

Welcome to Financial Focus, the newsletter that provides you with the latest news and information on significant financial planning topics. I hope you find the articles in this issue interesting and informative. If you have any comments, questions, or would like a review of your financial plan, please call or email me.

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Return of the king

With the Australian economy seemingly in full recovery mode, the Reserve Bank of Australia (RBA) has increased the cash rate by 1.5% since October 2009.



This, coupled with reduced liquidity in global markets courtesy of the global financial crisis (GFC) hangover, means banks are chasing deposits and offering highly competitive interest rates on term deposits. Cash, it seems, is king once again.

But does that make cash a good investment? Should you lock your money away now in a term deposit, or hold out in case rates go higher? Now could be a good time to look at the different cash options with your financial planner.

Why cash?

Cash is generally considered a defensive, low-risk but also low-return asset class. Cash accounts are used as a place to collect income and to pay expenses or rebalance portfolios. Many investors put enough in cash investments to cover expenses for a few years in case other investments go through a weak period. That way, they don't need to draw on their other investments until they've recovered.

Investors who don't need immediate access to all their funds will generally earn higher returns by investing in longer duration fixed income investments or in other asset classes, such as shares. Therefore cash usually forms only a small part of a well-structured investment portfolio.

Options for cash investments:

Online savings accounts are generally have high interest rates but must be linked to a transaction account. Use them for regular contribution savings you can access at any time.

Term deposits lock your cash away for a set period. They have low functionality but tend to offer a better interest rate over the duration of the set-term than you may receive from other day-to-day bank accounts.

Cash management accounts and trusts are used by investors. They provide a cash hub to help you manage all your cash flow, including investments. Cash management trusts (CMTs) pool investors money into high-yielding money-market instruments that are normally only available to professional investors, while cash management accounts (CMAs) are individual bank accounts. Both tend to have a higher minimum investment, such as \$5,000.

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Education; it pays to claim



Helping your children do well at school and setting them up for success is the goal of every parent.

But getting them there can be an expensive exercise. The costs add up with school fees, uniforms, text books and computer expenses, so every little bit helps.

The Government's Education Tax Refund (ETR) gives parents a tax offset for certain expenses related to their child's schooling.

According to the Government, only half those eligible for the ETR are currently claiming. Given you can claim up to \$750 per child, you might want to check your eligibility.

Unclaimed money

At the end of 2009, the ATO found they had under a million claims for the ETR.

This is out of an estimated 2,669,000 children that are eligible. In dollar figures, only \$488 million of the projected \$1.02 billion costs has been claimed so far.

Those families yet to claim are missing out on a significant tax break; up to \$750 for high school children and \$375 for primary school children.

How do you get it?

This is where it gets a little detailed. To claim the benefit you'll need to have spent on education expenses (such as textbooks and computers), for a child who you've received:

- the Family Tax Benefit Part A (FTB-A) for, or
- a payment for the child, such as the Youth Allowance, that stopped them receiving FTB-A.

Family Tax Benefit – Part A (FTB-A) helps families with the cost of raising children and is paid per child.

To qualify for FTB-A, the parent(s) must:

- have a dependent child under age 21, or a dependent full-time student aged 21 to 24,
- have care of the child for at least 35% of the time,
- meet the residential requirements, and
- satisfy an income test.

Note: FTB-A can also be claimed by eligible guardians, foster carers or grandparents, or an approved care organisations.

Making a claim

The easiest way is to get in contact with your financial planner or your accountant. They'll be able to tell you more about the ETR and if you're eligible. But if you'd like to sort it for yourself, here are some basic instructions.

There's a section in your tax return for the refund. You'll need to claim the expense in the tax year it was paid and can only be made for eligible expenses incurred from 1 July 2008.

If you didn't claim for last year there are options:

- If you lodged your return through a tax agent you can ask them to make an online variation to claim the refund.
- If you lodged it yourself you can write a letter to the Tax Commissioner explaining you didn't realise you could claim the ETR and would like your refund amended.

You can claim for:	You can't claim for:
<ul style="list-style-type: none">• laptops and home computers• computer related equipment such as printers• home internet connections• computer software for educational purposes• school textbooks and certain other learning materials, and prescribed trade tools.	<ul style="list-style-type: none">• school uniforms• tutoring costs• musical instruments and sporting equipment.• expenses where a tax deduction is allowed or the expense attracts another Government payment or subsidy.

Women's business

According to the Association of Super Funds of Australia (ASFA), the average super balance for women at retirement is \$73,000, compared to \$155,000 for men¹.

This significant dollar difference highlights a number of key trends and issues for Australian women:

- their lower average super balance can be partly attributed to many taking time out of the workforce to have children, and the gender pay gap that still exists in many industries²
- they're over-represented among low-paid and casual workers, and
- women have traditionally taken a less active role than men in financial planning.

Given that women outlive men by an average of six years, it's crucial they make planning, saving and investing for their retirement a priority.

Leaving the work-force to have children and raise families is unavoidable (and preferable) for many women, but it doesn't have to mean a lessened super balance. Similarly, unmarried or divorced women shouldn't be disadvantaged when it comes to their super. There are various ways for women to 'catch-up' and ensure they have enough to support themselves in retirement.

1. Salary sacrifice

If you arrange with your employer, they could make extra contributions³ into your super fund from your pre-tax salary. This allows you to reduce your taxable income and the contributions are generally taxed at a maximum rate of 15%, not your marginal rate.



2. Government co-contributions

You can also make super contributions⁴ from your after-tax salary or savings. Provided you earn less than \$61,920⁵ pa and meet certain other criteria, the Government may make a co-contribution of up to \$1,000 into your super account. See www.ato.gov.au/super for more information.

3. Spouse contributions

If you have a partner, you could get them to make after-tax contributions⁴ into your super account. Provided you earn less than \$13,800⁵ pa and meet certain other conditions, your partner can claim a tax offset of up to \$540 when they complete their tax return.

4. Investment strategy

Numerous studies into investor behaviour have shown that women are more risk-adverse than men when it comes to investing, and this has significant implications for their wealth at retirement⁶.

It seems a growing number of women are becoming more interested, educated and 'aggressive' when it comes to investing, and more are seeking financial advice, but overall their super balances remain lower.

A high-growth investment strategy has the potential to deliver higher returns over the long-term. If you're comfortable with a certain degree of risk and still have a few years to go before retirement, this could be a good strategy for boosting your wealth.

5. Financial advice

The more information and expert advice you have the better. A financial planner can help assess your risk tolerance and prepare an investment strategy to achieve your long-term goals. They can also advise you on superannuation strategies and the right insurances.

Regardless of your age and income, having a current financial plan and a wealth creation strategy means taking control of your future. Given the statistics on superannuation, this is particularly important for Australian women.

¹ www.superannuation.asn.au, 2009.

² According to the Australian Bureau of Statistics (ABS) the current gender pay gap between full-time, adult male and female earnings is 17.53% (ABS, 2008 Average Weekly Earnings Australia, November 2009).

³ A cap applies to salary sacrifice and certain other concessional super contributions. In 2009/10, this cap is \$25,000 pa or, if you're aged 50 or over, \$50,000 pa until 30 June 2012 and \$25,000 pa thereafter.

⁴ A cap applies to personal after-tax super contributions, spouse contributions received and certain other amounts. In 2009/10, this cap is \$150,000 pa. But if you're under age 65, the cap is \$450,000 provided your total non-concessional contributions in this financial year and the following two financial years don't exceed \$450,000.

⁵ Includes assessable income, reportable fringe benefits and reportable employer super contributions.

⁶ Women's 'problems' with finance and investment. Marilyn Clark-Murphy & Paul Gerrans, Edith Cowan University, 2004.

However, the past 18 months have been anything but usual. The GFC saw many investors flee from shares to cash; seen as the 'safest' option in a volatile market. For many, cash represents control, liquidity, stability and high visibility.

And with interest rates on the rise, cash not only appears safe, it's becoming more lucrative.

Raising the reserve

The Australian economy outperformed the majority of the developed world recently, surpassing expectations in its rapid emergence from the GFC and associated economic downturn.

And while most welcomed this return to a more positive business sentiment, it's RBA Governor Glenn Stevens' job to look for storm clouds on the horizon.

The RBA are intent on pre-empting any overheating of the economy by raising official cash rates. How far depends on the strength of the economy, inflationary pressures and the health of Australia's trading partner countries.

The market currently expects the RBA to continue to raise cash rates to 5% by the end of 2012. While this is tough news for home owners, it's good news for cash investors.

Good terms

What's more, the Government recently withdrew its wholesale funding guarantee; currently the source of more than half of the Australian banking system's funding needs.

This move, coupled with the introduction of new liquidity rules, encouraging banks to obtain more retail deposits, resulted in higher rates on term deposits. Some banks are offering abnormally high rates of 6-7% on term deposits for 1-3 years. Astute investors have been taking advantage of this abnormality in the market but it won't last forever as banks build adequate deposits.

If you can afford to lock your cash away for a few years, and like the predictability of a fixed timetable of interest payments and repayment of principal, than a term deposit could still be a good option for you.

Before you decide on one particular offer, make sure you're comfortable with the timing and terms. There's often fees and charges for breaking the term if you need to access your cash for any reason.

A rate of 6%¹ for 12 months (currently offered by NAB) could be a good trade-off between the rate and the term, giving you the flexibility to respond to other market opportunities in the next year. One of the drawbacks of locking in a term deposit for more than 12 months is you can't take advantage of interest rate increases. Of course you can spread this risk by investing in a number of deposits with differing terms to maturity.

Also keep in mind that some investments pay interest quarterly and others annually or on maturity.

And don't forget there are many other cash and low-risk fixed income investments that are more liquid than term deposits and may complement other investments you have.

Think long term

Cash has an important role in all financial plans. For many investors, beyond the need to securely park and generate a return from cash reserves, is an equally important need to manage multiple income streams and transactional functionalities easily and effectively.

And while cash is generally considered 'safe', it's also limited in its ability to generate returns above inflation. To grow your wealth above the rate of inflation means taking investment risk.

Despite the rises in interest rates recently, cash rates are still low by historical standards and a large long-term allocation to cash is unlikely to be a winning formula. You just need to look at the returns from growth assets over the past year to see how taking risk can pay rewards.

A well-diversified portfolio investing in many asset classes, alongside a smaller allocation to cash is a more sensible way to grow your wealth over time.

Your financial planner is the best person to advise you on a cash strategy that suits you.

¹ This rate is subject to change

Important Note:

This advice may not be suitable to you because it contains general advice that has not been tailored to your personal circumstances. Please seek personal financial and tax and/or legal advice prior to acting on this information. Before acquiring a financial product a person should obtain a Product Disclosure Statement (PDS) relating to that product and consider the contents of the PDS before making a decision about whether to acquire the product. Past performance is not a reliable guide to future returns as future returns may differ from and be more or less volatile than past returns. The material contained in this document is based on information received in good faith from sources within the market, and on our understanding of legislation and Government press releases at the date of publication, which are believed to be reliable and accurate. Opinions constitute our judgement at the time of issue and are subject to change. Neither, MLC or any of the National Australia Group of companies, nor their employees or directors give any warranty of accuracy, nor accept any responsibility for errors or omissions in this document. From time to time members of the National Australia Group of companies, associated employees or agents may have an interest in or receive monetary or other benefits from the financial products and services mentioned in this document. MLC Limited is associated with issuers of MLC Investments Ltd, MLC Nominees, NAB OnLine Trading Limited, Jana Investment Advisers Pty Ltd, PLUM Financial Services Limited, Aviva Australia Holdings Limited and National Australia Bank Ltd products and services. This newsletter is intended to provide general information only and has been prepared by MLC Limited ABN 90 000 000 402 (AFSL number 230694) MLC Building, 105 -153 Miller Street, North Sydney NSW 2060 Australia, a member of the National Australia Group of companies.