FINPAC Financial Group

Wealth creation & protection

Outlook

Financial Update & Outlook

Autumn 2018

Over the course of the first quarter of 2018, several issues have arisen that gave investors reason to return to a more cautious stance despite the global economy continuing to grow robustly. Among these concerns are:

- Rising interest rates in the US,
- The impact of China’s financial system reform on that country’s economy and on markets worldwide, and
- The potential of a trade war between the US and China.

For the moment, the US economy continues to travel well. Employment is strong and wage growth remains health. This would leave investors to remain relatively optimistic and activity in January confirmed this.

Of course, the environment can change rapidly, and the momentous change was President Trump’s tax cuts. The stock markets first reaction was positive as companies would see big increases in after-tax profits. However, there are always other impacts to be considered.

Firstly, as tax cuts flow through there is a risk that the economy which is already growing strongly could grow even faster causing inflationary pressure resulting in an acceleration of interest rate hikes.

Secondly, there is concerns about what this reduction in tax rates will do to the country’s fiscal deficit. This could lead to a significant increase in the amount of government bonds to be issued, with the potential to move long-term interest rates even higher.

It is easy then to imagine both short and long-term rates increasing which could upset economic growth prospects.

The second concern listed above involves the ongoing reform of the Chinese financial system. This relates to the capital adequacy levels of their banks. This could result in the availability of loans both within China and overseas.

The third concern involves potential trade wars starting with President Trump’s decision to apply tariffs on US$50 billion of Chinese imports. China’s response has been to do likewise for a similar amount of US imports.

These announcements are merely threats at the moment and will result in months of negotiation between the two countries. The final outcome will possible be mild with not significantly economic impact on either side.

Going forward, we think trying to predict where sharemarkets will head is going to be even more difficult than forecasting interest rate rises. The best approach is to have a well-diversified portfolio which includes a prudent level of cash reserves.

Remember if you have any questions please contact the relevant advisor listed below. Alternatively, if you have any feedback on our updates or articles you would like covered please give me a call or send an email to **gricks@finpac.com.au.**

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the 2018-19 federal budget

The budget was handed down by the Treasurer recently and was relatively quiet in regards to superannuation, however there were a few noteworthy items.

From 1 July 2019:

- The maximum number of members permitted in new and existing Self Managed Superannuation Funds (SMSFs) and small APRA funds will be increased from four to six. This has the potential to add additional flexibility that could be useful in some situations, however there are also fund control, estate planning and general administration issues that need to be considered.

- SMSFs with a history of good record-keeping and compliance will be subject to a three-yearly audit requirement rather than an annual audit requirement. This underlines the importance of efficient and timely administration and will provide a significant cost saving to SMSFs.

- The Government will introduce a retirement covenant that will require superannuation trustees to formulate a retirement income strategy for superannuation fund members. This measure requires trustees to offer products that provide individuals income for life, no matter how long they live.

- People aged 65-74, with total superannuation balances below $300,000, will be exempt from the work test. This means that these people will still be able to contribute to superannuation without having to first work 40 hours in 30 consecutive days, in the first year that they do not meet these requirements.

- Passive fees charged by superannuation funds on accounts with balances below $6,000 will be capped at 3%pa. Exit fees will also be banned on all superannuation accounts. In addition all inactive superannuation accounts with balances below $6,000 will need to be transferred to the ATO.

- Insurance inside superannuation will only be able to offered on an opt-in basis for members:
  - with low balances of less than $6,000;
  - under 25 years of age; and
  - whose accounts have not received a contribution in 13 months and are inactive.

This measure gives members 14 months to decide whether they will opt-in to their existing cover or allow it to switch off.

heading into retirement

For someone just settling into retirement, an account-based pension is the most popular option for turning your hard earned savings into a regular income stream. Here are five reasons why.

Advantages

Flexibility
You have the ability to draw as much as you need in any one year as long as you take at least the required minimum. This allows you to meet your varying income needs in line with changes to your plans or health.

Choice
You can choose how your retirement capital is invested to manage the risks you are prepared to take in regards to volatility of returns. The more aggressively you invest, the higher your potential return which may help your money last longer or allow you to draw higher levels of income.

Tax free
The income payments or lump sums you withdraw are tax free if you are 60 years or older. The super fund also does not pay tax on the earnings in an account-based pension.

Spousal benefit
You can nominate your spouse as a reversionary beneficiary to that the person continues to receive that pension after you have passed away.

Concession
This applies to those account-based pensions set up before 1 January 2015 and provided the owner has continuously received a means-tested (or blind) payment from either Centrelink or Veterans' Affairs since 31 December 2014. These pensions have income assessed under deductible rules instead of deeming rules. This may reduce the assessable income calculated under the age pension means test, and could result in higher entitlements.

Disadvantages

The downsides are that unless you manage and monitor your choices and income draw-downs you could exhaust your retirement capital earlier than expected.

Contact your FINPAC advisor if you have any questions about heading into retirement.

and preservation

enduring power of attorney

It's about being prepared if life events change unexpectedly.

It is generally after tragedy strikes that you wished you have taken the necessary precautions to protect yourself from financial disaster. The appointment of someone you trust to make critical financial decisions on your behalf in the event that you can't make those decisions yourself is also time critical. Because once you lose capacity, you can no longer appoint that person.

An EPOA is the document used to appoint someone else (called an attorney) to legally deal with your money, bank accounts and other assets if you become unable to manage your affairs by yourself. It is not just the elderly that need to think about this, it is all of us.

The power in the document, in some cases, can start when you lose capacity, either temporarily or permanently. It ceases when you pass away, when you will kicks in.

So who do you appoint? Who can you trust?

Spouses and partners generally appoint each other and, as a backup, one or more of their children. It can be set up so the attorneys can make decisions jointly or independently of each other.

Other options include the appointment of a professional such as a solicitor or accountant or any professional person jointly with a family member or friend.

It is important to remember that the more instructions and clarification of your wishes you can provide to the designated person the better. Telling the rest of the family about the appointment is also important so when the time comes, everyone is clear on who is responsible and has authority in making those vital decisions.

For matters relating to medical treatments where your condition is considered to be terminal, donations of organs or treatment choices based on religious beliefs are not covered by an EPOA. These issues can be covered in an Advance Health Directive document.

Please note that FINPAC is not legally capable to give you advice on the above issues. You should make an appointment with your solicitor as soon as possible to make sure you have these documents in place or to re-assess your existing appointments.

interesting claim statistics

Tony Muller of FINPAC Insurance Advisors was talking to the head underwriter of Business Property for Vero recently. He gave the following rough statistics regarding the differences in total property claims for various regions.

For every dollar spent on claims in Brisbane, these are the approximate amounts spent on other east coast cities:

Townsville	$7.50	Brisbane	$1.00
Cairns	$4.00	Sydney	$0.50
Sunshine Coast	$2.00	Melbourne	$0.25

As you can see Northern Australia costs insurers more than Southern Australia. We may not like to hear this, but these are the facts, which unfortunately mean dearer premiums.

TravelCard - a new approach to travel insurance

TravelCard launched into Australia at the Steadfast Convention last week with Steadfast brokers granted exclusive access to the TravelCard policies.

Who is TravelCard?

30 years ago while travelling in the USA as a young man, TravelCard founder, Alon Ketzef was diagnosed with a life threatening brain tumour. Returning home he discovered that his travel insurance company would not pay for his life saving treatment.

Alon survived and committed to pay back his family. Vowing this should not happen to anyone else, he created David Shield which today insures the majority of Israeli's with International Private Medical Insurance.

Together with White Mountain Insurance (NYSE Listed $6 Billion capital) they created PassportCard, an award winning, innovative and patented solution for the Israeli travel insurance market; real-time travel insurance.

Today PassportCard Israel has almost 40% of the Israeli travel insurance market and has grown Israeli insurance brokers share of the travel insurance market at the same rate.

They have successfully expanded into Germany and Canada and at the Steadfast Convention, commenced rolling out the successful model into Australia.

TravelCard will pay claims while you travel
No out of pocket expenses
No mountains of paperwork
No excess

TravelCard's 24/7 Global Emergency assistance were the first to charter and land a plane in Nepal after the devastation and were the first to charter an aircraft for the Greek island earthquake.

Here in Australia, LMI Group have developed the TravelCard Australia product for local market. The policies available are either Single Trip or Annual, for either individual or Corporate/ Group clients as with our current insurers.

Apart from the larger amounts that TravelCard pay for various losses, the unique feature of TravelCard is that they issue you with a debit card that they load whilst you are away to pay for the claim expenses, so you are not personally out of pocket, or have to wait for the claim reimbursement when you return home.

When you purchase a TravelCard Policy, you will receive a TravelCard to take with you.

What Is The TravelCard?

The TravelCard is one of the ways that the insurer may pay certain approved claims under a TravelCard Policy. The TravelCard is a prepaid debit card with an initial nil value, which may be loaded with value in response to certain approved claims under a TravelCard Policy.

Who Can Use The TravelCard?

You and anyone that is an Insured Person under Your TravelCard Policy can use the TravelCard

When Can Claims Be Paid Using The TravelCard?

- Section 1: Medical and Medical Evacuation Expenses
- Section 4: Luggage, Personal Effects, Travel Documents, Delayed or Mislaid Luggage, Money
- Section 9: Theft of Cash
- Section 11: Luggage and Personal Effects

However, payment of all or part of an approved claim will only be authorised to be paid via the TravelCard if:

- you are on your journey and have the TravelCard with you,
- you agree to have the approved claim amount (or part thereof) paid onto the TravelCard; and
- the approved claim is under one of the above-mentioned policy sections.

If an approved claim amount is loaded onto the TravelCard, you can then use the TravelCard:

- to pay service providers that accept Mastercard, have the specific MasterCard classification notified to you at the time of claim (for example, 'medical facility'); or
- to withdraw the amount from an ATM that accepts Mastercard, subject to these TravelCard Terms and Conditions and any additional terms we may agree to at the time of the claim.

For more information on TravelCard or to arrange a travel insurance policy please contact your FINPAC Insurance Advisor.