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FINANCIAL DIRECTIONS

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Inside

There's more to income protection than you may think

When it comes to income protection, there's no shortage of misconceptions around what income protection actually covers, and how far reaching this cover can be.

Some people think that income protection only covers injuries and has limited value for those in low risk occupations. The reality is that it also covers illness, which makes up 40% of claims.*

Furthermore, it's not only illnesses with obvious physical affects that are covered.

Mental illness is responsible for many claims and is by no means uncommon in our community; one in five Australians will experience a mental illness at some stage in their lives.**

Many Australians are equally unaware of the variety of ways income protection can assist, through supplementary benefits and support beyond the basic income stream.

The following real life story dramatically illustrates the value of quality income protection insurance.

How Simon's story unfolded

When his best friend committed suicide, Simon never expected that he'd be so impacted. In the three months following the tragedy, Simon developed a debilitating post traumatic stress disorder resulting in clinical depression and time off work.

Fortunately, some years earlier Simon had purchased income protection policy, which proved to be a valuable lifeline.

Recovery sometimes needs more than just income replacement

Simon's income protection paid him a regular income, which helped replace lost wages. The Insurer also offered a rehabilitation benefit, assigning Simon a rehab adviser.

He began by developing a management plan and working with Simon's GP to identify appropriate courses of therapy. The rehabilitation adviser also kept in email contact with Simon's wife, encouraging her to attend Simon's therapy sessions.

With Simon unable to return to his own occupation, the rehab adviser engaged a specialist – paid for by the Insurer – to retrain Simon for the building industry. Simon progressed well and was able to secure his first building job.

A twist in the tale

Long working hours, less family time and medical support took its toll; Simon suffered a relapse. The rehabilitation adviser once again became involved and even organised a personal trainer to help Simon lose weight and to improve his general well-being.

Simon persevered, recovered and was able to recommence work, this time with more on-the-job training and support. Despite the fact that he was working full time, the insurer continued paying partial income support, due to his wages being less than what they were prior to his disability.

Simon's story demonstrates the value of quality income protection insurance that goes beyond a simple income stream; insurance that provides holistic support for the complexities that illness can bring.

* Based on claims received within FYE 2009 by Asteron Life Limited ABN 64 001 698 228, AFS Licence No 237903, which is part of the Suncorp Group.
** www.health.vic.gov.au/mentalhealth/illnesses/facts.htm

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Why is superannuation so important?

Superannuation, or super as most of us know it, is a good long-term savings plan, which will provide you with an income when you retire. For many Australians, super will be their main form of retirement income.

During your working life you make contributions to your super fund and the earnings you receive are reinvested, building up the value over time.

The money that you put into your super fund must generally stay there until you reach retirement, or when you begin your transition to retirement, both after a set minimum age.

As contributions to your super fund and their earnings are generally taxed at just 15%, this makes super one of the most tax-effective investment vehicles.

How does super work?

To understand how super works, it's important to keep in mind that super is a framework for holding investment assets.

It's not an investment in itself.

Super funds can offer a range of investment options and asset classes that may include cash, property, shares and fixed interest.

When you put money into your super fund and choose your investment options, you are actually buying units in these investment options (if the super fund is unitised).

The number of units you receive depends on the daily unit price. This price will vary daily according to changes in the market.

Money can be put into your super fund by you, your employer, your spouse and sometimes even the Federal Government. Typically, if you are an employee, your employer will contribute at least 9% of your salary to your super fund. This is known as compulsory super.

What types of super funds are there?

There are several different types of superannuation funds. The mains ones are;

- Employer/corporate/staff funds - these are funds established by employers for the benefit of their staff.
- Personal funds – as the name implies, you personally join as an individual through a super provider. There are many available and most will offer a wide range of investment choices and other features.
- Industry funds – these were originally set up for people working in a particular industry, e.g. builders or health care workers. Many are now available to the public.
- Self-managed super funds (also called 'do it yourself' funds) – these can have up to four members and are generally used by people with larger amounts in super or by family groups.

Can I withdraw the money that I have in super?

Usually, you are restricted from accessing your super money until you reach your preservation age. Your preservation age is based on your date of birth and ranges between 55 and 60.

In very specific circumstances you may be able to access your super funds on compassionate grounds, however these situations are limited.

When can I access my super?

Generally, you can only access your super savings when you reach preservation age. This is to ensure your super savings are used for when you reach retirement.

Before you can access your super you need to meet one of the conditions below:

- Reach preservation age and retire
- Reach preservation age and continuing to work
- Changing jobs on or after 60 years of age
- Reach 65 years of age.

How much super is enough?

Your retirement may be a distant thought or it may be just around the corner. Either way, it's important to know you'll be able afford the lifestyle you want and deserve.

While Australian employers are required to contribute at least 9% of your salary to super, you need to work out if this will be enough for you to live comfortably in retirement?

The amount of super you'll need will depend on your individual circumstances, such as your current age, current income, desired retirement age, desired retirement income and current super balance.

Is compulsory super enough to meet my needs?

Most Australian employers are required to contribute at least 9% of your salary to super; this is known as compulsory super. Even though compulsory super is intended to help fund your retirement, it may not provide you with enough money in retirement for the lifestyle that you want.

Before you decide that you can solely rely on compulsory super contribution please speak to your Sentry financial adviser.

Can I choose my super fund?

The short answer is yes. Since 1 July 2005, employees, with some exceptions, have been able to choose the super fund their contributions are paid to. The good thing about this is it puts you in control of what could be your biggest source of retirement savings.

For help in making decisions about super talk to your Sentry financial adviser.

Your Sentry adviser can help you identify your goals and recommend the super strategies best suited to your individual situation.

Saving for your kids

Names: Dean & Jenny

Ages: 38 & 34

Dean and Jenny have a beautiful four week old baby daughter, Samantha.

Dean and Jenny would like Samantha to attend a private high school when she turns eleven. They estimate that her private school tuition fees will be around $14,000 a year[1].

As they hope Samantha will complete Year 12, they will require six years of fees or around $84,000[1].

Right now that seems like a lot of money, but by starting early and sticking to a regular savings plan, Dean and Jenny realise that this is very achievable.

They start by putting $5,000 into a managed fund and decide to add $300 a month.

If their managed fund were to grow by 7% a year[2] and allowing for inflation of 2.5% a year, by the time Samantha starts private school in eleven years time they will have around $58,000[3] – that's more than enough to pay for the first three years of fees! In addition, their savings plan will continue after Samantha starts high school, adding another 6 years of savings.

By investing regularly and resisting the temptation to make withdrawals, Dean and Jenny can benefit from compound returns – earning further investment returns on their re-investments. And as they invest the same amount each month to buy units in the fund, they can also take advantage of dollar cost averaging.

This means that they can benefit when the fund's unit price is low, as they are able to buy more units with the same amount of money i.e. $300 per month.

Because Dean and Jenny are investing for the long-term, they are considering investing in funds with higher levels of risk for greater potential returns.

Your Sentry financial adviser is best placed to know exactly which investments are right for you.

[1] In today's dollars.

[2] Before fees and taxes. Please remember fees and taxes have an impact on long-term returns.

[3] No allowance has been made for taxation, including capital gains tax on investment earnings.

Provided with the compliments of Colonial First State

There's a reason they call it life insurance

Why is life insurance so crucial to a family's financial plan?

Because the ability to achieve life's most important goals – a house, food on the table, an education for the children – depends on the combination of time and money provided by both partners.

Mess with that equation, that combination and you put those crucial things at risk – the home you want, the education you aspire to for your children.

That's why life insurance is so important – it's not about protecting a house. It's about protecting all that you value in life.

Under covered

Research released by IFSA reveals that the average life insurance payout was worth just $91,000 in 2008.[1]

When you consider that the average Australian family with young children has debts of over $160,000[2] it become obvious that many Australian families are dramatically under-insured.

So why do we go without enough cover?

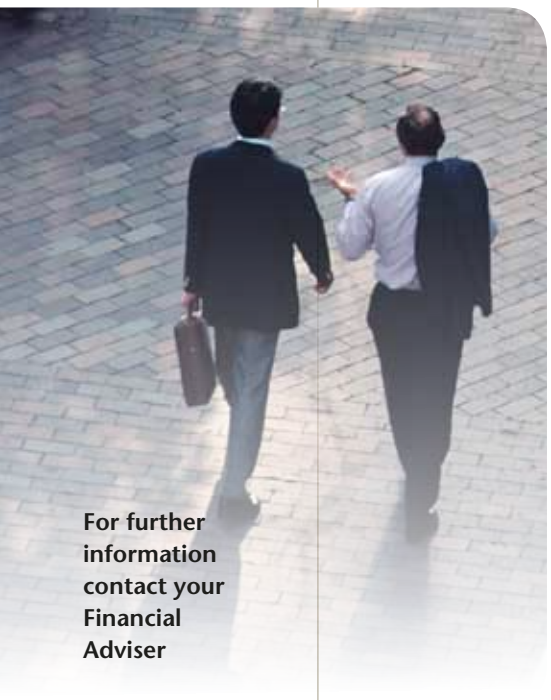
"Life Insurance is something I'll think about when I get older."

"Talking about disasters can make them happen."

"I've got a job and money in the bank. Why should I think about risk? There doesn't seem to be any!"

And yet these common sentiments fly in the face of some sobering facts.

- Over 1,600 people die in car accidents every year and most of them are aged between 26–and 59.[3]
- The average Australian mortgage is now worth more than $345,000![4]
- A third of women and a quarter of all men will be diagnosed with cancer at some stage in their lifetime.[5]



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"My superannuation will take care of that…"

Another factor that stops people taking out the right insurance is the belief that superannuation, and the insurance included with it will be enough to rely on.

But superannuation is not there to protect you from tragedy. It's there to see you live comfortably in your retirement.

And it relies on building up capital over a long period – so it may not be the backstop your family needs if something happens to you before you've accumulated an appropriate sum.

That makes the insurance that often comes with your superannuation more important.

But is that the answer?

The insurance that is packaged with your superannuation is a policy shared with your fellow workers. Buying insurance "in bulk" via your super fund can be very cost effective, but that's because the insurance is often a generic cover.

So the same policy might be given to a 21 year old graduate trainee who owns a surfboard and a 45 year old manager with a mortgage and two kids.

That's why consulting your Sentry financial adviser about insurance makes so much sense. It's one way to ensure the cover you have is the cover you need.

Cover for you, cover for your partner

Another common mistake families make in considering Life Insurance is buying cover only for the main income earner.

The home maker is also a significant contributor – without them the income earner may need to stop work to take care of the kids. And face a loss of income on top of the tragic loss of a partner.

Indeed, research by IFSA suggests the childcare and home help provided by a 'stay-at-home' spouse could be worth more than $75,000 a year.[6]

That's why they need life cover too.

How can Life Insurance help you protect your family's future?

Life Insurance pays you or your dependants a lump sum payment if the insured dies or is diagnosed with a terminal illness and has less than 12 months to live.

At a time of devastating personal loss; the financial burden that follows could be overwhelming.

Life Insurance can ease that burden.

Life Insurance offers you and your dependants some highly valuable features:

- Though the premium isn't tax deductible, the lump sum payment is generally tax free.
- There are a range of other benefits, including the ability, upon certain events, to increase your cover without providing additional medical information.
- If you are diagnosed with a terminal illness, you receive a forward payment of the full sum insured.

Start early

As you get older, the risk of insuring your life increases and so do your premiums. So it follows that the earlier you start, the lower the initial premium.

Best of all, by starting early you reduce the chance of needing a medical exam later on if you want to increase your cover.

People generally only start thinking about insurance when they become ill; however insurance is generally cheaper if you purchase it when you're healthy.

Since each of us face different risks it makes sense to ask your Sentry financial adviser to find the life insurance policy that suits your specific needs.

[1] $91,000 not enough to cover lost life, IFSA/Lifewise Media release 30th April 2009
[2] ABS, Australian Social Trends, Household Debt, cat. no. 4102.0, 2009
[3] Australian Government, Road Deaths Australia 2007
[4] First Home Buyer Peak Over – But investors tip toe back, Australian Financial Group, Media Release, June 9, 2009
[5] Cancer in Australia: an overview, 2008 Australian Institute of Health and Welfare
[6] Australian mothers – undervalued and underinsured, IFSA Media Release: October 2005

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