connect
Spring 2016

Reserve Bank of Australia cuts the cash rate

The Reserve Bank of Australia (RBA) lowered the cash rate by 25 basis points during the June quarter and did so again in August to an historical low of 1.50 per cent. Inflation was an important catalyst in the decision to lower the cash rate because headline inflation recorded 0.4 per cent for the June quarter and 1.0 per cent annually, well below the RBA's medium term target zone of 2.0-3.0 per cent. The RBA is also concerned that the stubbornly strong Australian dollar, which fetched over US78c at one point during the June quarter, will complicate Australia's economic progress.

2016 Federal Election – political instability

Treasurer Scott Morrison delivered the 2016/17 Federal Budget during the marathon eight week campaign of the Federal Election. The budget is expected to blow out to a $39.9 billion deficit in 2015/16. This means that the Government has a tough balancing act between focusing on responsible spending constraint whilst also driving growth. Malcolm Turnbull claimed victory and won the 76 seats needed to form majority government but will face a potentially hostile senate. A lack of progress on any serious structural reform in order to reduce the deficit will leave the task of supporting the economy on the RBA's shoulders.

> "In investing, what is comfortable is rarely profitable"
>
> **Robert Arnott**

US Federal Reserve (Fed) – a credibility issue?

The Fed maintained the federal funds rate in the target range of 0.25-0.50 per cent in the June quarter as market expectations for monetary policy tightening in 2016 fell from four hikes to none. The Fed surprised the market a number of times as it yo-yoed between a dovish and hawkish stance. This has created a credibility issue with investors because markets place significant emphasis on the direction of the Fed. Communication from the Fed will be cautious going forward but the Fed is still pricing in rate hikes for 2016 even though the market isn't.

Brexit – A ripple effect

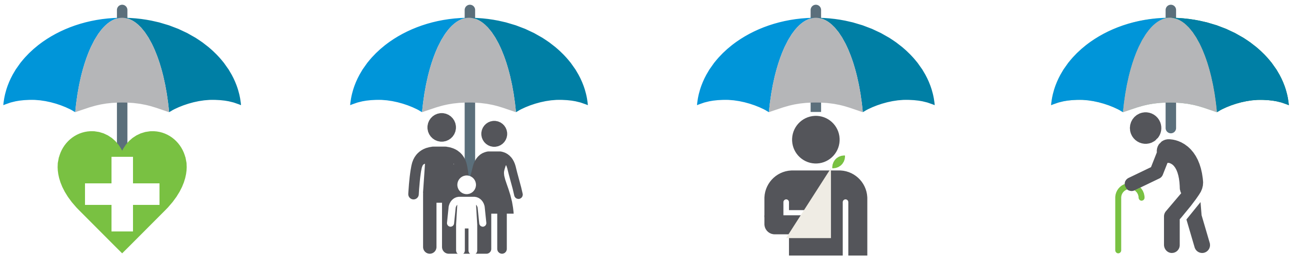
Market performance over the June quarter was largely driven by the UK's decision to leave the EU in a shock 52 per cent to 48 per cent outcome that signalled the beginning of a lengthy period of uncertainty. While the initial market reaction saw markets plummet by up to 9.0 per cent, concerns seemed to recede within a week as indices recovered to levels seen prior to the UK's vote. The economic impacts are difficult to assess but they will most likely be localised within the Eurozone and this will be reflected in the EU and UK being unable to hit their 2016 and 2017 growth forecasts. We expect this will put pressure on the Bank of England and the European Central Bank to adopt additional monetary policy measures in 2016 to cushion the fallout from Brexit.

Source: IOOF

Speak to your financial adviser for more information.

Trauma insurance fills the gaps

Heart disease and stroke continue to be the two most common causes of death[1] in Australia for people over the age of 45, and accounted for over 30,000 Australian fatalities in 2012. Incredibly, thousands of Australians are underinsured or have no risk insurance in place to cover the expenses should they suffer a debilitating illness.



According to the Cost of Cancer in NSW[2] report, the total expected lifetime economic cost of cancer – taking into account both the financial cost and the burden of disease (for example, lost productivity and burden on the healthcare system) – is almost $1m per person. Certainly for an individual being treated for cancer, out of pocket costs in excess of $100,000 are not uncommon. Many advisers use a rule of thumb for calculating an appropriate sum insured which at minimum should allow for the removal of debt and the provision of one year's income, but this is merely a starting point.

These initial figures should be considered along with the financial cost to the individual and family, and importantly the 'true cost' of the disease.

You can rely on trauma insurance

Trauma insurance can cover between 10 to 50 medical events and will pay in the event you suffer a defined health trauma, regardless of your work status. It pays a lump sum to help cope and recover from serious health conditions such as cancer, stroke and heart attack. Some insurers also offer partial payments for less serious conditions.

Medical advances have meant that our chances of surviving traumatic events are much better than in the past. However, the cost of treatment can sometimes be beyond your normal means. Without trauma cover, you may need to dip into your children's education fund or your retirement savings, or you might even have to increase your mortgage to pay for expensive treatment.

The difference between trauma insurance and income protection

Importantly, a trauma payment is not dependent on you being unfit to work (unlike income protection, where you need a doctor to certify your ongoing health). The diagnosis of a traumatic condition might mean that you physically could go to work, but would prefer to spend time with your family and reduce any work-related stress while you recover and consider how your future will be affected.

To make sure you don't increase the statistics, check your policy documents to see which level of cover you hold, and speak to your financial adviser if you are unsure. They can help you determine what cover you already have, what changes or additions may be appropriate and how to make them.

Source: Zurich

1 Leading Causes of Death, Australian Institute of Health and Welfare, www.aihw.gov.au/deaths/leading-causes-of-death.

2 Cost of Cancer in NSW, Access Economics Pty Limited for The Cancer Council NSW, 2007.

Speak with your financial adviser to check the level of your trauma insurance cover

The secrets to a healthy work/life balance

Work life balance means different things to different people and for many of us it no longer means working nine to five. Due to technology and social media, the boundaries are blurring between work and home and it's becoming hard to separate work and non-work.

There are many good reasons as to why you should improve your work/life balance but the most important is for the benefit of your health. Spending too many hours at work or thinking about work can result in stress, sleep deprivation, depression, being burnt out and unhappiness.

We need a good balance between work and rest to give our bodies time to relax, refresh and find balance. When you become stressed, it's important to realise that you become unproductive.

There are common signs that your work life balance may be off-balance.

1	You have a diary full of work commitments.
2	You sometimes forget to eat lunch.
3	You spend more time with work colleagues than with your family
4	You no longer have any time for sports or hobbies.
5	You spend more time talking to work related colleagues and contacts on social media than you do with your friends and family.
6	Your family considers your work to be a constant intrusion.
7	You find it hard to part with your phone or laptop – even late at night or on the weekends.
8	You feel stressed or suffer from insomnia.
9	You talk mostly about work.
10	You feel you are too busy for time off or a holiday.

You don't necessarily need to make big changes in order to bring more balance into your life. If you don't have much control over the hours you work, you can ask yourself what other ways you can bring more enjoyment and relaxation into your life. The trick is to learn to focus your time and attention on the things that you can control.

So what's the secret to a healthy work/life balance? We share our ten tips to get the balance right:

1. **Be open about your needs –** whether you work for someone else, or are self-employed, we can all benefit from having an open and honest conversation about what balance means for us and whether this is possible to achieve in the workplace. Perhaps it's leaving the workplace at lunch, starting earlier so you can leave to get to that yoga class or having the flexibility to work from home on occasion.
2. **Set and respect your boundaries –** you need to respect the boundaries you put in place. It might be something simple, like not checking or replying to work emails after 7pm. Boundaries help to establish your routine, create habits and a sense of balance.
3. **Work, rest and play –** a good rule of thumb is eight hours work, eight hours rest and eight hours play.
4. **Focus on what really matters –** often we waste time on the things that don't really matter or which don't add much value. Learn to prioritise those tasks that really matter and focus on outputs.
5. **Embrace the "off" button –** it might sound simple, but using the "off" button can be a lot harder than we think. Start small – perhaps by not using the phone at dinner or after a certain time in the evening. When on holiday – be on holiday. By "unplugging" we can start to really enjoy the moment and we are more present.
6. **Use technology to your advantage –** technology offers many shortcuts like online shopping, bill payments and video conferencing as well as many useful apps. When used wisely these tools can save time every day.
7. **Schedule and manage your time –** if you start to monitor your time closely you can see where it is being wasted. Start to prioritise the things that need to be done first.
8. **Take short breaks/plan a holiday –** plan important family commitments, holidays and outings. Take time out for yourself.
9. **Slow down –** pace yourself. Life is not a race. Often the pressure we feel can be self-imposed. There are times when you may need to apply a little more pressure and times when you don't. Learn to slow down and work out what is really important.
10. **Ask for help –** if you feel like things are out of balance or that you may be suffering from burn out or stress, then it is important that you seek help. Talk to your manager, friends or loved ones.

Source: Innergi

Federal Budget Q&A

Lifetime non-concessional contributions cap

One of the proposed changes announced in the May Federal Budget was to replace the annual cap for concessional contributions with a lifetime cap of $500,000. To help you understand what this may mean for you, we've answered some of the questions our advisers are being asked. However, it's important to remember that these announcements are proposals only, they are not yet law.

How much of your lifetime cap has already been used?

The ATO will be the source of truth for the amount of non-concessional contributions you have made. You can ring the ATO directly or your adviser can contact the ATO on your behalf.

It's important to note that while many super funds will hold accurate records, they may not have all the details of your contributions, especially if you have changed superannuation funds.

What if your non-concessional contributions exceed the lifetime cap?

Between 1 July 2007 and Budget night (3 May 2016), the level of non-concessional contributions you have made may exceed the proposed new lifetime cap of $500,000. As these contributions were made before Budget night, then this money can remain in your fund. What this means, however, is that you will have reached your lifetime cap and will not be able to make any future non-concessional contributions to super.

What about contributions made after Budget night?

If you have made, or are planning to make, a non-concessional contribution after Budget night, you will need to consider whether this will breach the proposed new lifetime cap. If it does, you will have two options. The excess contributions will need to be either:

- refunded to you and the ATO will apply tax to a calculated amount (referred to as associated earnings), or
- retained in your fund but penalty tax will be applied.

Make sure that you discuss your options with your financial adviser before you make any decisions.

Can you make a contribution equal to the lifetime non-concessional contribution cap in one year?

Yes, the context of the super amendments suggests that the lifetime cap can be utilised in a single contribution.

In addition to the $500,000 lifetime cap, is there an annual limit?

The Budget announcement only referred to a lifetime limit of $500,000. There was no reference to an annual cap.

Does an overseas super fund transfer to your super fund count towards the $500,000 lifetime limit?

Part of the amount transferred will count towards the lifetime limit. If you have made a transfer from an overseas super fund, please speak to your financial adviser.

If these proposals are implemented, it's important to understand how these changes may affect you.

Source: IOOF

For more information, please speak to your financial adviser.

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