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The Josman Bulletin

Josman FinancialGroup

Advice—It's all about you...

Certified Quality Advice Practice

Light at the end of the tunnel?

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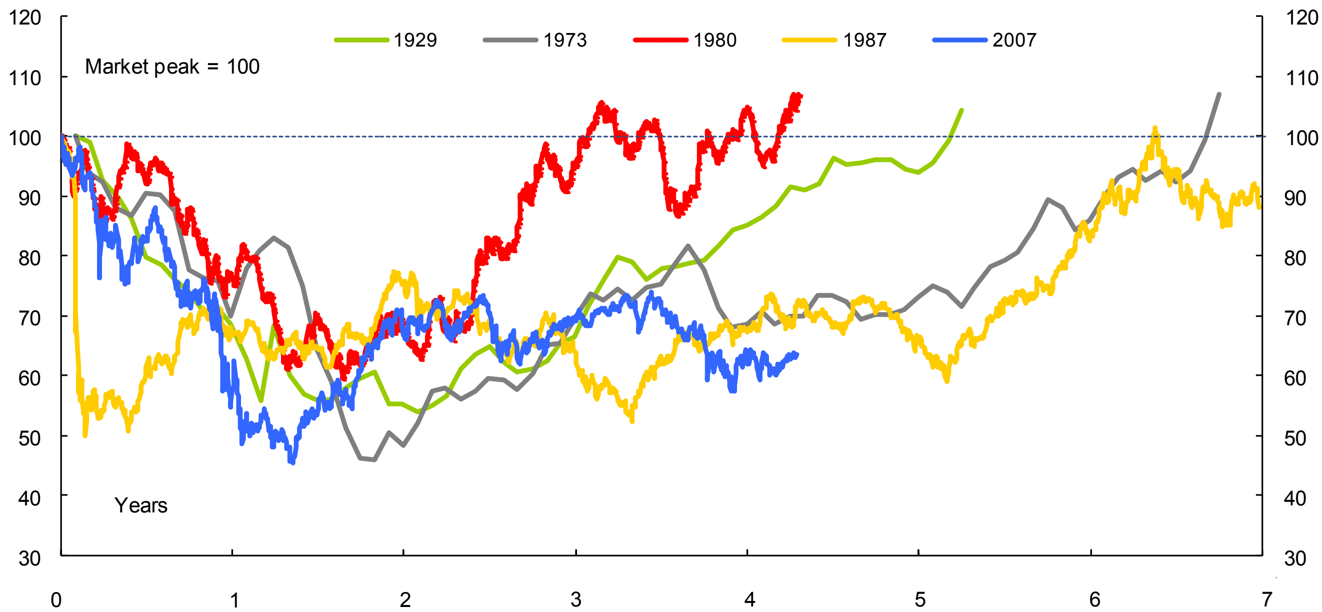
Since late 2008 the most commonly asked question has been "is there any light at the end of the tunnel with our economy and markets?" Well the answer is yes there is and we are steadily seeing it in our markets, job rates and spending habits – albeit slowly! Over the past 100 years Australia has faced only 5 notable 'market corrections or economic downturns' as illustrated in the chart below. The line point '100' is the starting reference point of "market high" before the downturn and the resulting market recovery.

The two we are closely replicating now is 1973 and 1987, in each of these cases the markets and economy dropped sharply initially (1-2 years) and then tracked side-ways for a number of years (2-3 years) and then had a sustained period of market recovery (2-3 years), on average taking approximately 7 years to reach the previous high point in the market. I have spoken previously about the "7 year cycle" and it appears this is following previous trends. Most reports are showing that over the next 2-3 years we will see the market recover somewhat and values return to the marketplace.

Australia has one of the highest cash rates (interest rates) in the developed world, and it is clear to most people that rates need to come down, perhaps even up to 1% over the next 12 months.

In this edition you will see a comprehensive article on retirement income and the resurgence of "annuities", Josman has access to market leading products in this area and you may be eligible to receive benefits here for your retirement, capital guaranteed and income up to 7.5% per year. Give us a call today.

All Ordinaries Index—Market Recovery's



See Josman's 101 Money Saving Tips—See Page 4!

Planning your retirement: the search for income

People preparing for retirement and dealing with the current financial market face many challenges. Not only has volatility reduced the value of some investments, dampening investor appetite for risk, but falls in interest rates are also intensifying the search for income.

Most retirees will need to keep a portion of their savings in growth assets such as shares and property. In the lead-up to retirement, the first thing you should do is to sit down with your financial adviser to work out how much income you will require and where that income will come from.

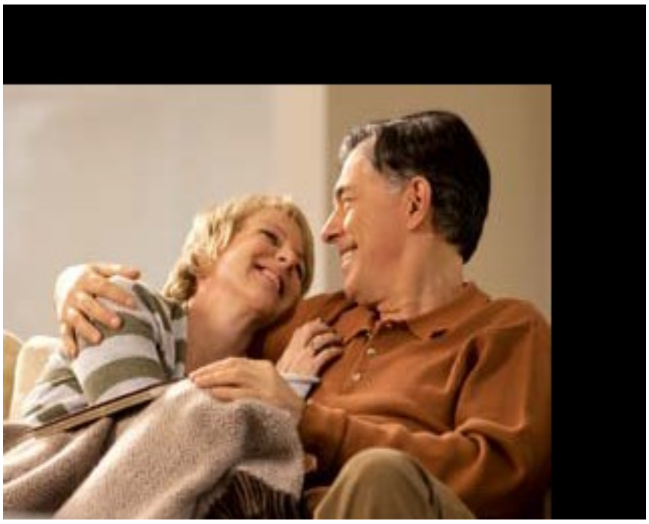
Everyone's lifestyle and financial needs are different, but the Association of Superannuation Funds of Australia estimates that a single retiree needs about $777 a week ($40,412 a year) to live comfortably while couples need $1,063 a week ($55,316 a year).1 Take the example of recently-retired couple, John (67) and Margaret (65).

They own their home worth $800,000 and have $700,000 in super after accounting for their car upgrade, fixing up their kitchen and garden. They would like to draw an income of $60,000 a year from their investments, after tax.

Sources of income

When you retire after age 55 you can cash in your super and take it as a lump sum, but if you reinvest the money outside super you will miss out on generous tax concessions. For this reason, most retirees choose to leave all or part of their savings inside super and withdraw it as a regular income stream.

Once you reach age 60, all investment earnings on pension assets in super and any money you withdraw is tax free. The most popular forms of retirement income streams are account-based pensions and annuities. There are also some new hybrid capital-guaranteed products that combine features of the two. Account-based pensions are market-linked, which means the value of your account is not guaranteed but will fluctuate depending on the investments you choose and the amount you withdraw.



This financial year and next, the government has set a minimum drawdown for retirees aged 65–74 at 3.75 per cent of their account balance on July 1 each year,2 or $26,250 in John and Margaret's case. As they want to withdraw a bit more than twice the minimum amount they need to balance their need for regular income that maintains its purchasing power over time, with a capital base that is able to last the distance.

Annuities provide certainty

If you want the certainty of a fixed income in retirement then an annuity may suit you better. You can choose from three types of annuities which pay you income for either the rest of your life, a fixed term, or for your life expectancy. For an additional cost you can also choose to have your annuity income indexed for rises in the cost of living.

Some products allow you to nominate a spouse or dependent to continue to receive income when you die while others offer a guaranteed period when some money will be paid to your estate if you die during that time.

The trade-off for the certainty of annuities is that your money is generally locked away and invested in conservative assets which may provide relatively low, albeit steady, income but without capital growth. Annuities are less flexible than account based income streams, but in return you get certainty about your future income.

Planning your retirement: Keeping you debt free

The big picture

When planning for income it pays to think laterally. Check with Centrelink to see if you are eligible for a part Age Pension. Working a year or two longer can also make a significant difference to the longevity of your retirement capital.

Later in retirement, income can also be generated from downsizing the family home or taking out a reverse mortgage. In order to have certainty around their retirement income, John and Margaret would need to place close to $1.1 million in a term deposit

paying 5.5 per cent interest to provide income of $60,000 a year.

Given John and Margaret want to keep their family home, clearly they do not have the capital to do this. If they delayed retirement they would not only generate extra income but give any growth portion of their portfolio time to recover.

Like most retirees, John and Margaret need to weigh the safety and certainty of an annuity or traditional income investments with the potential for capital growth offered by an account-based pension or capital guaranteed hybrid. In practice, many retirees choose to buy an annuity with a portion of their super and invest the balance in an account-based pension.

Before you decide to switch to more defensive income investments as a response to current market volatility, look at all your sources of income. A well-diversified portfolio is your best protection against an unpredictable future.

1 The Association of Superannuation Funds of Australia (ASFA), www.superannuation.asn.au Figures, definitions and assumptions regarding lifestyles are taken from the downloadable .pdf, The ASFA Retirement Standard, Nov 2011. 2 Calculator at Moneysmart.gov.au 3 $1.1 million multiplied by 5.5% = $60,000.

Keeping you debt free

There is nothing quite like an interest free deal to attract buyers to a store or tempt you to a new credit card. But before you snap up that deal, make sure you understand what "interest-free" really means. The last thing you want to start the year with is debt you can't repay.

Understanding "interest-free"

When it comes to interest-free days on a credit card it is important to know that the number starts from the first day of a statement period, and generally runs for 44 or 55 days. This means that if you make a purchase on the first day you get the full benefit of the interest-free period.

Provided you pay off the balance before the due date you have made the most of the deal and paid nothing extra. The closer to the end of the statement period you buy something, the fewer interest-free days you get. This increases the chance that you will end up paying interest at the rates applying to most interest-free period credit cards, which can be anywhere between 15 and 20 per cent or even higher.

To avoid these high interest rates, pay card debt off in full each month rather than the minimum amount in order to make sure compounding interest doesn't work against you. Paying the minimum off a $1000 credit card debt, with an interest rate of 16% p.a. means it will take more than ten years to pay off – and that's with no new purchases being made. Meanwhile the total interest would have amounted to $862.

Buy now, pay later

If the 20 per cent interest rate on a credit card scares you, the cost of not sticking to other interest-free deals can be a huge shock. Those "buy now, pay later with no interest to pay for 12 months" deals mean you have to pay the full amount at the end of the 12 months. That's the only way to avoid paying about 30 per cent interest on the original purchase price.

Missing the deadline on a $3,000 deal to buy a plasma TV could quickly end up costing $3,900 if you miss the due date. Our consumer culture is still alive despite the global financial crisis, so remember it is easy to get into debt by using credit cards or getting lured towards interest-free deals. If you feel your debts are getting out of control, please contact us and we can assist you with strategies to help you manage your cash flow and stick to your budget.

1 http://www.moneysmart.gov.au/managing-my-money/ managing-debts/making-repayments

Josman 101 Tips

The Josman Team has scoured the globe to find the best tips for you on "how to save money", all 101 tips in fact! We have covered areas such as:-

- Transport
- Entertainment
- Holidays
- Electricity
- Phone & Internet and many more

This booklet is complimentary to all our valued clients and can be obtained by contacting us—

Phone— 07 555 44 000
Toll Free—1300 567 626
Email - planning@josman.com.au

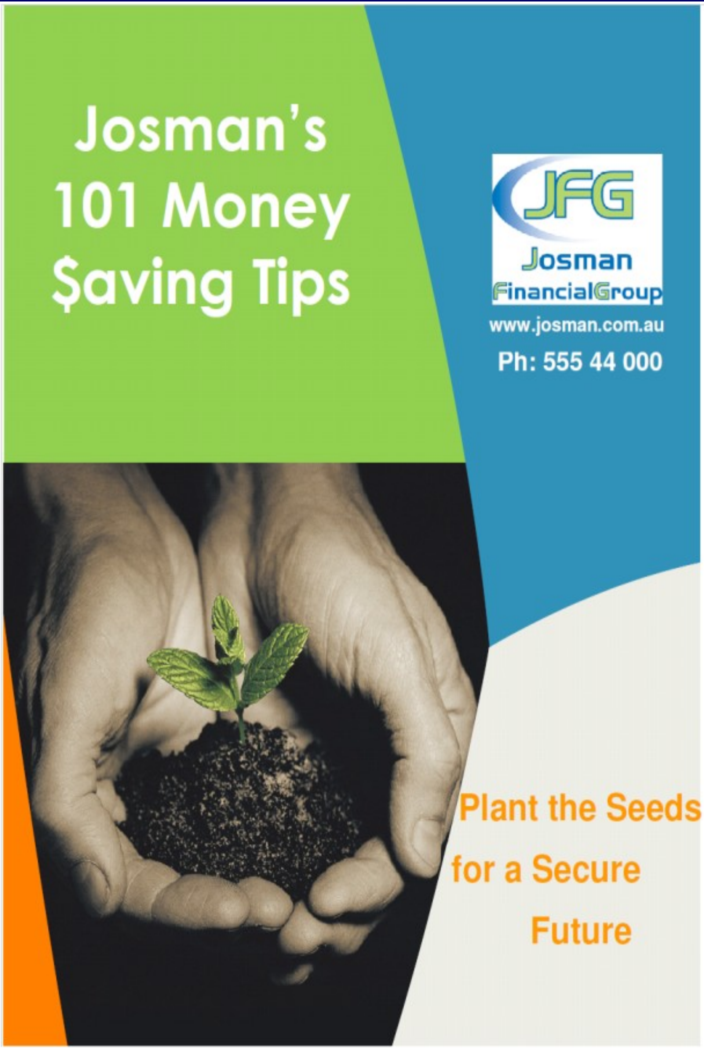
Or go to our website www.josman.com.au and fill in the form under "contact us".

Remember to request a copy now!

The Josman Financial Group is able to review a wide range of different options to suit your Individual needs.

The team specialise in advice on:

- Life Insurance
- Income Protection Insurance
- Superannuation
- Retirement Income Streams
- Rollovers and Allocated Pension
- Annuities
- Centrelink Advice and Calculations
- Wealth Creation
- Managed Investments
- Margin Lending
- Geared Investments
- Capital Protected Investments*
- Self Managed Superannuation Funds
- Business Insurance
- Estate Planning
- Mortgage Referrals
- Tax Effective Strategies



The Josman Team offers rewards to our clients and businesses that refer clients to us.

1st Consultation is absolutely free!

We will save you money on your Insurances and Superannuation fees.