TURNING POINT FINANCIAL SERVICES

CONNECTION POINT

Advice. Life. Investments. Superannuation and Retirement.

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Is your most valuable asset exposed?

Imagine owning an asset that is more valuable than your house, car and other possessions put together. Wouldn't such an asset be worth insuring?

Remember buying your first car or some other object that excited you? The sense of achievement and the pride of owning something of great value is a feeling that few would forget.

Later on you have the thrill of purchasing your first home, which brings with it a great sense of establishing your own future and providing a foundation for life for you and your family.

Taking on the responsibility of owning major assets like these is usually followed by a strong urge to protect their value by insuring against mishaps, such as loss, fire, storm or other calamitous events. Insurance makes emotional sense through the peace of mind it provides and logical sense through the security it may provide to replace or repair the asset if the worst happens.

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Take the initiative

The purpose of financial planning is ultimately to make life more enjoyable. With that in mind, the articles in this edition are focused on ways that you can take the initiative to improve quality of life for you and those around you.

The issue of financial security and independence for women is one area where there is increasing levels of public scrutiny and awareness. Our article on financial challenges faced by women points out areas where women can 'take the bull by the horns' to help create greater financial certainty for themselves.

Financial security for the family as a whole is dealt with in lead article titled 'Is your most valuable asset exposed?'. This examines the value of a sound personal insurance plan to underpin our lifetime income earning potential.

Many people choose to take a more proactive role to make the world a better place through their investment plans. This can be done through the increasingly popular phenomenon of ethical funds. We share some insights into what these are and how they work.

Enjoy the read and remember your adviser is always at hand to answer questions.

Todd Dalton
Director

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But what is your greatest asset?

Physical assets, such as cars, homes and other possessions may amount to substantial value measured in tens or hundreds of thousands of dollars. However, these may not be your greatest assets. Your greatest asset is arguably the thing that underpins all of your other purchases and assets and, indeed, your very lifestyle. Put simply, your capacity to earn an income.

Consider your lifetime earning potential

To illustrate how your income earning capacity may be your greatest asset, let's project some simple figures.

Imagine a 20 year old earning $30,000 per year. Even if that person never experienced a pay rise for their entire life, they will have earned $1.35 million by the time they retire at 65.

Scale that up to a 30 year old earning $100,000. With no inflation their lifetime earnings amount to $3.5 million by 65.

There's a lot at risk

If you had any other asset that was valued at those sorts of figures you would probably not hesitate to insure it, due to the sheer scale of the cost to replace it. The fact that income is not a tangible asset like a house or car, however, means that many people fail to consider it as an asset at all and leave it exposed to risks.

Even though it is not a tangible asset, income is subject to a range of risks that could temporarily or permanently stop it from flowing. An accident could leave you off work for weeks or months, or in some extreme cases could leave you incapacitated permanently. An illness could similarly affect you for an extended period. In the very worst scenario, premature death could occur and leave a dependent family totally exposed to having no income at all.

Income replacement protects your future

To protect against the risks of income loss and the impact it would have on your loved ones, an effective solution is to insure your income and your life. Income protection provides a monthly income stream for temporary or permanent income loss due to illness or accident. Life insurance can provide lump sum cover to replace a lifetime of income. TPD cover can also provide lump sum cover in case you become totally and permanently disabled. Finally, trauma cover can give you lump sum cover if certain serious medical events occur.

Your financial adviser can tailor a package of these protection benefits to suit your situation and secure your family's future against the loss of a significant asset.

Talk to us today to help put in place an insurance protection strategy to suit you.

Strong performance

Most share markets experienced strong performance over the March quarter. Investors remain positive about prospects for stronger global economic growth, particularly in the US. Fixed interest markets by contrast have experienced fairly subdued returns. We see the outlook as being balanced between a continued positive economic picture, and the risks of more increases in interest rates in the US. Rising interest rates have, at times in the past, led to some instability in share markets.

In Australia the share market continues to do well. There are a few warning signs that banks may start to experience a few headwinds, as concerns grow about expensive and overvalued residential property markets. It's clear that the regulators are signalling to the banks that a more considered and cautious approach to mortgage lending is appropriate in this environment. In time this will probably mean slower lending growth; however, the banks have been able to counter this by boosting their profits through raising the interest rates they charge, particularly on investor loans. Cash rates have remained stable in Australia and we think the RBA is on hold for the foreseeable future, and would expect cash rates to be fairly stable in the coming months.

We continue to believe that maintaining a balanced approach with a diverse mix of investments remains appropriate. That is, some investments that will do well under the positive scenario; and others that will mitigate risks should rising interest rates lead to rising volatility.

Justin McLaughlin

CHIEF INVESTMENT OFFICER

Talk to your financial adviser today to see how the current market may affect you.

Bridging the gender financial gap

Despite all the progress in recent decades in terms of women's rights and equality, there are still significant gaps that need to be bridged. Financial independence is one area where there is a lot of catching up to do.

When Aretha Franklin and Annie Lennox belted out the hit song, "Sisters are doing it for themselves", it was a bold declaration of how far women had come in society, in terms of taking the initiative and fighting for equality. 30 years on, however, there are still many areas of life where women struggle for recognition and equality. Financial self-determination is perhaps one of the most significant areas where a stark imbalance still exists and progress needs to be made.

The gender pay gap

The matter that perhaps gains the most attention in public discussion is the limitations in employment opportunity and the general discrepancy in incomes between men and women. While there has been progress in many career areas and women now appear in many leadership roles in business, public service, media and sport, the gap still exists.

To quantify the extent of the problem, we can look at a recent report that points out a 16.2% gap in incomes[1]. This figure has been stubbornly static over the last 20 years or so, indicating a need for more to be done to bridge the divide. Causal factors could be such things as lower paid job types being dominated by women, a lack of acceptance of women in certain career areas and a predominance of women leaving work to raise children. Whatever the reason, however, we know that this phenomenon restricts women building their own financial independence.

Family ties

Taking time off to care for children is still a role where women largely bear the burden. This naturally means that there is a greater dependence on their partners for financial support and less funding being dedicated to things that build financial independence, such as super and other wealth creation plans.

An interrupted career path and an ongoing need to care for children also makes it more likely that women will seek part time employment, rather than returning to full time work, thus further stymying financial development.

A longer retirement to be funded

One area where women continue to outdo men is in the longevity stakes. Once a male reaches age 65 their life expectancy is an average of 19.5 years. Women on average will exceed this average by nearly three years[2]. This positive is a double edged sword, given that women may need to fund a longer retirement.

Playing catch-up on super

The Association of Superannuation Funds of Australia have uncovered some sobering statistics on just how far behind most women are when it comes to super accumulation. Their research shows that women between ages 50 to 54 have an average of

$84,228 built up in super, while men enjoy a much healthier $146,608. This gap widens in the 55 to 59 age range with $115,046 for women compared to $227,765 for men. It widens again in the 60 to 64 bracket with $138,154 vs $292,510[3].

Such a profound shortfall cannot be remedied overnight, but it underscores the need for women to take a proactive role in gradually building their own super resources to create a platform for financial independence in the future.

A financial plan for freedom

Other areas of financial development, such as protecting income and livelihood with adequate insurance, budgeting, investments and an overall financial plan, are all critical to further strengthening this platform. Sisters certainly do need to 'do it for themselves' by taking the initiative, educating themselves and forging their own financial path in life. Your financial adviser can be a key ally in helping you get there, so take advantage of their expertise in planning your future.

1. Workplace Gender Equality Agency: Gender pay gap statistics August 2016.
2. Australian Bureau of Statistics: Life tables, States, Territories and Australia - 2013-2015.
3. The Association of Superannuation Funds of Australia Limited: Superannuation account balances by age and gender December 2015.

Contact our office today to explore the possibilities for your future.

Is ethical investing right for you?

The concept of ethical investing is on the rise and is now an important option that many personal investors want to explore.

The last few decades have seen a growing awareness in society about the impacts our lifestyle and our consumption have on environmental and social welfare. This concern for our relationship with our planet and fellow human beings has also become a major issue in personal investment spheres and the concept of ethical investing is now one that many investors are interested in.

What is it?

Ethical investing relates to the scrutiny that a managed fund manager places on the selection of assets, so that they examine the environmental and social aspects of each of their investments and not just the commercial considerations. This has resulted in a new sub-class of managed funds known as ethical funds.

The concept of ethical funds has matured in recent years and there are now sophisticated review processes involved in analysing the way that investments can qualify to be included in an ethical fund.

Positive and negative screening

In general, there are two methods applied to ethical investment selection:

- Positive screening – where the fund manager is proactive in sourcing companies that abide by high ethical standards; and
- Negative screening – which takes a more passive approach based on excluding companies with poor ethical practices.

Beyond these general categories, each fund manager may implement more specific criteria for making selections.

Independent standards

The popularity of the ethical investing movement has led to the formation of an industry body known as the Responsible Investment Association Australasia. This association sets out standards for fund managers to apply in their investment selection process, so that personal investors can have confidence in a fund's ethical bona fides.

Would an ethical fund suit you?

Despite the layer of extra scrutiny involved, ethical fund performance can generally be comparable to funds without ethical screening, so they can be a worthwhile fund category for many investors to consider.

As your financial adviser we are well equipped to discuss the ethical fund options with you and how they can be incorporated into your protfolio, contact our office today.

Warm up for winter

Here are some great tips to beat the winter blues.

The colder months are nearly upon us and for many people this can be a real downer for our mood and our general health. Why not take the initiative and try these ideas to stay happier and healthier?

Sleeping habits

The temptation to sleep in is much greater on cold mornings, but too much of a good thing can dampen your mood and make you feel more sluggish and sombre. Keep your sleep patterns consistent to combat this by aiming for a regular bedtime and around eight hours per night. Avoid late evening sugary snacks and get up early to maximise your daylight hours, which can have a positive effect on mood.

Eat smarter

It's natural to want to indulge a little more when it's cold and dark as a way of cheering ourselves up. The usual suspects are simple processed carbs and sugary foods like chocolate, but these can produce a spike in blood sugar followed by a slump in mood. Plan your snacks ahead to replace these foods with healthier options like nuts and crunchy vegetables, which have much greater health and weight management benefits.

Make some soup

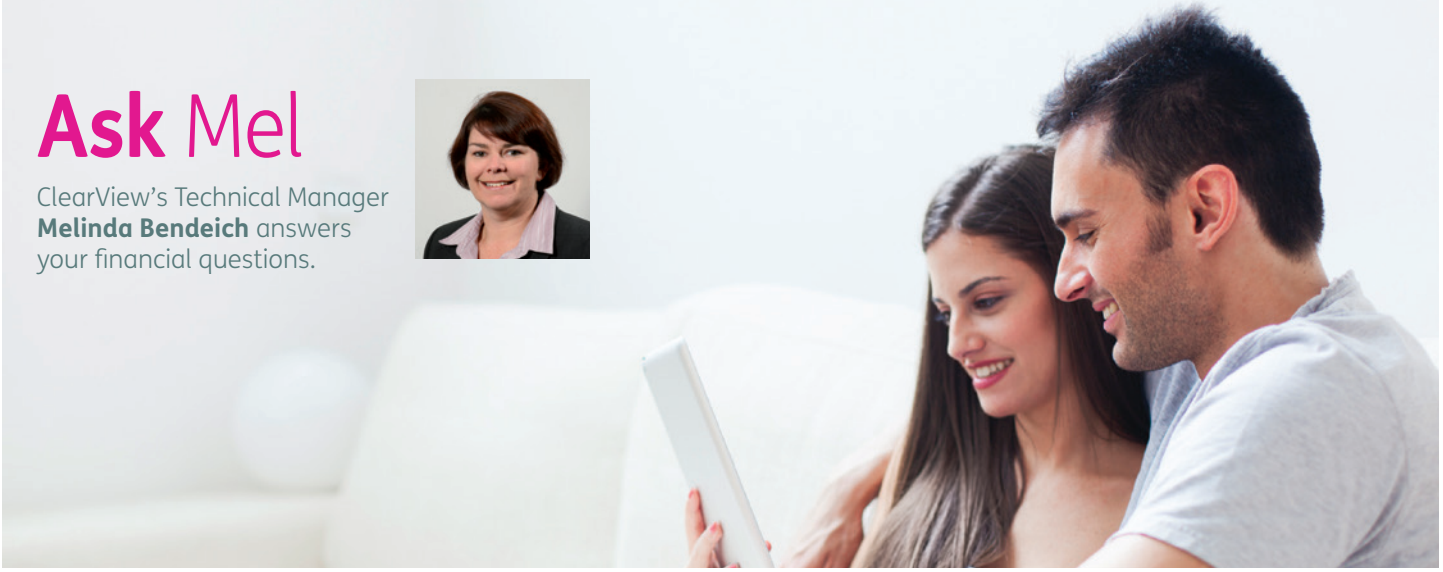
Replace the usual heavy winter fare with some soup instead. The process of making soup in itself is therapeutic, the aromas that fill the home are divine and the health benefits can be positive. Use lots of vegetables, legumes and a good bone broth as a base.

Getaway goodness

Why not cheer yourself and a loved one up by taking the occasional brief getaway to a favourite winter spot. Visit some winery or craft regions, for example, where you can enjoy some indulgence, a bit of retail therapy and finish the day in front of an open fireplace to warm the toes and the heart.

Ask Mel

ClearView's Technical Manager **Melinda Bendeich** answers your financial questions.



Q I own a family business and plan to sell this business and retire in the next two to three years. I would like to contribute some of the funds from my business sale to superannuation however have read that the amount you can contribute to super has reduced from $540,000 to $300,000 from July this year. Does this change impact people selling family businesses?

A If individuals under 65 years of age make personal after tax super contributions from their savings (known as non-concessional contributions), the maximum contribution allowed over a three year period will reduce from $540,000 to $300,000 from 1 July 2017. The good news is that alternative contribution limits are available to many small business owners when they finally decide to sell their family business.

The rules relating to small business capital gains tax concessions have not changed as a result of the superannuation reforms commencing from 1 July 2017. Provided the criteria is met for small business concessions, an owner is still able to sell their business and contribute up to $1.445m (2017/18) of the sale proceeds into super under the 15 year exemption or where the business has been held for less than 15 years, owners can utilise the retirement exemption and contribute capital gains of up to $500,000.

Seeking professional financial advice in this area is essential to ensure you are aware of the many alternatives available as you transition from business owner to retiree.

Q Can you please confirm what the Superannuation Guarantee rate will be for workers in 2017/18? I thought the rate was increasing to 12% over several years however it has been 9.5% for a long time.

A The Superannuation Guarantee (SG) rate for the 2017/18 financial year will remain at 9.5%. The SG rate is legislated to progressively increase to 12% by 1 July 2025. However, for a seven year period until 30 June 2021, the rate will be frozen at 9.5%.

The following table outlines the SG rate each financial year between now and when a rate of 12% is reached.

Financial year	Superannuation Guarantee Rate (%)
2017/18	9.5
2018/19	9.5
2019/20	9.5
2020/21	9.5
2021/22	10.0
2022/23	10.5
2023/24	11.0
2024/25	11.5
2025/26	12.0

Have a question for Mel?
You could have your question featured in the next edition of Connection Point. Email your query to Mel at clearview.enquiries@clearview.com.au.

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