



## The five biggest myths about insurance

**Australia is suffering an underinsurance epidemic driven by misconceptions about life insurance: that it's too expensive or too complicated.**

But life insurance should be as integral a part of your family's financial planning as other forms of financial protection. After all, you would be unlikely to insure your car to only half its value. So why do so many Australians have less than half the life insurance cover they need?

It's important for your family's financial wellbeing that you base your decisions on facts rather than myths.

### **Myth 1: I have enough insurance inside my superannuation**

The minimum level of cover provided by your super fund is set with all members in mind and therefore may not be enough to cover your financial obligations. Make sure you contact your super fund to find how much cover you actually have and whether it's sufficient for your requirements.

### **Myth 2: I don't need insurance – the government will look after me if I get sick or injured**

This would be nice but it's not necessarily the case. Centrelink pays a maximum disability pension of \$671.90 per fortnight for singles and \$506.50 (each) for couples. Would this cover your current lifestyle?

### **Myth 3: Life insurance is not affordable**

For most Australians, insurance is very affordable. For example, the monthly premium for a 35-year-old male non-smoker applying for \$500,000 of life

insurance cover would be approximately \$30, while his female counterpart would pay approximately \$25.

That's peace of mind for less than the cost of a coffee a day. And if you have some existing cover, increasing this to adequate levels will cost you even less.

### **Myth 4: Life insurance companies don't pay claims**

Life insurance companies pay out almost \$10 million every working day in claims to customers. This figure would be even higher if Australians had adequate levels of cover.

### **Myth 5: Most people have enough insurance**

Unfortunately, this isn't the case. In fact, research shows that 60 per cent of families with dependent children do not have enough insurance to cover the household expenses for a year if the family breadwinner were to die. And on average, those who have death cover through their super policy have less than half the level of cover they need.

To help you determine the level of cover that suits your needs, please make an appointment with our office today.

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## Investing with confidence in 2010

In the first quarter of 2009, the S&P/ASX 200 tumbled to a year low of 3073 points.

The index, which had previously reached a high of 6829 points on 1 November 2007 prior to the global financial crisis, dropped more than 54 per cent, as widespread concern over Australian banks' exposures to derivatives stripped away the confidence of investors.

As a result, many investors fled to cash or other defensive assets. While this was a prudent course of action to take if executed early enough, the strong recovery staged by shares in the second half of 2009 may signal that it's time to abandon defensive strategies and look to equities once again.

While it's good to have a certain level of capital protection in a portfolio in terms of cash or property, an overweight allocation may limit the chance to grow your capital base as share market values increase. Diversification is vital and risks can often be mitigated by spreading investments across local and global equities.

According to super research company SuperRatings, Australians who fled to cash at the bottom of the financial crisis in early March 2009 are

- now almost 15 per cent behind their counterparts who retained a balanced investment option, or
- a massive 40 per cent behind those who moved to, or retained, their investments in an Australian share investment option.

Since 1 March 2009, a \$50,000 investment in a typical cash option has grown to \$51,014 while balanced and Australian shares have grown to \$58,767 and \$71,346 respectively.

But the growth was not purely limited to Australia. International shares also yielded some solid results for super funds, thanks to a steadier Australian dollar and continued market growth. According to SuperRatings, Australian shares continued to be the standout, with a 12 month result of 31 per cent against international share returns of just 2 per cent over the same period.

While it is impossible to predict how the economy will perform throughout 2010, the Organisation for Economic Co-operation and Development (OECD) Economic Outlook suggests the Australian economy is already well on the way to recovery. Australia was one of only three OECD economies forecast to grow in 2009, largely as a result of fiscal and monetary stimulus supporting activity



through the worst of the global recession and Australia's limited direct exposure to the origins of the crisis.

The OECD now forecasts Australia is likely to experience a relatively more robust recovery in 2010 with growth projected to pick up to 2.5 per cent, in contrast to the 1.9 per cent growth forecast across OECD member countries as a whole.

Despite the recent ups and downs, it is important for investors not to lose sight of their overall objectives. Sticking to a strategy requires discipline, but for those who stayed the course in 2009, or are interested in getting back into the market now, there are likely to be greater rewards ahead – particularly for those with a long-term timeframe.

Indeed the changed investment landscape can make it easier for investors in many respects. In boom times when asset values were rising, every company could look like a winner, but in today's post-financial crisis markets there is nowhere for poorly-performing investments to hide.

Selecting the right shares remains a delicate process and to be successful it is best to adopt a prudent and well-researched approach, such as that offered by a good fund manager.

To take advantage of the current opportunities or to review your risk profile and investment plans, make an appointment with us today. Our approach will help you invest with confidence in 2010.

## Scams – would you fall for them?

Email spam is often used to carry out fraud. It's important to remain vigilant, so here are some tell-tale signs of typical frauds, and what to do if you are targeted.

### How the scam works

You receive an email unexpectedly from your bank, credit card company or other service provider. It will usually ask you to send your account details, and sometimes your PIN, either by return email or by following a link to a website.

Most people would just delete any unsolicited emails asking for personal information. However, terms such as 'security and maintenance upgrades', 'investigation of irregularities' or 'bills or charges due' can trick the recipient into lowering their guard.

### Why these frauds look genuine

Fraudsters scan the internet for email addresses or generate them at random. They don't need an internet service provider's mailing lists. They may send just a few dozen emails or thousands in the hope of a bite from a few unsuspecting people.



These emails can look genuine by using:

- the names of real people
- company logos and branding
- links to pages from the real website, and
- official-looking fingerprint.

### Example: Westpac Banking Corporation\*

Customers were sent emails inviting them to complete an online survey for a chance to win attractive prizes. Although the website address displayed was similar to the real Westpac site, in fact it directed users to a non-Westpac web page where customers needed to register their account details to participate in the survey.

\* [www.fido.asic.gov.au](http://www.fido.asic.gov.au)

### Protect yourself from email scams

If you get a suspicious email, contact your financial institution or your legitimate service provider directly. Do not respond using any contact details in the email.

If you have sent any details by email or through a website that you're worried about, email or phone your financial institution or the legitimate service provider through their customer support department, and ask them to confirm the email's authenticity. They will tell you what to do next.

## The power of volunteering

**You've retired after a lifetime of hard work and now it's time to put your feet up and enjoy a well-earned rest. Finally you've got the time to travel, develop your interest in hobbies and really enjoy life.**

Sounds great in theory – but in practice many retirees find the shift to retirement a difficult transition, suddenly faced with the challenge of filling up days without the structure of full-time employment.

The answer for an increasing number of retirees is volunteering. It's an excellent way of smoothing the transition into retirement and boosting your own physical and mental wellbeing. By volunteering you can tap into your local community and receive the support and encouragement that you used to derive from work, as well as contributing to those less fortunate.

**More than one in three adult Australians, or 5.4 million people, are estimated to take part in volunteering.**

### What are the benefits of volunteer work?

The essence of volunteering is giving back to your community or helping people in developing countries improve their standard of living. In 2006, Australia's army of volunteers provided 713 million hours of community work – that's an average of 56 hours per volunteer.

So why do people volunteer? The most popular reason given during a recent survey was helping others or the community (57 per cent). Personal satisfaction (44 per cent) and doing something worthwhile (36 per cent) were also significant motivators.

The most common volunteering activities are fundraising, preparing and serving food, teaching or providing information and administration.

Volunteering has a wider financial benefit to the Australian economy. The economic value of volunteer hours contributed to the not-for-profit sector alone has been estimated at \$14.6 billion for 2006/07.

As well as helping others, volunteering can be a way of helping yourself. It's been shown to result in lower rates of depression, improve physical health and even lower mortality rates.



### Get involved!

Regardless of your range of interests and skills, there is always an opportunity to lend a hand in your community or even further afield.

- **Volunteering Australia** is a national service for the recruitment and deployment of volunteers – [www.volunteeringaustralia.org](http://www.volunteeringaustralia.org).
- **GreatConnections** connects mature-age volunteers who have professional skills and business experience with not-for-profit organisations in need of help – [www.greatconnections.com.au](http://www.greatconnections.com.au).
- **Australian Volunteers International** enables Australians to volunteer and work overseas, in partnership with people of developing countries – [www.australianvolunteers.com](http://www.australianvolunteers.com).

# Super: the pros and cons of do-it-yourself

Australians are increasingly doing it for themselves when it comes to super.

Self-managed superannuation funds (SMSFs) are the fastest-growing fund type in Australia, with about 410,000 SMSFs representing 772,000 members, or 7 per cent of Australia's total super members.

SMSFs have gone from strength to strength, with each recent month seeing the establishment of around 2,500 new SMSFs. The total value of funds under management increased from \$132 billion to \$332 billion in the five years to 30 June 2009, an annual growth rate of 20 per cent.

But the complexity of running your own super fund means SMSFs are not for everyone – SMSF members tend to be older, have a higher income and larger super balances.

Before switching to an SMSF it's worth asking:

- 1 Is the fund strictly for retirement benefits?
- 2 Do you have the time and skills to run your own super fund?
- 3 Will the benefits be worth the costs?
- 4 How will switching affect your current super benefits, services and fees?

## The case for

An SMSF can have a maximum of four members, all of whom act as trustees and are responsible for running the fund, investing assets, paying benefits and meeting compliance requirements.

The great advantage of an SMSF is that you're in control. Asset allocation, tax strategies, insurance options and retirement planning – it's all up to you.

## Investments

You have great flexibility over where your super is invested, as long as you comply with regulations and the fund is operated for the purpose of building retirement wealth (also known as the sole purpose test).

When planning an investment strategy, you need to consider your objectives, time horizon, risk tolerance and diversification. You can invest in your preferred combination of assets, across all asset classes – cash, fixed interest, property, Australian shares and international shares.

## Tax

SMSF trustees are permitted to lodge their tax returns later than some other types of fund, allowing them to invest a greater percentage of funds under management.



## Insurance

You can choose from a complete suite of insurance options, including life and trauma insurance.

## Retirement

Your investment strategy can incorporate a transition to retirement strategy using a non-commutable allocated pension.

So what can't you do? You can't use an SMSF to fund the purchase of a business, holiday home or golf club membership. Generally, you can't acquire assets from a related party, borrow money or allow in-house assets to exceed five per cent of the total fund assets.

You also need to be wary of schemes to withdraw your super early. The Australian Taxation Office is handing out heavy penalties for those who illegally withdraw from schemes early.

## The case against

### Costs

SMSFs can be expensive, with the annual costs of running a medium-sized fund estimated at \$2,000.

Your fund needs to be substantial enough to make this worthwhile. An SMSF is usually not advisable if the fund assets are likely to be less than \$200,000. It's not surprising therefore that the average annual member balance is \$454,000 – more than six times the industry average of \$70,000.

## Administration

Most people find it hard enough keeping up with their current super, let alone running their own fund.

When establishing the fund, you need to draw up a trust deed setting out trustee powers, benefit payments and exit strategy.

You also need to create a separate bank account, keep accurate paperwork, produce annual operating statements, keep copies of annual returns and appoint an approved auditor.

Many SMSF owners choose to outsource some administration functions to reduce the amount of paperwork they need to complete themselves.

## Help is at hand

With greater control comes greater responsibility, but the right financial advice and support can make it easier. Fortunately there is more help out there than ever before for Australia's growing number of SMSF enthusiasts.

If you're interested in setting up your own super fund, please contact our office. We can help set your fund's investment strategy based on your investment objectives and individual circumstances.