

Issue 12 – Aug 2007

Will you be one of many that run out of funds sooner than expected in Retirement?

Just very recently I was asked if I could work on a spreadsheet that could calculate how long after retirement one's funds could last. It's not that complex really. There are 3 scenarios of what could happen to your funds after retirement:

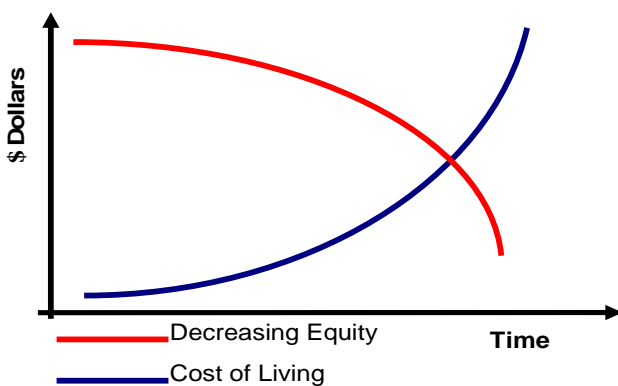
A) Drawdown is LESS than ROI (Return on Investment) – your investments will continue to grow over the approaching years

B) Drawdown is EQUAL to ROI - your investments will “hopefully” stay the same i.e. assuming there is no crash in the market which is highly unlikely over a 5 to 10 year period let alone a 20 to 30 year retirement period!

C) Drawdown EXCEEDS ROI - your investments will reduce in value over the approaching years and could drop substantially if there is a market crash.

Prior to retirement, the accumulation phase (or contribution phase) is on the compound growth curve. In addition, because of “Dollar Cost Averaging”, clients benefit from a drop in the market prices (Discount Buying). We all know that a professional investor can benefit very substantially from a drop in market prices.

However, following retirement, if the client, stops contributing and draws down on the balance i.e. client is no longer an investor but a “dependent”, there is no protection from a market crash or inflation. A market crash could prove fatal to such clients.



The red line above represents someone who has all their money tied up in a complying annuity. As time goes by, the capital value (or their equity) is decreasing. They actually have the most powerful force – compounding - working against them.

The blue line represents the cost of living. This is on the compound growth curve.

It's important that retirees have assets that continue on this path so that when their annuity is being used up, they have more equity from “growth assets” that will continue to further fund their retirement.

Clients that choose to adopt Option B or even worst still, Option C are planning for disaster! Early retirement may simply not be an option for such clients!

Sadly, statistics tell us that the majority of retirees will fall into the Category C option. Clients need to invest more time educating themselves on matters relating to financial literacy and wealth creation.

At IG we have advisors that could help you plan for your future. The in-house Success Coaching course is designed to educate and empower our clients to plan for true financial independence.

Article by Oscar Aguiar

Need further advice on Success Coaching or planning for your future? Call IG on 02 4962 5800.

Creative Thinking

Creative thinking is simply finding new, improved ways to do anything. The rewards of all types of success – success in the home, at work, in the community – hinge on finding ways to do things better.

Believe it Can Be Done.

That's basic to creative thinking. Here are two suggestions to help you develop creative power through belief:

1. Eliminate the word impossible from your thinking and speaking vocabularies, impossible is a failure word. The thought, “It's impossible,” sets off a chain reaction of other thoughts to prove you're right.
2. Think of something special you've been wanting to do but felt you couldn't. Now, make a list of reasons why you can do it. Many of us whip and defeat our desires simply because we concentrate on why we can't when the only thing worthy of our mental concentration is why we can.

***Excerpt from: The Magic of Thinking Big
By David J Schwartz***

“IMPOSSIBLE” is a word found only in the dictionary of fools.
Napoleon Bonaparte

Financial Planning Hints and Tips

1. Did you know that Life and TPD Insurance via most industry super funds is a decreasing cover? This means that the older you get the less insurance you have. Is this not strange as generally the older you are the more debt you have. It may be cheaper than normal Life Insurance but cheap is not always better.
2. Did you know that for every house lost through fire, four are lost due to death or disability because of inadequate or lack of insurance cover?
3. From 1 July 2007, if your super fund does not have your tax file number then the following will apply.
 - They will reject all Non-Concessional contributions (which include but are not limited to personal after tax contributions, spouse contributions). The fund must return the contributions to you within 30 days of receipt.
 - Concessional contributions (which include but are not limited to employer and personal deductible contributions) will incur tax of 46.5% (Super tax of 15% plus 31.5% tax). This tax will be charged at the end of each financial year your Tax File Number has not been received.
 - Insurance policies through super may lapse if contributions are rejected for any of the reasons listed. In addition this cover may not be able to be reinstated automatically, for example, if you have a new medical condition.
4. Superannuation and Beneficiaries – does your super fund have Binding or Non Binding Beneficiary? Do you know the difference?
 - Binding Beneficiaries: - Unless the court orders otherwise the Trustee must pay those you have nominated in the portion you have requested.
 - Non- Binding Beneficiaries:- The Trustee will have the discretion over who receives your benefit, usually taking into account the circumstances of your nominated beneficiaries and other applicable factors.

If you need help with any Superannuation or other wealth creating strategies, please call Jillian or Donna on 0249 625 814.

More Wealth Tools go live!

In our June newsletter, clients were informed of the IG program to go live with some of our “Wealth Tools” – spreadsheets that are designed to assist clients plan for their financial future. The “Financial Independence Calculator” was the first of these.

We now have a **Budget Spreadsheet** (with full instructions) along with an article titled “**Why Budget**” that can be accessed from the IG Web site.

<http://www.i-group.com.au/tools.html>

Many people consider lack of self-control to be a big factor in why they get into financial difficulty. This is actually not as true as you might think. Self-control is an essential criterion, but applying self-control in itself will be useless without some technical



knowledge on budgeting and knowing where and how to apply it and what applying it is designed to achieve. That's where “Wealth Tools” come into play! Try them out for yourself or even download them if that helps!

Go on, give it a go and have some fun. In the unlikely event you have any questions, I'm here to help. If you need assistance, I am only a phone call away!

Contact: Oscar Aguiar on 02 4962 5800

Pearls of Wisdom

Here is a gem. Hope it inspires you to think and act differently:

“FAR BETTER IT IS TO DARE MIGHTY THINGS, TO WIN GLORIOUS TRIUMPHS EVEN THROUGH CHECKERED TIMES BY FAILURE, THAN TO RANK WITH THOSE POOR SPIRITS WHO NEITHER ENJOY NOR SUFFER MUCH, BECAUSE THEY LIVE IN THAT GREY TWILIGHT THAT KNOWS NEITHER VICTORY NOR DEFEAT”

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Together we can.....

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All personal details are kept private and confidential. Names used in this newsletter have been done so with consent.

Comments and contributions always welcomed.

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SPECIAL SUPPLEMENT

New Staff: John Shortland (CFP) joins I-G Financial Planning



John grew up in Mayfield and also lived as an adult at New Lambton and Eleebana.

Many Newcastle people will remember John as a musician/entertainer in the 70's, 80's club scene and through athletics, junior soccer and the martial arts .

John had an early career in Newcastle as a real estate agent with then well known realtors Hawkes and Donnelly. Fifteen years were then spent in commercial lending on construction and business projects with leading national lenders.

John studied accountancy and investment courses and is a Certified Financial planner. He has spent twenty years in the financial services business as a financial planner and in a senior management role in funds management. For the past three years John has travelled Australia as a corporate trainer for MLC Three Sixty training investment advisers in diploma courses, financial planning computer programs and financial planning business practice. John has returned home to the Hunter region and lives at Largs with wife Julie and looks forward to assisting Novacastrians in achieving their lifestyle goals.

The Management and Staff of Independence Group welcomes John as he becomes part of the IG Financial Planning Team.

The 2007 Intergenerational Report

On Monday 23rd July, we had a number of very interesting topics and a good turn up at the information evening. Of particular interest was the Treasurer's 2007 Intergenerational report.

A quotation taken from the report sums it all:

“Demography is destiny”

It will make people realise the unstoppable changes that are coming towards us.

Robin Bowerman of Vanguard Investments Australia has this to say about the Intergenerational Report:

“To state the extreme case imagine the conversations between parents and children in later years when young working Australians will be labouring to pay rising tax bills while their parents enjoy their tax-free retirement pensions. Taxes could be raised to pay the higher bills and the government is predicting large federal budget deficits rather than the annual surplus we expect at the moment. The message out of the intergenerational report is that significant challenges remain for our standard of living to be sustainable and that at least is something that will hopefully unite rather than divide younger and older Australians”.

We hope to discuss the above in more detail at another evening session as requested by those in attendance. Parents will be encouraged to bring their children, (young Australians) along to participate in the debate as it is they who will face the challenges.

The Intergenerational Report 2007 is available on the Treasury website.

<http://www.treasury.gov.au/igr/IGR2007.asp>

Together we can.....

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