Quarterly
2014 SPRING EDITION

Welcome to the 2014 Spring edition of the CSP Quarterly

Spring time at Port Albert, Victoria

While the financial year started well with continuing improvement in the equity market, volatility returned in September and October with the Australian market (ASX200) reaching a low of 5,156 before recovering back to 5,526 by the end of the month.

The US has also tracked similarly to fall to a low of 1,862 before recovering back to 2,018 at the end of October.

This volatility has been expected by the market at some point this year. We had such a good run for a long time (5+ years in the US and 2+ in Australia) that volatility was bound to return at some stage.

It is important to note however the underlying economic fundamentals are really not that much changed from a month ago. The US economy is getting stronger by the day and the Chinese economy is maintaining its current growth trajectory with 7+% GDP growth. Europe is stable (though many would argue still "structurally challenged") and Japan is trying hard.

So what has led to current volatility?

It is not really possible to pin it to one thing however a combination of the below points all appear to be playing their part:

- increasing US bond yields (attracts capital back to the US putting upward pressure in the USD and downward pressure on other currencies and asset markets)
- profit taking
- ongoing concerns over the Chinese economy (though it still appears to be quite sound)
- Australian economy (consumer and business sentiment is not good and the domestic reporting season showed a worrying underlying weakness in revenue growth)

We are not too concerned about this though. At this stage we see no major systemic or structural change in the economy and, having taken the opportunity to top up Bucket 1 (cash, hybrids and fixed interest) assets post the GFC, feel client portfolios are in a strong position to ride out this volatility. Importantly, the market was not overvalued based on forward PE ratios as it was trading at around the 15-16 x earnings mark. If anything, we see the current pull back as a potential time to add to holdings as PE ratio drop back to low 15's and even high 14's.

In other news, we would like to congratulate to Dalton Nicol Reid (our direct Australian equity managers) who won SMA of the Year and were a finalist (alongside with Perpetual, Fidelity and Hyperion) in fund manager of the year.

Finally CSP would like to farewell our Client Administrator Rachel Chick, and thank her for all her hard work. In her place we would like to welcome back Samantha Lecky who re-joins the team after having to leave the business a year or so ago.

Lachlan
St Clair

Super guarantee increases frozen: what it means for you

AS PART OF A DEAL TO REPEAL THE MINING TAX, THE GOVERNMENT HAS FROZEN SUPER GUARANTEE INCREASES UNTIL 2021, COSTING AUSTRALIANS AROUND $128BN IN LOST SUPER SAVINGS.[1]

What's changing?

The super guarantee contributions that most Australian workers receive from their employers were set to increase by half a percent a year from 2014, up to 12% of each worker's annual salary by 2019.

But on 2 September 2014, the Federal Government announced that, as a result of its deal to scrap the Minerals Resource Rent Tax, those increases will be delayed for seven years[2]. Instead, super guarantee contributions will be frozen at the current rate of 9.5% of salary until 1 July 2021. After that, they will gradually increase to reach the target of 12% per annum in 2025.

By taking action to boost your super now, you can offset the effects of the changes and make a positive difference to your financial wellbeing in retirement.

What does it mean for you?

Put simply, the changes mean less super for millions of Australians — around $128 billion less by 2025, according to the Financial Services Council[1]. As a result, many will struggle to save enough for a comfortable lifestyle in retirement.

According to the Association of Super Funds of Australia, even with a super guarantee rate of 12% per annum, a typical worker earning $50,000 a year might expect to save around $244,000 over 30 years — just a little over half the $430,000 lump sum required for a comfortable retirement lifestyle, assuming a part pension[3]. Now Australians can expect to save even less.

The table below shows some examples of the potential impact of the changes.

How the super guarantee changes could affect you

Age	Salary	Current super balance	Projected balance at age 65		
			Before changes	After changes	Difference
25	$50,000	$20,000	$491,660	$474,247	-$17,413
35	$70,000	$80,000	$554,452	$536,072	-$18,380
45	$85,000	$150,000	$505,964	$489,135	-$16,828
55	$85,000	$250,000	$428,190	$415,890	-$12,300

Source: Colonial First State.. This projection compares previously legislated super guarantee rates with those that passed parliament on 2 September 2014. ***Assumptions:*** *Investment earnings: 7% • Salary indexation: 4% pa • CPI inflation: 3%. •All income and contributions taxed at 15% • All balances in today's dollars*

What can you do about it?

By taking action to boost your super now, you can offset the effects of the changes and make a positive difference to your financial wellbeing in retirement. For example, according to ASIC's MoneySmart Superannuation Calculator, the 45 year old in the table above can increase their super balance on retirement by more than $56,000, simply by using salary sacrifice to boost their annual contributions by another 3% of salary each year, or around $212 a month.[4]

At CSP we can help you work out the best way to increase your super savings. Remember — the sooner you act, the better off you're likely to be.

1. Financial Services Council media release, 'Super guarantee delay will mean $128 billion less in savings for working Australians', 2 September 2014.
2. Media Release, Senator Mathias Cormann and JB Hockey, 2 September 2014.
3. Association of Super Funds of Australia, ASFA Retirement Standard, June 2014.
Source: MoneySmart Super Calculator at www.moneysmart.gov.au

Upcoming Centrelink Changes That May Affect You

- Are you 65 or older prior to 1st January 2015?
- Do you have an account based pension, or are considering retiring around the 1st January 2015?
- Are you in receipt of a Centrelink benefit such as the Age pension, or intend to receive a benefit prior to 1st January 2015?

If you answered yes to the above questions then upcoming changes to Age Pension rules could impact your level of income during retirement.

From 1 January 2015, Account Based Pensions will be treated the same way as other financial assets such as cash, shares and managed funds under the social security legislation, which means they will be subject to deeming rules for both Centrelink and DVA income test purposes. In most cases this can result in a reduced Centrelink benefit payment for the remainder of your retirement.

Anyone who has an existing Account Based Pension but is not on Centrelink may be worse-off when they eventually claim a Centrelink payment.

Not happy with your current product or want to consolidate your accounts into one pension account?

Any pensions set up after 1 January 2015, are subject to these new rules. So if you are thinking about changing accounts or consolidating it might be worth considering doing this before the end of 2014.

Thinking about retiring in the next 3-6 months?

It might be worth talking to us about whether it might be worthwhile getting your pensions established prior to the end of 2014.

Recycle your debt

PAY OFF YOUR HOME SOONER, AND STILL TAKE ADVANTAGE OF OTHER OPPORTUNITIES TO GROW YOUR WEALTH.

Most of us have debt. It weighs us down and often prevents us from getting ahead financially. Most of us wait to invest when we have paid off the family home. However, by that stage it could be too late, with little opportunity for our investments to grow before retirement. Debt should never be set and forget.

Debt recycling strategically plans your cash flow to enable you to:

- Reduce your home mortgage
- Minimise your tax
- Grow your wealth

It is a long term strategy that uses your existing home loan repayments more effectively, to help you to potentially build some wealth outside of super. This can be useful if you are thinking about retiring before the super preservation age.

Given the government's intention to extend this out to age 70, this should be a consideration for anyone in their 20's, 30's or 40's.

Want to find out more?
Check out the CSP website or give us a call to discuss.

Do your kids (grandkids) think money grows on trees?

Kids today know a lot about technology, the latest video games or movies released, but how much do they really know about money?

Money these days, with electronic and contactless payments, can seem invisible to kids. Things just get paid for … as if by magic!!

If you provide your kids with solid financial skills as they grow up, these skills should form the basis of how they manage money as they move into adulthood.

Schools do touch on this, but it doesn't remove you from the responsibility of talking to your kids about how to best manage financially through different stages of their lives.

Teaching them how to do a simple budget, and encouraging a regular savings plan is essential to setting them up with the right attitude towards money.

How to talk about money at different stages

As your children grow up, they will have different experiences and need a better understanding of money. Here are some ideas about the sorts of things your children will need to know at different ages.

YOUNGER CHILDREN (PRESCHOOL AGE)

- You need money to buy things
- Money includes notes and coins that have different values
- You earn money by going to work
- There is a difference between things you need and things you want

SCHOOL AGE CHILDREN (PRIMARY SCHOOL)

- Comparing prices and shopping around before you buy something is a good habit to get into
- Be careful when shopping online and never share your personal information online
- You need to be patient when saving up and you can make choices about how to spend your money

TEENAGERS (HIGH SCHOOL)

- It is better to use cash than credit
- Credit is money that you borrow and have to pay back with interest
- It is good to have savings in case of a money emergency
- If you work a part-time job, you need to check your pay slip to see that you are being paid the correct amount and if you are paying tax
- Keep track of mobile phone data and expenses to make sure you don't run out of credit or get stuck with a large bill
- Bank accounts can help you to track and keep your money. Doing a budget helps you work out how you should spend your money

Source: ASIC MoneySmart www.moneysmart.gov.au

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