Robertson deRooy associates FINANCIAL SERVICES

May 2014

Client Briefing Invitation

Friday, 13 June 2014
9.45am for 10am start
Wallis Lake Room
CLUB FORSTER

At our last Client Briefing in November Natalie Peters from Challenger provided an overview on major changes to **Aged Care** to commence on 1 July 2014. We have had many requests to revisit this very important area to provide a better understanding.

Whether you are contemplating your own options or those of your senior family members, we are pleased that **Natalie** has again accepted our invitation to outline the changes, provide some practical examples and outline the steps to take.

In addition to our normal market update, we will also be taking a close look at the Federal Budget and the implications for you as the Government looks to end the age of entitlement.

The briefing will run for approximately 2 hours and will include a break for light refreshments. Please feel free to bring a friend along.

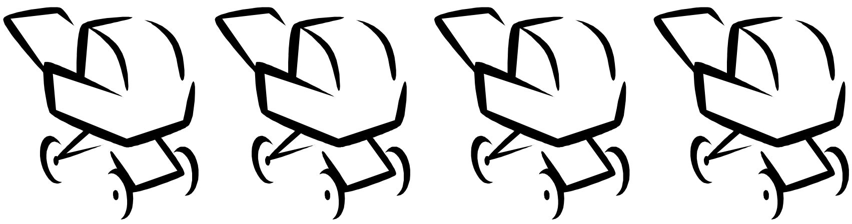
To assist us in planning our catering could you please advise of your intention to attend by phoning the office on 6555 6433 or emailing us at **adviser@robertsonderooy.com.au** no later than **Tuesday, 10 June 2014**.

We hope you can join us

Changes in our Team

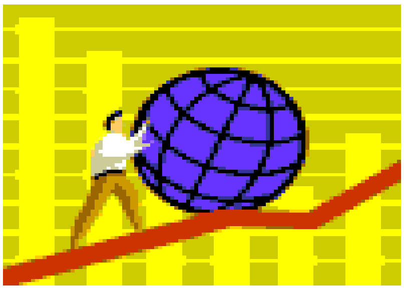
We are delighted to announce that Jenny Walter from our Client Services team gave birth to a bouncing baby boy on 17 March 2014. Harrison weighed in at a healthy 3.5kg and both are well.

Congratulations to Jenny and John.



While Jenny is on maternity leave, we welcome Gill Weston who joined us in February. Gill's experience has been in Compensation and Benefits in the Banking industry and the IT & Telecommunications industry and she has worked for multinational companies in Sydney, Singapore and London.

Economic Snapshot April - May 2014



Latest data show renewed improvement in the **US economy**, including stronger than expected employment growth and higher levels of manufacturing activity. The US Federal Reserve has reduced its asset purchases to $45 billion a month as it moves to end the stimulus programme known as Quantitative Easing [QE], but has indicated that interest rate increases before late 2015 seem unlikely.

In **Europe**, the European Central Bank has reduced its forecasts of growth and inflation and has been discussing potential moves to relax monetary policy further in order to fend off deflation. Pleasingly Spain seems to be slowly recovering from its devastation during the GFC and this is encouraging for its youth unemployment level.

China's first-quarter GDP growth came in at 7.4%. Although recent data on industrial production and retail sales were robust, there have been reports of declining house prices in China.

Ukraine remains a major problem on Europe's doorstep and a source of geopolitical tension for global financial markets. The situation there remains highly unstable with the risk of civil war escalating rather than diminishing. Russia continues to interfere as it seeks to promote a regime within Ukraine which is not pro-Western. Meanwhile, the US and Europe threaten escalated sanctions against Russian interests.

Recent better than expected economic data in **Australia** – including a decline in the unemployment rate – surprisingly has not given much comfort to households. Expectations of unemployment are up and overall confidence is down according to statistics. In some respects politics could be partly to blame for this – the messages from Canberra are firmly skewed to the negative with the repeated warnings about the budget and little in the way of positive reform announcements. This is understandably leaving households worried about job security. The Reserve Bank of Australia (RBA) will continue to monitor this closely as a factor weighing against lifting interest rates too soon but given that interest rates have remained stable for 8 consecutive RBA meetings, a rise seems inevitable in the next 6-8 months to slow down property growth which remains incredibly buoyant - if not a bubble in the minds of some.

As the government looks to reduce the deficit, exactly how contractionary this will be for the economy is yet to be seen, but the greater the impact and all other things being equal, the longer the RBA is likely to hold interest rates at current levels. At its meeting on 6 May the Board of the RBA decided to leave the cash rate unchanged at 2.5%, noting that the $A "remains high by historical standards". With the trading pattern still around the 0.93c level, a significant reduction over the year is still the majority verdict.

Headline inflation rose 0.6% in the first quarter of 2014 and was 2.9% over the year, compared with 2.7% in the year to the previous quarter. The underlying inflation rate was steady around 2.6%. Importantly, inflation is not yet a source of concern for the RBA and interest rates.

2014 Federal Budget

The following is a very brief overview of the budget handed down in the past few days:-

Retirement Planning

⇒ Increasing the Age Pension age to 70 by 1 July 2035

⇒ Indexing pensions to CPI, rather than wages, from 1 September 2017

⇒ Resetting deeming thresholds to $30,000 for singles and $50,000 for couples from 20 September 2017

⇒ Freezing Income and Assets Test thresholds for Government pensions including Age and Service Pensions from 1 July 2017

⇒ Including untaxed superannuation income in the Income Test for the Commonwealth Seniors Health Card for new recipients from 1 January 2015

Other Financial Planning items

⇒ Introducing a 2% Temporary Budget Repair Levy on incomes over $180,000 for the three years from 2014-15

⇒ Maintaining Superannuation Guarantee contributions at 9.5% for three years from 1 July 2014

⇒ Allowing individuals to withdraw contributions in excess of the non-concessional contributions cap from 1 July 2014

⇒ Tightening the eligibility for Family Tax benefits

****We will cover all relevant changes, including full details of the Age Pension changes, in more detail at our Client Briefing on 13 June****

More information is also available on our website www.robertsonderooy.com.au

Power of Attorney

Far too many retired Australians have not granted a financial enduring power of attorney, which can lead to problems for their loved ones and unnecessary family conflict.

As Australians live longer, it becomes increasingly necessary to have measures in place in case they become mentally incapable of making decisions or physically unable to cope.

Having a financial enduring power of attorney is as important as a will.

A will gives instructions as to what happens to a person's assets when they die, and an enduring power of attorney allows the nominated attorney, or attorneys, to take action if the granter is no longer capable of doing it for themselves.

The people nominated can only make decisions to do with finance or property and in these areas all actions taken are legally binding.

However, the financial enduring power of attorney does not cover other areas such as decisions about care or medical treatment.

One or more people can be appointed with a financial enduring power of attorney and often it is the same person or people nominated as executor in the will – but it doesn't have to be.

It is important for anyone appointed with a financial enduring power of attorney to have an intimate knowledge of the person's financial affairs. It is important that all cards are placed on the table by anyone nominating an attorney to act, to prevent costly oversights. Without this knowledge, bills may not be paid, share entitlements lost, and property forfeited.

The responsibilities of a person named as the attorney can be onerous and any actions taken must be motivated solely in the best interests of the person granting it.

They cannot take any action that benefits themselves or others – such as fee arrangements – unless it is specified in the document itself.

Only the person granting a financial enduring power of attorney or the State Administrative Tribunal can cancel it.

When people create a financial enduring power of attorney, they should consider documenting what they would like to happen if they become incapacitated. This way, their wishes are made clear to the people who need to make decisions on their behalf.

Having a financial enduring power of attorney is particularly important for those who have responsibility for others, such as dependents.

If you need to attend to this important area of your estate planning, a discussion with your solicitor should be a priority.

Cost of Living in Retirement

Based upon the Association of Superannuation Funds of Australia (ASFA) a couple wanting a comfortable lifestyle in retirement will have to spend **$57,195 pa**. A single seeking the same comfortable lifestyle in retirement will have to spend **$41,830 pa**. Similarly, a couple who only want a modest lifestyle in retirement will have to spend **$33,120 pa**. A single seeking the same modest lifestyle in retirement will have to spend **$23,032 pa**.

Putting this into perspective, assuming all commence retirement at age 65 and the pension account being drawn down at the minimum rate of 5%, then the necessary initial pension account balance will be:

- $1,143,900 to produce a comfortable retirement for a couple
- $836,000 to produce a comfortable retirement for a single
- $662,400 to produce a modest retirement for a couple
- $460,640 to produce a modest retirement for a single.

The account balances have been determined by dividing the annual lifestyle income amount by 5% and is provided merely to illustrate the initial balance required at the minimum drawdown rate. This is probably a crude overestimate of the required initial pension account balance as it does not take into account the differential between earnings and inflation and it does not take into account the fact that capital will sooner or later be used to finance pension payments.

For further information about our team as well as the latest news, market updates, financial calculations and previous newsletters visit our website at ***www.robertsonderooy.com.au***

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