THE COUNT REPORT

01 Superannuation in the future – the returns and the rules

04 3 Steps to apply protection principles to your own life

05 The opportunity cost of cash

07 Chairman's report: Road to recovery – at what cost?

08 Count Charitable Foundation continues to support local charities

AUSTRALIA'S LARGEST INDEPENDENTLY OWNED NETWORK OF FINANCIAL PLANNING ACCOUNTANTS AND ADVISERS

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Superannuation in the future – the returns and the rules

With the Federal Budget in deficit and the future burden of an ageing population looming, will the Government change the rules in the future to make super a less attractive retirement savings vehicle than it is now?

Superannuation has featured in the media frequently over the past 18 months with two of the most common themes being:

- How much has the balance of your super fund decreased recently, and what investment returns can you expect from super in the future?
- Will the Government change the rules in the future to make super a less attractive retirement savings vehicle than it is now?

Super investment returns

Super is often portrayed in the media as being a risky asset that is prone to large falls in value during times when sharemarkets are falling. In the past 18 months, you may have heard about how the global financial crisis has been "eroding the retirement savings of Australians".

Rather than being its own investment, a super fund should be thought of as a special vehicle in which you can hold a range of investments (including growth assets such as shares and property, and defensive assets such as cash and bonds) – often the same type of investments you might hold outside super. The key difference is that when investing in superannuation:

- Earnings are taxed at a maximum rate of 15% pa (or tax free if drawing an income stream from super), which may be well below the tax rate that applies to other income that you earn; and
- Many of the contributions to super are made with pre-tax dollars or are fully tax deductible, and are instead taxed when received by your super fund up to 15% (instead of your marginal tax rate).

This tax treatment is clearly a major advantage over most non-super investments. Certainly, superannuation as a whole does experience periods of negative returns from time to time (as do corresponding non-super investments), but the notion that retirement

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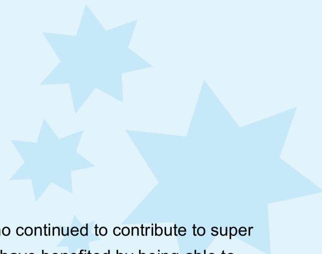


savings are being permanently eroded because people have invested in superannuation during this time is simply not true.

It is possible in most super funds to choose an investment option that will virtually never experience negative returns. Any such option would be 100% invested in cash. While the lure of consistently positive returns is attractive, this type of option is unlikely to provide adequate retirement savings due to its historically low level of long term returns, especially taking into account the impact of inflation over the long term.

Because our super system is a long term savings vehicle, it allows investors to benefit from higher long term returns by selecting an investment mix that has some exposure to growth assets while riding out periods where returns are negative through an allocation to defensive investments The fact that super balances as a whole have decreased in recent times is in part, an indication that Australians are educated when it comes to their super and recognise the benefits of investing at least partially in growth assets.

The key as a super investor is to select an option that is appropriate to your situation and the goals you have for retirement, as well as your investment timeframe. Your Count Adviser can assist you to make this decision.

Typically, if you are in a balanced portfolio within super, you might have around 30% - 40% of your balance invested in Australian shares. Already we are seeing positive signs for super returns, with the Australian sharemarket (All Ordinaries Index) increasing over 47% between 10 March 2009 and 5 October 2009. This has benefited those who remained committed to their long term strategy throughout the last 18 months.

In addition, those who continued to contribute to super throughout this time have benefited by being able to "buy their super assets" at reduced prices. In fact, recent figures from super regulator APRA show that confidence is improving, with voluntary super contributions from the June 2009 quarter double those of the previous quarter.

Superannuation rules

There are a range of laws that govern our super system. These rules set out:

- The circumstances in which you can make super contributions and the limits that apply to the amount you can contribute;
- The rate of tax that your super fund will have to pay on your contributions and the investment earnings on your balance; and
- When and how you can withdraw your super, and the tax that you pay on that withdrawal.

It seems that every year the Government announces some changes to these rules. Understandably, it must make changes from time to time to ensure that the super system as a whole remains modern, competitive and affordable for the Australian community.

Many of the changes in recent years have increased the attractiveness of the super system, including tax free withdrawals for most Australians aged 60 and over. At other times though, changes are made that slightly reduce the attractiveness of the super system.

If you are saving for retirement through the super system, you may feel a bit uneasy about whether the Government will make changes in the future that will negatively impact your super balance, either while still in the super system, or when you make a withdrawal.

While this is not impossible (certainly, the laws governing any investment vehicle can be negatively changed), successive Australian Governments have had a strong track record of ensuring that existing super balances are not impacted by adverse changes in the super rules. Two examples clearly highlight this track record.

1. Prior to 1983, most withdrawals from super were very concessionally taxed with only 5% of the withdrawal taxed as income. The Hawke Government then changed the rules from 1 July 1983 which significantly increased the tax payable on withdrawal, in some cases up to 30% of the amount withdrawn.

Clearly this change represented a big disadvantage for those who had been maximising their super on the premise that only 5% of it would be taxed on the way out. Recognising this, the Government ensured as part of its changes that any super balance that related to employment or super fund membership prior to 1 July 1983 would not be affected by this new rule. This created what became known as the "pre '83" component, which existed right up until 1 July 2007, at which time it was changed to become completely tax free on withdrawal.

2. Under current super rules, the vast majority of benefits are preserved, meaning they are generally not accessible until retirement after preservation age (currently 55). This came about because of a change of rules from 1 July 1999, which required that all contributions and all earnings within super be classified as preserved benefits. Prior to 1999, many types of contributions, including voluntary employer contributions and most after tax contributions, were not preserved.

This change would have hurt those who had contributed to super prior to 1 July 1999 and may have wanted to access these benefits before reaching age 55. But once again, the Government "grandfathered" the existing rules by ensuring that any non-preserved benefits permanently remained non-preserved after the rule change. If you are one of the many who still has a portion of their super benefit classified as non-preserved even though you are under 55, it is likely due to this measure.

The above examples highlight that Governments are willing to make changes to superannuation in order to meet their objectives, but are hesitant to make rules that affect money already in the super system.

In fact recent rule changes, that have in most cases halved the amount that can be contributed on a pre-tax basis, primarily affect those who have not yet made adequate contributions to superannuation and do not affect existing balances at all.

So what should you do?

Historically, superannuation has been the best vehicle for the vast majority of people to save for retirement, which is not surprising given that this is the sole reason why it exists.

Finding the right investment mix within your super is vital, and this may include weathering some periods of negative returns to achieve an optimum outcome at retirement.

Yes, there have been changes to the super rules in the past, and will likely continue to be so in the future. Historically, Governments have looked after existing balances. While thinking about the risk of contributing to super, it also pays to think about the risk of leaving it too late to contribute, as limits apply to your annual contributions.

Because of its current concessional tax status, and the Government's need to ensure that Australians continue to be encouraged to save for retirement, there is no reason to think that superannuation will not continue to be the retirement savings vehicle of choice in the future.

Talk to your Count Adviser about the advantages of using superannuation to assist in funding your retirement, and why it is an integral part of almost all successful retirement stories.

3 Steps to apply protection principles to your own life

Protection principles can be applied to your own life so you and your family are prepared in case of an untimely, yet significant health event. This can be started by completing the following 3 steps. Remember, your Count Adviser is always available to guide you through this process.

Step 1: Identify what you value most so you can protect it.

Basic Needs

- How will I continue providing food, shelter, and clothing for my family and/or myself?
- Will my spouse have to work more to help address these needs?
- Do I have to apply for social security? Will I qualify? Will it be enough to help me and my family?

Future Security and Stability

- What changes will result in my/our financial situation as a result of a change in health?
- How will my/our ability to achieve future goals change?

Self-Esteem and Personal Worth

- How would a significant change in my health affect my role in my family?
- Will the act of not working affect my social ties and feelings of personal worth?
- Can I still achieve my maximum potential, despite significant changes to my health?

Step 2: Quantify what you would like to protect.

A simple way to calculate your Wealth Protection needs is to use the DIMER method in the following table. Please note this is intended as a guide only, and we encourage you to discuss the results with your Count Adviser, as there may be other factors to consider depending on your individual circumstances.

Step 3: Do you have a shortfall? What should you do next?

Now that you have run through this simple process you can see what an important contribution your good health makes to your family's life and your own. Make sure you don't take it for granted!

Your Count Adviser has a range of financial solutions that can help you protect what is important in your life. In most cases, protecting 100% of your financial position is possible at a premium of only 3-5% of your gross income – and with superannuation as a potential funding solution, there is flexibility to meet your needs.

The DIMER Method	What will this component do?	Amount ($)
Debts (non-mortgage)+	In case of untimely death, this will ensure that your dependents do not inherit your debt. In the case of prolonged illness or injury, do you want to be facing the financial pressures associated with debt?	$____________
Income (which you will earn between now and retirement)+	Maintaining 100% of your income in case of untimely death, or serious illness and injury, will ensure that you and your family's lifestyle is maintained as close as possible to your pre-event situation.	$____________
Mortgage (include principle and interest components)+	Paying off your mortgage will ensure that you and your family do not need to stress about losing the family home in case of untimely death, or serious illness and injury.	$____________
Education costs +	You may require a lump sum amount if you have dependents who you want to ensure receive a good education, or you may want an amount to provide you with new opportunities in light of your changed circumstances.	$____________
Rehabilitation and Medical costs	In case of serious illness or injury - a lump sum amount to address immediate treatment costs and provide you with the best chance to adapt to your new circumstances (e.g. equipment needs)	$____________
TOTAL	**Add up all the components**	**$____________**

The Opportunity Cost of Cash

In a falling market – as we saw in 2008 – it was common for investors to think about moving into less volatile, cash-type investments. It was understandable that investors lost confidence in the market and looked for supposedly safer places to park their investments until the financial storm had passed. However, was this the right thing to do? What happens when the market begins to recover?

You cashed out or you have excess cash – what do you do now?

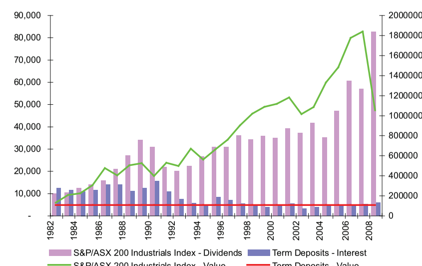
There are a number of important consequences which must be considered if a significant proportion of your wealth is invested in cash based investments.

Firstly, why are you invested in cash? Investors primarily invest into cash for two reasons, security and income.

Security

Security primarily involves the desire to protect investments from a decline in value. Whilst this is true, what is often forgotten is that cash is not a good hedge against inflation. Inflation can quickly eat away at your cash investment. So moving into cash does not necessarily protect your investment.

Income



Investors need to bear in mind interest rates generally fall in market downturns. Australia's interest rates are at historic lows, currently 3.5%. The average yield on a cash management trust as of September 2009 on $10,000 is 1.90%. A three month term deposit is 2.6% as of September 2009. In comparison, the yield on the equity market over recent times has been 7 to 8%. Even if the equity market suffered a substantial cut to dividends over this cycle, the Australian share market would offer a superior return over cash from an income perspective. Taking into consideration tax, income from shares looks an even more attractive option.

The graph above compares a long term investment in both cash and shares. As you can see, despite the falls that occur in the market from time to time, an investment in shares provides superior returns from both an income and capital growth perspective.

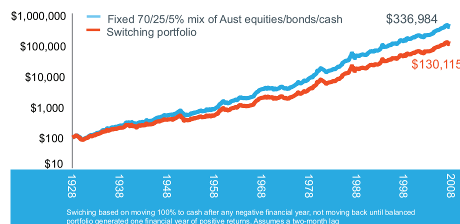
Cash and timing the market

March 6th 2009 is often quoted as the low point in the market cycle. The ASX 200 had fallen 53.8% from its peak. Yet at the time, how many investors realised this and took advantage of the strong returns seen since then?

Deciding the correct time to enter or exit the market is a difficult decision. Timing the market ultimately involves two decisions, deciding when to exit the market and when to enter the market. Getting either of these decisions wrong can greatly impact the performance of your portfolio. Empirical evidence points out most investors, regardless of their experience or education, cannot pick the ideal time. A recent report that tracked the inflow and outflow of money from managed investment schemes, found inflows typically peaked after the market peaked and outflows similarly peaked after markets bottomed. For many investors this resulted in poorer return outcomes than those who stayed fully invested.

The consequences arising from trying to time investment decisions is highlighted below. The switching portfolio (red line) generates a smaller return than the one that stayed invested (blue line).

Switching to cash is not the best strategy for maximising wealth over time, even through periods of market downturn. Peter Lynch, a renowned investor and author



source: AMP Capital Investors

states “Far more money has been lost by investors preparing for corrections or trying to anticipate corrections than has been lost in the corrections themselves”.

Diversification can help to smooth out investment returns

All investment involves some risk. Spreading your investments is one way to manage risks. The aim of diversification is to reduce the risk of losing money, so that if one investment produces poor results, you still have other investments that can offset the loss or at least save you from losing everything. Even during the recent market downturn, there were asset classes which did perform strongly.

Long term market trends

Markets will always experience periods of prosperity and periods of recession. The key point is not the number or magnitude of the market down turns, but the long term trend of the market. By investing over the longer term you give yourself sufficient time to ride out short term fluctuations in the market.

Where to from here?

From an economic perspective, Australia has fared relatively well. Reserve bank governor Glenn Stevens recently stated “Australia’s medium-term prospects remain good and we should not lose confidence……measures of business and household confidence have shown a very substantial pick-up from the low points reached earlier this year.”[1]

From an investment perspective, conditions are improving. The Australian share market looks fundamentally attractive for investors over the long term. General consensus tends to point to a recovering Australian market which has left the worst of the financial crisis behind. As shown earlier equity style investments offer a vastly superior return over the long term if you have the patience and confidence to ride out market volatility. For most, a diversified portfolio can help to smooth some of the larger ups and downs of the market, providing a more stable investment return.

Speak to your Count Adviser to develop an investment strategy tailored to help you meet your financial goals. It is in times of market turmoil where the benefit of a strong financial strategy adds value. Your Count adviser can help create a portfolio designed to protect your wealth while still taking advantage of improving market conditions.

1Opening Statement to Senate Economics References Committee’ – 28th Sept

BARRY MARTIN LAMBERT

Chairmans report: Road to recovery – at what cost?

When the Global Financial Crisis (GFC) hit, both the Government and the Reserve Bank (RBA) took unprecedented action. The Government handed out billions of dollars (fiscal policy – cash splashes) and the Reserve Bank cut interest rates to emergency levels of 3%. There is general consensus that these measures, along with our close ties to China and India, have meant we have avoided a recession and in the process we have become the best performing economy in the western world. But the question has to be asked… at what price and who will pay?

There is no doubt that many jobs and businesses have been saved by these measures and that is good. However, the “cash splash” debts have to be repaid and these will put pressure on our tax system. However, with an election looming, don’t expect any tax increases before the next election. Secondly, with Ken Henry about to hand down his tax review in December any tax increase with be cloaked around – “this is what the Henry Tax Review recommended as best for Australia.”

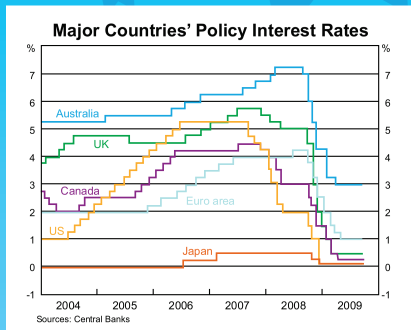
The emergency low interest rates, whilst still very low, have now risen to 3.5% and will continue to rise, if the economy continues to recover, to more normal levels of 5% plus. As we live in very uncertain times and many countries are still in recession, the continued recovery is not guaranteed. But what is guaranteed, is that the debt has to be paid back and interest rates will again rise, so be very prudent with your financial decisions. Rising interest rates will strengthen the Australian dollar and imports will be cheaper, but our exports will become dearer so some industries will be impacted by our good times.

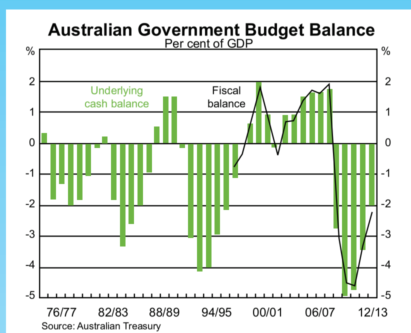
In time like these you need to keep in touch with your Count Adviser to assist you to safely navigate the many hazards that lay ahead for those not familiar with the possible turbulent times in the future.

Barry Lambert

Executive Chairman and Founder

Count Financial Limited

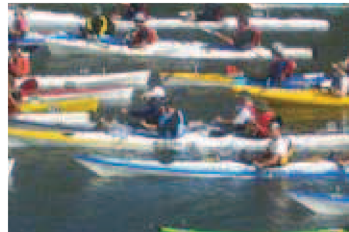




CCF continues to support local charities

For the last three years the Count Charitable Foundation has generously supported the Hawkesbury Canoe Classic.

A number of Count Advisers from the New England region, have embarked on the 111km paddle along the Hawkesbury River to raise money towards Leukaemia research for the Arrow Bone Marrow Transplant Foundation each year.



2009 saw the Foundation yet again support the event, however this year Count Executive Chairman and Founder, Barry Lambert and Chief Executive Officer, Marianne Perkovic participated in order to raise much needed funds for this worthy cause.

The pair successfully paddled the 111kms in 15 hours and with the support of Count Advisers, Count team and industry partners they raised $62,000 for the Arrow Bone Marrow Transplant Foundation

HEAD OFFICE: Level 19, 1 Alfred Street, Sydney NSW 2000. **P** 1800 026 868. **www.count.com.au**

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