepped increase in the Super Guarantee.

Year commencing	Increase	Total
1 July 2013	0.25	9.25%
1 July 2014	0.25	9.5%
1 July 2015	0.50	10%
1 July 2016	0.50	10.5%
1 July 2017	0.50	11%
1 July 2018	0.50	11.5%
1 July 2019	0.50	12%

Removing age limit for Super Guarantee

The maximum age limit to receive super from an employer will be removed. Previously workers over 70 weren't entitled to be paid the 9% Super Guarantee. This change allows workers over age 70 to keep receiving SG and building their retirement savings.

Jargon buster

Superannuation Guarantee

Superannuation Guarantee (or SG) contributions are the compulsory super contributions your employer must make on your behalf. Generally, your employer will be required to pay SG at a rate is 9% on your before-tax salary or wages.

Stronger Super initiatives

The Government announced a range of proposed changes to the superannuation system known as Stronger Super.

There are three key elements:

1. Creating a new simple, low cost default superannuation product called 'MySuper'.
2. Making the processing of everyday transactions easier, cheaper and faster, through the 'SuperStream' package of measures.
3. Lifting the governance standards of super funds to safeguard retirement income. Currently Australia has $1.4 trillion in superannuation. Based on industry estimates, in 2020 we'll have $3 trillion*.

Have you heard about FOFA?

The Government has also been working on a raft of reforms in the financial advice industry. The Future of Financial Advice Reforms (FOFA) is about lifting the professional standards of financial advisers and improving transparency on fees.

For more information on FOFA go to http://futureofadvice.treasury.gov.au/content/Content.aspx?doc=reforms.htm ■

* Source: Association of Super Funds of Australia website

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