November 2015

Welcome to the latest edition of our client newsletter,

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.
In the meantime stay warm and we hope you enjoy the read.

All the best,
Wealth Connected Financial Solutions

Wealth Connected Financial Solutions

2/151 Carinish Road,
CLAYTON VIC 3169

P 0432 101 777
E vviral@wealthconnectedfs.com.au
W www.wealthconnectedfs.com.au
Facebook https://www.facebook.com/wealthconnectedfs

Things you need to know about personal insurance

Personal insurance premiums have increased significantly over the past 18 months, running the risk that cost-conscious consumers might consider cutting back their cover. Suddenly those quick, off-the-shelf insurance products advertised on TV look enticing.

But simple is not always cheaper, the cover may be inadequate or, worse still, may not pay out when you need it most.

Underinsurance

Personal insurance is a general terms for term life, total and permanent disability (TPD), trauma and income protection insurance.

The reality is that even those people who think they are covered are likely to be underinsured. According to Rice Warner, the average Australian couple aged 40 with two children requires life insurance cover of about 10 times annual earnings to repay debts and maintain current living standards.[i]

Yet the median level of life insurance cover across the working age population is only 42 per cent of the amount needed to fully maintain the standard of living of family members. Median levels of TPD and income protection cover are even lower, at 14 per cent and 16 per cent respectively.

Life insurance lite

Life insurance is sold through three main channels: your superannuation fund, financial advisers or direct from the insurance company.

Direct life insurance generally offers pared-down ('lite') products sold without comprehensive financial advice and often with little or no underwriting. It is marketed to consumers via daytime TV and radio advertisements, direct mail or over the phone.

Consumers are often attracted by the simplicity of direct life insurance and offers of 'no blood tests, no medical tests', believing that it will be cheaper than going to an adviser. But medical checks are designed to help insurers evaluate the risk of insuring you, so if you are low risk you will be rewarded with lower premiums. This is the process known as underwriting.

The benefits of underwriting

To take out fully underwritten life insurance you must fill in a health and medical questionnaire and sometimes undergo some blood tests – at the insurer's expense. The insurer will often write to your doctor. If you are young, healthy and in a low-risk occupation you are assessed as lower risk to the insurer than someone who is overweight, a smoker and employed in the building industry, for example.

The key to buying any life insurance is to find out exactly what you are covered for, how much the insurer will pay out and how much you will pay in annual premiums for the benefit.

Say someone hurt their back 18 months ago and spent time off work but hasn't had any serious back issues since. If they applied for income protection insurance, insurers would generally exclude a payout as a result of the pre-existing back problem. However, a fully underwritten policy would allow the underwriter to write to the applicant's doctor to understand the scope of the previous problem, with a view to reviewing and possibly removing the exclusion.

Avoid low payouts

What's more, the maximum sum insured by 'lite' products is generally capped, compared with no maximum for advisor-authorised products.

Where there is no underwriting, no questions are asked. Premiums are often higher, there are generally more exclusions and at the same time the maximum sum insured is often lower. There may be accident-only cover for the first few years or no terminal illness benefit to avoid people taking out life insurance if they suspect they are seriously ill.

The best way to avoid any nasty surprises is to take out personal insurance when you are young and healthy. The premiums are 'guaranteed renewable,' meaning any changes in health that occur after the insurance is taken out won't result in denial of cover, premium increases, or exclusions.

Please don't hesitate to contact us if you would like to discuss your current or required insurance needs.

i Rice Warner, Underinsurance Research Report, 2 December 2013.

Living and dying: doing it your way

Living longer is something to be celebrated. But it can be a less settling prospect if advancing age or an accident reduces your capacity to make decisions. Worse still, if you are incapacitated.

It is a good reason to make provisions ahead of time to pass on some, or all, of the responsibility relating to your financial and other affairs. This might include how you want your future health, medical treatment and personal care to be managed.

The following ‘tools’ are governed by different state-based laws so it is important to seek the advice of a qualified legal practitioner.

Power of attorney

A power of attorney is an important legal document which gives someone else the power to make personal or financial decisions on your behalf.

A general power of attorney becomes invalid when the person who prepared it loses the mental capacity to make their own decisions. An enduring power of attorney continues to operate even after they lose capacity such as through dementia, after a stroke or following an accident.

When a power of attorney is drawn up, among other things required by various state laws, it is important that the person making it has capacity when they sign the document. [i]

They must be capable of understanding the nature and effect of the power of attorney and the range of decisions which the attorney can make on their behalf. They must also understand that those decisions can be made without consulting them.

The attorney role

Generally an attorney will make decisions concerning your finances, including operating your bank accounts and paying bills or buying and selling assets, so it is important to choose someone you trust.

Limits or conditions can be included in the power of attorney. For example, you can give the attorney limited authority to do specific tasks, such as paying regular bills but not selling property.

An enduring power of attorney is critical for members of self-managed super funds[ii] in order to ensure that the fund remains compliant in a smooth and stress-free manner after a member, who must also be a trustee, loses capacity.

If a member loses capacity they can no longer be a trustee which, if not resolved, may result in the fund no longer meeting the requirements of being an SMSF. Having an enduring power of attorney in place ensures it remains compliant as seamlessly as possible.

Medical directives

Something an enduring power of attorney can’t do is make medical decisions on your behalf. This is covered in a medical power of attorney. In consultation with doctors and other relevant people your attorney may make medical decisions, including those concerning operations or treatment options.

In addition to powers of attorney you can also prepare an enduring power of guardianship and an advanced healthcare directive (or living will) to help with decision making. [iii]

An enduring power of guardianship gives a person the right to choose where you live and make decisions about your medical care and other lifestyle choices, if you lose the capacity to make your own decisions. An advance healthcare directive (or living will) provides specific instructions about medical treatment if, for example, you are terminally ill or permanently unconscious.

Where there’s a will

Equally important as telling people how you would like your financial and personal affairs handled while you’re alive, is what should happen when you die.

A will is also a legal document which can cover things like who should get which assets, whether any trusts should be set up, where money should go and even instructions about your funeral.

A will and possibly the establishment of trusts can be extremely important where there are blended families. Without clear instructions, specific family beneficiaries, such as grandchildren, may miss out or your estate may be contested.

If you care what happens in the event that you can’t make decisions for yourself while you are alive, or after you have gone, having the right legal documentation in place will ensure your wishes are carried out.

i http://www.ncat.nsw.gov.au/agdbasev7wr/_assets/ncat/m771022l8/planning%20ahead%20-%20enduring%20power%20of%20attorney.pdf

ii http://www.professionalplanner.com.au/superannuation/2011/10/27/no-enduring-power-of-attorney-no-smsf-11864/

ii https://www.moneysmart.gov.au/life-events-and-you/over-55s/wills-and-power-of-attorney#attorney

Beware SMSF property spruikers

Self Managed Superannuation Funds (SMSF) are becoming increasingly popular with Australians who want to take control of their superannuation investments.

But there are growing concerns that SMSF property investments are being pushed by aggressive unlicensed property spruikers who are not acting in their best interests.

The Australian Securities and Investments Commission (ASIC) recently warned real estate agents that they must have an Australian Financial Services Licence (AFSL) before they recommend the use of a SMSF to invest in property.[1] While a financial adviser is licensed under an AFSL, many unsuspecting people don't realise many "property experts" are not licensed and are sometimes incentivised by developers to "promote" property that may not be appropriate as an SMSF investment.

Property investment has been heavily promoted to SMSF trustees since a change in superannuation legislation allowed them to borrow for investment. At present SMSFs hold around 15 per cent of their assets in direct property.[2]

Residential property has been a reliable investment for generations of Australians, but the decision to buy inside or outside super needs to be weighed up carefully. There are benefits and restrictions with each form of ownership.

Property inside super

The main benefit of buying inside a SMSF is that capital gains are tax-free if you sell your property after you retire and have converted to pension phase. If you sell earlier and have held the property for over 12 months, the effective tax rate is 10 per cent. Of course you can't take the proceeds out of super until you retire or start a super pension.

In addition, the tax benefits of negative gearing are smaller inside super where income is taxed at 15 per cent. What's more, banks will generally only lend up to 80 per cent of the purchase price, and will generally charge higher rates of interest than those on offer outside super.[3]

Outside super

If you buy property in your own name you may be able to borrow up to 100 per cent of the purchase price if you already have sufficient property as security. You can also sell your investment and access the cash whenever you like.

Set-up costs are cheaper outside super and tax deductions for interest and other investment-related costs are often greater. This is because they are made at your marginal tax rate rather than the 15 per cent super tax rate.

On the downside, when you sell the property you pay capital gains tax at your marginal tax rate.

The best outcome will depend on your personal financial circumstances and investment strategy. If you would like to discuss any the points raised in this article, please see your financial adviser.

1 ASIC, 6 Nov 2013, http://www.asic.gov.au/asic/asic.nsf/byheadline/13-304MR+ASIC+warns+real+estate+industry+about+recommending+property+investment+through+SMSFs?openDocument#

2 RBA Financial Stability Review, September 2013, http://www.rba.gov.au/publications/fsr/boxes/2013/sep/d.pdf

3 http://www.yourmortgage.com.au/calculators/affordability/