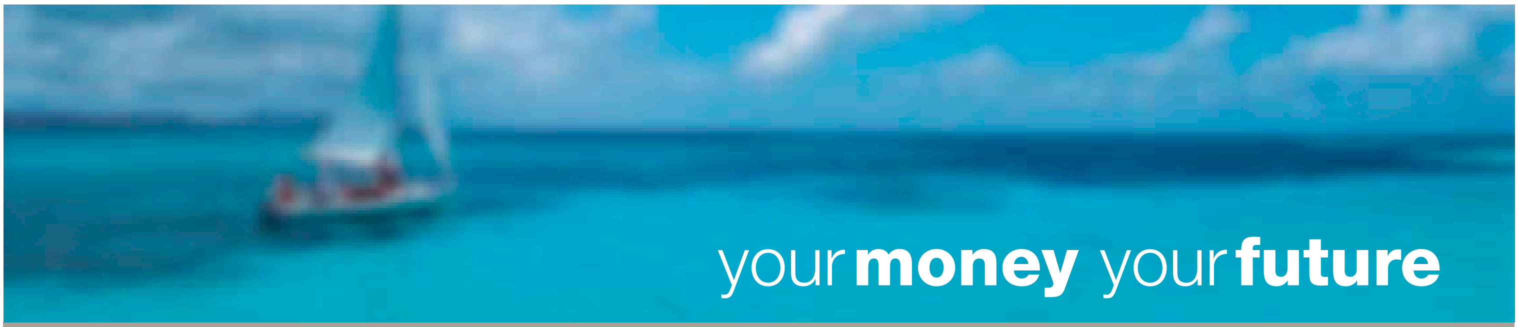

FINANCIAL PLANNING NEWSLETTER

Moving with the times

Change is the only constant in life said Greek philosopher Heraclitus some 2500 years ago.

This observation has never been more true than for business in Australia today. The arrival of broadband, the growth in social media, the use of iPad, digital and online technology, the higher Australian dollar and the so-called two-speed economy are all changes that have impacted the business landscape.

Those businesses that do not adapt to this new environment could well find themselves facing failure.

To survive and thrive in the shifting sands, businesses need to harness new opportunities, constantly, and understand how innovation can improve outcomes, because not all change, is good change.

The first step on this journey of transformation is to analyse your business.

That involves looking at your products and services; determining where your business has come from, where it is going and how it is going to get there; assessing both current and future potential competition; examining the ability to survive in the coming years and mapping out short, medium and long-term goals.[1]

Changing landscape

Among recent changes has been the rolling out of broadband in Australia, with major and mostly positive implications for many businesses, making them more agile and responsive to their customers' needs.

Additionally, it may lead to lower operating costs and the opening of new markets, particularly in terms of taking business online with greater use of graphics, high definition video and other multimedia, plus the development of smart phone applications and products.[2]

Social media is playing an increasingly critical role for business in marketing and reputation management, while online blogs and reviews are directly influencing consumers' purchasing decisions.

According to the Sensis Yellow Social Media Report published in June 2012, some 27 per cent of small businesses, 34 per cent of medium businesses and 79 per cent of large businesses have a social media presence.[3]

The report indicates that nearly 70 per cent of social media users read reviews before making a purchase decision and on average they read about 12 reviews. However, it

Continued next page

1 Australian Government, 2012, <http://www.business.gov.au/BusinessTopics/Innovation/CaseStudies/Pages/Abusinessadvisorsperspective.aspx>

2 'Opportunities for small business and community organisations in NBN first release areas', February 2011, Report to the Department of Broadband Communication and the Digital Economy by The Allen Consulting Group, <http://www.nbn.gov.au/files/2011/05/Allen-Consulting-Opportunities_for_small_business-in-NBN-first-site-areas-copyright3.pdf>, p. 8-9

3 Sensis Yellow Social Media Report, June 2012, Sensis in association with Australian Interactive Media Industry Association, <http://about.sensis.com.au/IgnitionSuite/uploads/docs/FinalYellow_SocialMediaReport_digital_screen.pdf , p. 43

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Moving with the times continued

seems that only 24 per cent of online users actually post blogs or reviews, so reaching that small number of 'influencers' is becoming an important strategy for marketers.

Businesses have a clear opportunity to build relationships with their customers using social media as well as boosting their sales. The Sensis data shows that social media users are most interested in discounts, giveaways, product information, advice and coupons[4].

Winning strategies

The recent announcement that discount footwear giant Payless Shoes had gone into administration sparked claims that the proliferation of online shoe shops in recent years was partly to blame.

And if the example of successful online footwear company styletread.com.au can be drawn on, there could well be substance to the claims.

Styletread.com.au has gone one step beyond being innovative by offering spectacular customer service, albeit in the virtual world.

The company delivers for free, has a 365-day free return policy and offers express refunds.

This type of service takes most of the risk out of buying footwear online and has unsurprisingly attracted a growing band of customers.

When Crust Gourmet Pizza Bar decided to take on the majors of the pizza industry in 2001, they wanted to create something fresh and different.[5]

Their pizzas were healthy, the first to receive the heart health tick, and they used online and social media strategies to build the brand and grow their business. They focused on winning market share through online promotion of discount coupons and meal deals.

Using social media, Crust was able to harness the power of word-of-mouth as a way to promote their story while retaining their brand integrity. Without the need for a big marketing budget for traditional media, the company differentiated itself and its products and built a loyal customer base.

Forging communities online continues to be one of the strongest tools Crust has in its toolkit for taking on the big pizza brands. Since 2001, it has grown to 120 locations around Australia.

Constant analysis

Many Australian businesses struggling under the weight of the high Australian dollar and increased competition from cheaper online global providers are constantly reviewing their business models.

The successful ones are adapting their products and services and looking ahead to the next profitable market and the most cost efficient way to reach it.

Next time you review your super fund or managed fund investments with your adviser, consider which ones are truly innovative and making the necessary changes to adapt to the new Australian business landscape.

As Charles Darwin observed: 'It is not the strongest of the species that survive, nor the most intelligent, but the ones most responsive to change.'

4 ibid., p. 5

5 M Logos, 'The Social Media Success of Crust Pizza', 3 June 2011, Dynamic Business, <http://www.dynamicbusiness.com.au/small-business-resources/growing/social-media-success-crust-pizza.html>

The best time to take out health insurance is when you're healthy

The words 'she'll be right' are etched into our vernacular, and nowhere are they more applicable than to the issues of men's health.

Thankfully, the exposure and popularity of events like Movember have helped raise awareness and promoted discussion on the changing face of men's health – specifically prostate cancer and mental health issues.

Men are often indifferent towards their health when compared to women, who are more inclined to be proactive and open about their health issues. As a result, the levels of awareness and funding for men's health issues lag significantly behind those for women.

Implications for insurance

Not only does it make sense to have a regular check-up, it's also worth considering the insurance implications related to your health.

Taking out insurance when you are healthy is very important. If you wait until a health issue arises, often you will be forced to pay higher premiums (known as a loading), or have certain health conditions excluded from a claim payment.

If the health condition is serious enough, you might be refused insurance altogether.

All personal insurance contracts are *guaranteed renewable* up to a pre-determined age, such as age 65. This means that regardless of changes in your health, the insurer is obliged each year to renew your coverage with no reduction in liability or extra loading.

Don't ignore the warning signs

Heart health is a vital consideration when you head to the doctor for a check-up. Blood pressure should be checked regularly, even if there is no history of high blood pressure, heart attack or stroke in your family. Once you turn 40, doctors will also normally order a regular blood test to check for any warning signs.

Your GP will regularly monitor your weight because obesity is a significant risk factor in many health problems such as cardiovascular disease and diabetes. For diabetes, a regular blood sugar test is advisable due to the many risk factors associated with this condition.

If you are 40 or older, you should be even more vigilant about your health because diseases such as prostate cancer and bowel cancer are more prevalent among men in this age group.

There are no excuses, a lifestyle of healthy foods, regular exercise, no smoking and drinking in moderation will benefit you and your personal insurance. C'mon guys, it's a no-brainer.

Kids and money

In today's electronic age, teaching children about money is much harder than in the old days of piggy banks and savings books.

Digital transactions are difficult for a child to understand. All they see is you giving a card to a salesperson and then being handed the goods.

How can they be expected to learn about the value of money in this era of cashless and almost invisible transactions?

The government-sponsored Financial Literacy Board is now piloting a new education program that will integrate the teaching of money management skills in English and maths classes in Australian primary schools.

Engagement

While this initiative is commendable, children begin to develop attitudes to money before they start school.

Let your children watch you do online banking so they can see how much money you have and how it is managed each month to pay for recurrent and unexpected living expenses. Explain the reasoning behind your budget and how it helps the family to take holidays or go to the football.

Pocket money

Pocket money can teach children many lessons.

You may want your children to earn their pocket money by doing a household chore and then make them save some of the money to create a savings discipline from an early age.

If you go down the savings road, compare the different children's accounts offered by banks and credit unions. While some institutions continue to offer rates of less than 1 per cent, others are paying as much as 6 per cent.

Most banks no longer impose account-keeping fees on children's accounts, but there may be charges levied for making withdrawals. Alert your children to such fees and how they may erode the annual return on their savings.

After the account is opened, you should encourage your child to regularly check their account so they can appreciate the benefits of compound interest.

For teenage children, you might raise the prospect of setting up a trust in their name through which your child can invest some of

their savings in a managed fund or shares. This can be a daunting task for a parent and it may be useful to talk to one of our financial advisers about the various ways this can be done.

Money pervades all parts of life and should be a regular topic of discussion for families. The sooner children come to grasps with money and investments, the better placed they will be for future financial success.

Investment opportunities presented by the carbon tax

Months have passed since the introduction of the carbon tax, but debate on its merits continues.

The tax, beginning with a $23 impost for each tonne of carbon dioxide emitted by a group of the largest industrialists, is meant to reduce Australia's greenhouse gas emissions and encourage cleaner energy technologies.

But while criticism of the carbon tax has been widespread, many astute Australian businesses and investors have pounced on the myriad of investment opportunities it has presented by this change in policy.

The green paradigm

This new green paradigm under the carbon tax is complex, and a cautious approach is recommended. For those people seeking to exploit opportunities, your adviser can discuss the guidance and specialist knowledge required.

Put simply, to minimise the impact of the carbon price, industry needs to investigate ways to retrofit existing infrastructure to make it more energy efficient, while developing more effective, renewable energy solutions.

In Australia, eco-investing can encompass buying stakes in companies that produce biofuels, harness biogas, manufacture sustainable building and lighting products, recycling and nature conservation businesses.

Investment in innovation

In Australia, the establishment of the Clean Energy Finance Corporation (CEFC) has spearheaded incentives of $10 billion for new businesses and investment opportunities in the green sector.[1]

There is also the Renewable Energy Target which dictates that 20 per cent of the Australian economy's power in 2020 must come from renewable sources.

Retailers of energy will be forced to buy 20 per cent of the electricity they sell customers from renewable energy generators.

Some electricity retailers have diversified their power generation portfolio to include wind farms and others are making investments in solar and geothermal energy research.

Businesses are taking a fresh look at the energy requirements of their products and services and whether their current approach is aligned with the future needs of customers and government regulation.

This has created an opening for innovation, with the early adopters the first to benefit.

Sectors to watch

Sectors at the forefront of developing clean energy alternatives for transportation of smart power, green grids, energy storage, green building, energy efficiency, and air water and waste management are poised to cash in on the low carbon economy.

But the starter's gun in the race to significantly embrace green technologies won't go off until Australia introduces its emissions trading scheme in 2015.

It will be a complex, new landscape but it will also be a time of opportunity for well-advised, canny investors.

1 'Renewable energy', 2012, Australian Government Clean Energy Future, <http://www.cleanenergyfuture.gov.au/clean-energy-future/renewable-energy/>

Aged care begins at home

Major changes to aged care are underway and should be in full swing by mid 2014, with the focus on care in the home.

The Federal Government's *Living Longer Living Better* reform package is aimed at encouraging older Australians to receive help in the home.

Almost $1 billion will be spent over the next five years to increase the number of in-home care places by 40,000 to almost 100,000.[1]

The reforms are good news for retirees who require care but would prefer to continue living at home.

In many cases finding the money to pay the bond for an aged care facility can be a complex task, sometimes involving the sale of the family home.

The government's increased funding is made up of $75 million to establish a single Commonwealth Home Support Program to bring together all existing home support services and $880 million to increase the number of Home Care packages available.[2]

Right now, almost one in three people have to wait more than three months for home care packages.

Means-tested fee

The new Home Support Program will consolidate the following government programs into a single scheme:

- Home and Community Care Program for Older People
- National Respite for Carers Program
- Day Therapy Centres Program
- Assistance with Care and Housing for the Aged Program.

But there will be a means-tested fee for these services on top of the existing basic fee.

While it won't cost full pensioners anything, other retirees will have to pay a fee although there will be an annual cap of $5000 for part-pensioners and $10,000 for self-funded retirees. A lifetime cap of $60,000 on care fees will also apply.[3]

Home care services include Meals On Wheels, transport, home modifications and maintenance.

Extra funding of $41 million over five years will also be available for those suffering from dementia so they can stay in their homes for longer.

To qualify for aged care help you need to have an assessment made by an Aged Care Assessment Team.

Apart from the expanded government offering, which has been generally welcomed by the aged care community, you can of course choose to pay for private care in the home. Many providers exist across Australia.

Planning ahead

Home care is not for everybody and that is where planning ahead is vital.

If you plan to enter an aged care facility, then getting financial advice will be important to minimise costs and maximise your position.

Every case is different. Selecting the right facility depends on your level of assets and your level of need.

Take the case of Peter who is 91 with no children and living in an aged care facility. Because the bond of $450,000 had seemed a little steep, he had chosen to make periodic payments instead of paying outright. (Interest rates on periodic payments are now at around 7.6 per cent.) It wasn't that Peter didn't have the money to pay for the bond, but that he thought it would reduce his income. In fact he had $930,000 sitting in his bank account, earning almost nothing in interest.

If he had sought financial advice, he might have discovered that paying the bond outright was the much smarter way to go. He could have taken the $450,000 out of his bank account, paid the bond and then invested the balance.

Not only would he have saved on not having to pay the interest on the bond, but also by moving the balance to an investment he was likely to have received a much better rate of interest than from his regular bank account.

This may not be a solution for everybody, but Peter's situation shows that you should not automatically baulk at the size of the bond without working out the repercussions of not paying.

And it's also important to remember that the bond is just that – you do get most of it back. It is basically an interest-free loan to the provider.

At present the aged care provider is allowed to retain $323 a month for a maximum of five years so that when you leave the facility you receive the bond back minus the retention amount. If you live for more than five years in an establishment, the retention amount would be $323 x 60 months, which would equal $19,280. In Peter's case about $430,000 would be returned to his estate.[4]

It is difficult to work out the best strategy for aged care and it's even harder if the decision has to be made at a time of crisis. That's why a financial adviser can help you map the road ahead. Hopefully, the new *Living Longer Living Better* changes will help to simplify the process.

1 'Living Longer living Better – Aged Care Reform Package', April 2012, Australian Government Department of Health and Ageing, <http://www.health.gov.au/internet/publications/publishing.nsf/Content/ageing-aged-care-reform-measures-toc~ageing-aged-care-reform-measures-chapter2.htm>

2 ibid, chapter 3

3 ibid

4 'The Accommodation Bond in Residential Aged Care', 2012, Aged Care Connect, <http://www.agedcareconnect.com.au/accommodation_bonds.php>

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