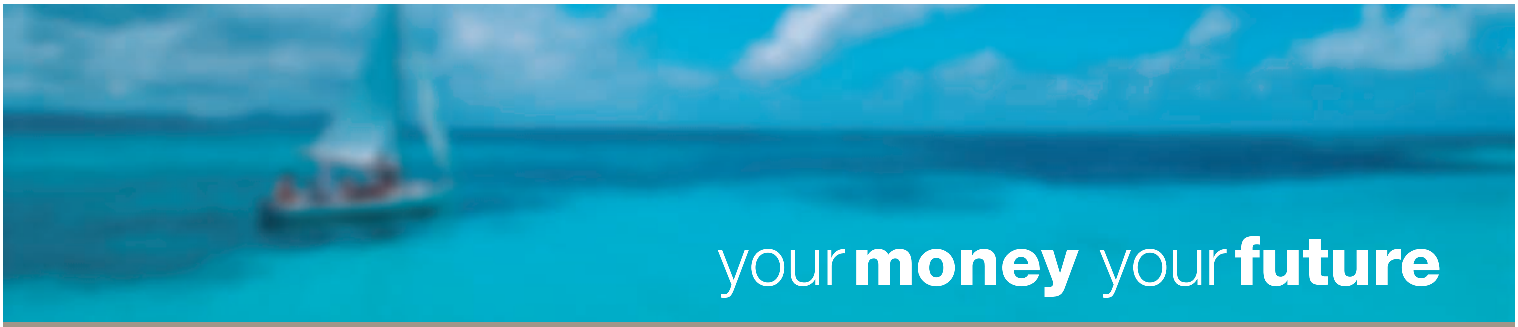

your money your future

FINANCIAL PLANNING NEWSLETTER

Redundancy – it's not personal

As the mining boom slows and many Australian businesses struggle to remain competitive in a global market, cost cutting and retrenchments have become a normal part of being in the workforce. Being made redundant is never an easy experience, but if it's handled well it can be financially and personally rewarding.

Australia's unemployment rate edged up to 5.8 per cent in August and is forecast to reach 6.2 per cent in 2014.[1] In a tough economic environment, even well established businesses are cutting costs by introducing labour-saving new technologies and outsourcing. But the news is not all bad.

The strongest job markets

According to the latest CommSec *State of the States* report, Western Australia still has the best performing economy but the strongest job markets are NSW, Victoria and the ACT.[2] As new investment in mining and engineering falls, commercial and residential construction activity is picking up in all states and territories except Tasmania.[3]

Public sector positions grew the most in the year to August, although the new federal government is promising cutbacks. Other sectors providing job growth are transport, wholesale trade, education and training as well as health and community services.[4] Lower interest rates are also expected to provide a boost for retailers.

Employment is shrinking in the agricultural and manufacturing industries, although both industries still employ more people than the mining sector.

The ever-changing workplace

When redundancy strikes, the important thing is not to take it personally. Redundancy is not a reflection of the worker but the constantly changing nature of the workplace. The challenge is to make the most of your situation financially.

What you do with your payout will depend on your age and stage of life. If you are close to retirement and in a good financial position, a large payout can help feather your retirement nest. If you are young and have a job to go to, a large payout can be a windfall. But if your future employment is uncertain, you need to proceed with caution.

Whatever your circumstances, it's vital to get as much out of your payout as possible. The first thing you should do when you are made redundant or considering voluntary redundancy is to check the details of your payment. Your adviser can help with this and work with you to prepare a financial strategy.

As you take stock of your financial position you need to know what government assistance you may be entitled to. It is a good idea to contact Centrelink to check your eligibility for income support, the Age Pension and a Health Care Card.

In the meantime, you could consider parking your payout in a bank cash account or a mortgage offset account until your plans are clearer. Money in an offset account helps reduce the amount of interest you pay on your mortgage but it can be withdrawn at any time.

Continued next page

Hawthorn Financial Planning
Hawthorn Financial Planning Pty Ltd
47 011 910 918
Corporate Authorised Representative

3/85 Mount Barker Road
STIRLING
SA 5152

Matt Hawthorn DFP
Authorised Representative

67 King William Road
UNLEY
SA 5061
Phone: (08) 8339 7973
Fax: (08) 8311 3971
Email: admin@hawthornfp.com.au
Web: www.hawthornfp.com.au

charter financial planning

Redundancy – it's not personal continued

Review insurance and loans

As soon as practical you should also review your insurance. You need to check if any death, TPD and income protection policies you hold, both inside and outside super, are affected by your loss of employment. If you find work in a new occupation, you need to check if your work rating will change. You may need to top up your premiums.

If you are retrenched unexpectedly, you may have loans or other financial obligations that become hard to manage. You may be able to reduce or suspend payments for a period but the earlier you discuss your situation with the lender the better.

Topping up super

If you don't have a mortgage and you are over 55 you might consider putting some or all of your payout into your superannuation fund. Before you do this, make sure you understand your age-based contribution caps because there are hefty tax penalties for exceeding them.

If you are over 55 you may be able to set up a transition to retirement pension to supplement your income while you look for work. Once you find work, you can continue the pension and salary sacrifice some of your wage back into super (depending on superannuation caps) to rebuild your nest egg and save tax.

We recommend you seek help from your financial adviser to explain this in more detail.

Trying something new

Some people find that being made redundant gives them the push they needed to try their hand at something completely new. Government support is available for people who wish to start up their own small business or you might decide to retrain for an entirely new career.

Whatever you decide to do, having a sound financial plan is the key to success and happiness after redundancy.

1 Trading Economics, 2013, viewed 26 September 2013, http://www.tradingeconomics.com/australia/forecast

2 CommSec Economic Insights, State of the States, 22 July 2013, http://www.investing.commsec.com.au/media/119240/e130722.pdf, p.1

3 ibid

4 M. Emerson, 'Economy builds some muscle', Sydney Morning Herald, 21 September 2013, viewed 26 September 2013, http://newsstore.smh.com.au/apps/viewDocument.ac?page=1&sy=smh&kw=michael+emerson&pb=smh&dt=selectRange&dr=week&so=relevance&sf=author&rc=10&rm=200&sp=nrm&clsPage=1&docID=SMH130921HS5DBVU2GVA

How to beat the chemistry of online overspending

Dopamine is a chemical neurotransmitter that helps control the brain's reward and pleasure centres. In other words, you feel a rush of dopamine in response to pleasurable activities like say food or shopping.

But the flipside of this chemistry can prove a real financial problem. Say you've come home from work after a long and unrewarding day, feeling sluggish and depressed. In this dopamine-deprived state, many people reach for their credit card for some online retail therapy.

Consumer behaviour experts call it a 'spending trigger', and only a new set of Callaway golf clubs or a pair of Jimmy Choo pumps will put things right. Ordinarily, a trip to the nearest shopping centre isn't realistic at 10pm – a fact that online retailers know only too well as they now meet the demand of this new shopping 'happy hour'.

Online spending numbers are staggering. The NAB Online Retail Sales Index showed that for the year to July 2013, Australians spent around AUD 14 billion on online retail. This level is equivalent to 6.3 per cent of spending with traditional bricks and mortar retailers across the same sectors.

Sales are dominated by 'pureplay' retailers (online only retailers), who account for 70 per cent of total sales, and dominate sectors including daily deals and media (movies, books and music). 'Bricks and clicks' retailers (traditional retailers with an online presence) still lead the way in groceries/liquor, homewares/appliances and games/toys.

To combat the temptation to overspend online, put a barrier between you and whatever you tend to overbuy. For instance, try noting things you want but wait until later to see if you really need them. If you log on for a Web-only sample sale and find your favourite item is already sold out, tell yourself, "try again tomorrow," and log-off.

It's also important to not keep your credit card on file by opting to enter your payment information each time. Delete cookies in your browser's preferences from time to time to deny retailers information to coax you into purchasing their 'recommendations'. In short, don't let dopamine turn you into an online shopping dope!

If overspending online is becoming a serious issue, your financial adviser can help you with budgeting strategies to get your finances back on track.

Taking the fiction out of defacto finances

Whether you are happily in a de facto relationship or in the process of getting out of one, taking for granted your personal, legal and financial status can be a costly mistake.

These days there are a variety of co-dependent relationships outside wedlock. This has made it necessary for courts ruling on property settlements to be satisfied that an unmarried couple is in fact 'de facto' by law[1].

People who assumed they were part of a de facto couple have been surprised when courts have ruled that laws introduced in 2009 to extend rights to de facto couples do not apply to them.[2]

This can happen if a de facto relationship is difficult to prove, there is no pre-nuptial style financial agreement in place or they have not registered their domestic relationship with their state's Justice Department.

Steps to safeguard your future

Entering into a financial agreement with a partner provides some certainty about who owns what during a relationship and beyond. Your adviser can guide you in drawing up such a document.

In the event of a relationship breakdown, this document can help a court confirm de facto status and apply the same property division rights which apply to a married couple under the Family Law Act. This legislation also applies to same-sex relationships.

One of the major features under the updated legislation is that de facto couples can now split superannuation between the partners as these funds are considered part of jointly owned assets.

On the flipside, being in a de facto relationship for at least a year can dilute the level of Centrelink benefits to which you are entitled.[3]

If the Department of Human Services recognises that an applicant is part of a cohabitating couple, whether married or not and regardless of gender, it will take into account the combined earnings and assets of both partners before assessing the level of Centrelink benefits to be paid to one or both. This will likely result in a lower benefit for a person living as a couple.

Benefits of being de facto

But there are also a number of financial concessions in declaring de facto status. For instance, the government rebate for private health insurance is greater for families than for singles, and de facto couples are assessed as 'families' for this purpose.[4]

Likewise, a partner to which you are not married but with whom you have a genuine domestic relationship can be considered as a spouse in order to claim income tax concessions.

If you register your de facto relationship with the appropriate state authority, your legal rights and responsibilities are similar to those of married couples.[5]

Under this scenario, if your partner died, you could be entitled to a share of the intestate estate and financial assistance under the Succession Act; receive compensation under Workers Compensation law; and social security benefits under the Commonwealth Social Security Act.

Know your rights

Prior to March 2009, settlement disputes between de facto partners were handled under state laws. Today, with the exception of Western Australia, these cases have been handed over to the jurisdiction of the Commonwealth under the 2008 Amendment to the Family Law Act 1975.[6]

Regardless of whether a couple is same-sex or not, childless or not, the Family Law Act is specific about which adults have legal financial responsibilities towards each other after a relationship breakdown.[7] Primarily, a court needs to be satisfied that the couple shared their domestic lives for at least two years, but there are other criteria as well.

For instance, a person who has a sexual relationship with another person over the course of years is not considered de facto if his or her primary residence is elsewhere, regardless of the intensity and longevity of the companionship.

Conversely, the law recognises that a married person living with a non-married person and away from the original spouse can be considered a de facto. The amended Family Law Act has even created a 'new ground which aims to stop a married person from defrauding or defeating a claim of a de facto partner by a sweetheart deal with a new or old spouse'.[8]

The federal legislation excludes the death of a partner being considered as a 'breakdown' of a relationship for the purposes of assessing a property settlement. When one party dies while in a relationship, state laws apply to solve disputes.

Now that the status of bona fide de facto couples is well established in law, it is more important than ever that unmarried partners do not assume their financial entitlements and obligations will be taken care of.

Advice is still crucial to ensure that your affairs are in order while a relationship is intact. Your financial adviser can guide you through these various complex issues, however you should consult a specialist legal adviser to help you establish a will.

1 Australian Government, Family relationships online, 2013, viewed 26 September 2013, http://www.familyrelationships.gov.au/BrochuresandPublications/Pages/propertydivisionwhendefactorelationshipsbreakdown.aspx

2 Australian Government, De facto property regime, 2011, viewed 26 September 2013, http://www.ag.gov.au/FamiliesAndMarriage/Families/Pages/DeFactoPropertyRegime.aspx

3 Australian Government Department of Human Services, 2013, viewed 25 September 2013, http://www.humanservices.gov.au/customer/enablers/definition-of-a-partner

4 Australian Government Private Health Insurance Ombudsman, viewed 25 September 2013, http://www.privatehealth.gov.au/healthinsurance/incentivessurcharges/insurancerebate.htm

5 Armstong Legal, De facto relationships, viewed 25 September 2013, http://www.armstronglegal.com.au/family-law/defacto/

6 Australian Government ComLaw, viewed 26 September 2013, http://www.comlaw.gov.au/Details/C2008A00115

7 F. Farouque 'De factos tell all in property disputes', 26 March 2012, viewed 26 September 2013, http://www.theage.com.au/victoria/de-factos-tell-all-in-property-disputes-20120325-1vsj4.html

8 Australian Government ComLaw, viewed 26 September 2013, http://www.comlaw.gov.au/Details/C2008A00115, sub section 90K(1)(aa)

Capturing investors' interest

It may have taken a brilliant mathematician, such as Albert Einstein, to declare that "compound interest is the eighth wonder of the world" but it took a brilliant investor, Warren Buffett, to prove the theory in all its wonderful glory.

Mr Buffett, one of the canniest investors around, explained that his "wealth has come from a combination of living in America, some lucky genes and compound interest".[1]

While many of us cannot rely on living in the US nor be born with gold-plated DNA, we can aspire to growing our wealth using compound interest.

It works by adding to your savings with regular interest payments that merge with the original deposit, so the next time interest is paid, it is on the total sum – the original deposit plus previously earned interest. This pattern continues and compounds as long as withdrawals are avoided.

For instance, $2,000 invested at 5 per cent will be worth $2,100 a year later. Keep the deposit intact and the following year that $2,100 earns another 5 per cent and grows to $2,205. After 15 years, the compounding interest has doubled your money to more than $4,150.[2]

Adding deposits over time turbo charges compound interest

Naturally, the greater the rate of interest you are paid, the bigger the multiples of compounded value over time. If you are lucky enough to attract 10 per cent interest, a $2,000 deposit would more than quadruple to $8,354 after 15 years.

Currently, in these times of Reserve Bank of Australia induced low interest rates,[3] a standard savings account is unlikely to deliver enough income to keep deposits ahead of inflation.

However, as your financial planner, we can advise you on other types of savings strategies with greater compounding qualities to fulfil your future wealth ambitions.

With the right investment, a 30-year-old putting $1,000 away at 8 per cent interest could collect more than $14,000 on retirement without ever having added to the original deposit.

Even at half that interest rate, making an initial deposit of $1,000 on the birth of a baby and then $20 a week thereafter would, with compounding interest of just 4 per cent, deliver almost $30,000 by the time the child is 18 – enough to buy a car.

That is the wonder of compounding interest – the ability to effortlessly multiply savings over time. If you have a savings target in mind, speak to your financial adviser to help you put the right building blocks in place.

1 My philanthropic pledge, Warren Buffett, Fortune/CNN Money, 16 June, 2010, viewed 30 September 2013, http://money.cnn.com/2010/06/15/news/newsmakers/Warren_Buffett_Pledge_Letter.fortune/index.htm

2 About.com Mathematics, 2013, viewed 27 September 2013, http://math.about.com/library/blcompoundinterest.htm

3 'RBA keeps rates on hold at 2.5pc', Adam Creighton, The Australian, 1 October, 2013, viewed 1 October 2013, http://www.theaustralian.com.au/business/economics/rba-keeps-rates-on-hold-at-25pc/story-e6frg926-1226730893529

Planning your route to financial freedom

Before you climb Mt Everest, you have to reach Base Camp. Before you reach Base Camp, you have to reach Lukla. Before you reach Lukla, you have to reach Kathmandu. Any major goal requires several crucial steps to complete the journey, and it's no different to your finances. So before you plan your summit assault, here are a few tips to get you started on the path to success.

Talk to the experts

Seeking financial advice can be a daunting experience. If you're already struggling to make ends meet, paying a financial planner may seem like another cost you don't need. It's worthwhile meeting with a few before choosing an experienced planner you can connect with on a personal level.

Plan your route

Base your financial plan on a wish list. Write down everything you want. When do you want to retire? Do you want to change careers or spend more time with the family? Even if you can't afford it all, put it all down. A financial plan focuses the mind on what is most important and what your future financial aspirations are. It will help you work out what you can afford and what is out of the question.

Avoid the crevasses

Insurance can be just as important to your financial planning as other strategies. It can help to provide financial security and peace of mind, and enable you to protect your ability to earn an income in the event of accident, sickness, disability or even death. Regularly assess the importance and level of insurance as your life circumstances change.

Taking the steep path

It's essential to think about how well you cope with risk and talk about it with your financial adviser. Having a range of investments across asset classes will help to spread the risk so that when one area is not doing well, another may compensate. Taking a long-term view of the eventual summit will also help you deal with the peaks and valleys along the way.

Keep the camp clean

Do you have a pile of statements and paperwork gathering dust and awaiting attention? Managing your financial plan is as important as starting one. The various types of paperwork help you keep track of what money you have. Try setting aside a set time each week to keep the financial house in order, or use the family desktop with an online or electronic record of your financial activity. There are many online tools available to help sort out your financial paperwork. Opt for electronic statements, which are more efficient for filing and environment friendly.

Consider these tips and you'll be on the way to planting your financial icepick on the summit of your financial dreams.

06047A2 10/13