

Outlook

Financial Update & Outlook

Autumn 2011

Over the past few months we have witnessed significant human suffering from natural disasters and conflict in the Middle East. It is difficult to understand the distressing circumstances families around the world are in. Our thoughts are with everyone affected by these tragic events.

As the situation is still difficult and very unclear, it is almost impossible to assess the short term economic consequences. As a general rule, natural disasters have a temporary impact on economic growth and once the rebuilding begins the economy rebounds.

What we can say with certainty is that our client's portfolios are based on a robust, diversified approach to cope with such catastrophic events in the long term. We know this because our philosophy and diversified approach has meant that our clients and our firm have endured all market cycles in the last 30 years.

With the end of financial year only two months away, Petrina Rinaldo looks at tax planning strategies. Some of these strategies are quite simple such as paying the interest on your margin loan in advance, pre-paying your income protection insurance or making concessional contributions to superannuation. We find that the difficult part for most clients is actually taking action now so that they can benefit from these opportunities before it is too late.

Superannuation contributions for example need to be received by your fund before the end of June to be eligible to claim a tax deduction. We encourage clients to have their superannuation contributions to FINPAC by the 17 of June to ensure they don't miss out.

Tony Muller and the team from FINPAC Insurance Advisors have been busily working on the many claims filed as a result of the recent natural disasters, with more than half of the claims now finalised. Their dedication to customer satisfaction and the provision of quality service is second to none.

Most of our new clients are referred to us because existing clients have recommended our firm to them. It is probably one of the most rewarding components of our business and it tells us that we are on the right track with our advice. If you like the service we provide please tell your family and friends. We promise to deliver the same high level of service and advice to them, as we have done for all of our clients over the past 30 years.

What makes us unique is that we are owned by our directors and families. We are not owned by a bank, insurance company or fund manager and therefore clients can be completely confident that our professional advice is not influenced by any vested interests and that the recommendations we make will be designed solely to optimise their financial situation.

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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wealth creation

A world in turmoil: how will it affect us?

In our last Outlook we focused on the potential slowing of China and its impact not only on the Australian resource sector but the Australian economy as a whole. The recent devastating events in Japan and turmoil in the Middle East have however taken the focus away from China.

The Japanese economy is predicted to have a negative impact on growth in the short term, but generally is unlikely to disrupt the global economic recovery. Like China, Japan is one of Australia's major trading partners. It accounts for around 15% of our exports (China accounts for around 23%). Subsequently there may be a decline in demand for our exports over the next few months. As Japan slowly begins to rebuild this will change and demand will most likely increase for commodities such as oil, coal, gas (to make up to their electricity deficit) and possibly even food.

The potential increase in demand for our exports from Japan is promising for investors and should make up for any shortfall from China. A more cautious view about nuclear power will however hurt uranium stocks.

Oil prices have generally moved in an upward direction in the past year due to increasing global demand. The war in Libya has disrupted oil supply and although it produces only 2% of global oil production it has caused oil prices to spike. At this stage countries such as Saudi Arabia have been able to make up for this loss in supply. **The general belief is that while conflict is contained to Libya the impact on global growth and the economic recovery will be minimal.** If however conflict spreads to other oil producing regions disrupting oil supply further, oil prices will increase putting pressure on inflation and global growth may contract.

The strong Australian dollar has somewhat protected us from rising oil prices. The concern here is what impact it will have on retail spending given Australian households are already paying higher prices for food, electricity and insurance.

What did our share market do?

The March quarter started well with the Australian share market breaking through 5000 points. The events in Japan and the Middle East however caused a sell off, bringing our market down to a six month low in the middle of March. Since then it has already rebounded back finishing the quarter over 1% higher.

what TAX DEDUCTIONS will you be claiming?

CONTRIBUTIONS to superannuation

You may be able to claim a tax deduction for concessional contributions to superannuation. This effectively helps you reduce your taxable income and subsequent personal tax liability. They can also be used to offset potential capital gains that may be payable on the sale of assets.

To make a personal concessional contribution to superannuation you must be either self-employed or not working at all (between 18 - 65 years of age).

INTEREST on your INVESTMENT LOAN

If you have borrowed funds for an investment that will generate assessable income, you may be eligible to claim a tax deduction for the interest payable on your loan. The interest for the next year can be paid **before 30 June**, effectively bringing the tax deduction forward into the current tax year.

Given that interest rates are predicted to go up, this may also allow you to lock in a lower rate for the following tax year.

If you don't have a margin loan, now is a good time to take a closer look at the benefits of sensible, stress-free gearing strategies especially as the Australian share market is still 30% below its previous high.

Premiums on your INCOME PROTECTION

Both employed and self-employed persons are eligible to claim premiums paid for income protection insurance as a tax deduction. So it makes sense to pre-pay 12 months' **income protection insurance premiums**. This will bring forward your tax deduction allowing you to pay less income tax in the current financial year.

Premiums on your LIFE INSURANCE

If you are self-employed or eligible to make salary sacrifice superannuation contributions, you are able to **purchase Life and Total and Permanent Disability Insurance through a stand alone superannuation policy**.

This means you will either save on premiums or be able to purchase more insurance cover due to the tax deduction available on the premiums. Investors need to be aware that these contributions count towards their concessional contribution limit.

Work related expenses

Where at all possible, pay any additional deductible expenses in advance and as close to the **30 June**, to claim the cost in the current tax year.

what **STRATEGIES** can you use to **REDUCE** the amount of tax you pay?

Salary Sacrifice

Salary sacrifice to superannuation is one of the best strategies to maximise your future retirement benefits while helping to reduce your personal tax liability. It involves substituting a portion of your salary and increasing the amount your employer contributes to your superannuation account.

This is an excellent strategy for those with a **marginal tax rate of 30% or more** and who will not require the funds prior to their retirement. Salary sacrifice contributions count towards the concessional contribution limit.

other end of financial year actions

Government Co-contributions

If you make personal non-concessional contributions to superannuation before the end of the financial year, you could be eligible to receive the government co-contribution of **up to \$1,000**.

To be eligible you must be under 71 years of age at 30 June, have earned **less than \$61,920** and have derived at least 10% of that income from an employer or business related activity.

Spouse Contributions

You may be able to claim an **18% tax offset** on contributions of up to \$3,000 that are made on behalf of your spouse. The receiving spouse's assessable income must be **less than \$10,800** for the income year and they must be under 65 years of age (or up to age 70 if they meet the Work Test). The contributing spouse can be of any age. Spouse contributions count towards the receiving spouse's non-concessional contribution limit.

Report by Andrew Gricks and Petrina Rinaldo, Representatives of FINPAC Financial Advisors PTY LTD (Australian Financial Services Licence 237820). This bulletin contains general information only and has been prepared without taking into account your individual financial needs, circumstances and objectives. Reliance is not to be placed upon this material, and you should assess your own financial situation before making an investment decision based on it. You may wish to consult your advisor. Any representation or statement made or implied in this material whether by way of opinion or advice or otherwise, is made in good faith, but on the basis that FINPAC FINANCIAL ADVISORS shall not be liable to any person in respect of such representation or statement whether by reason of negligence, lack of care, or otherwise save where liability cannot be excluded pursuant to law.

Transition to Retirement

Find yourself looking over your group certificate and in particular at the amount of tax you have paid? Want to reduce this figure next financial year? If you are between 55 and 65 years of age, then a Transition to Retirement (TTR) may help you with this. A TTR may be able to effectively reduce your taxable income and subsequently the amount of tax you pay.

A TTR is like a superannuation fund that pays you an income while you are still working. This tax-effective strategy involves substituting your earned income with income from a pension account, and allows you to increase your salary sacrifice contributions to your superannuation account.

In addition, a TTR does not pay any tax on earnings such as dividends, interest and capital gains within the fund, unlike a superannuation fund that is taxed at up to 15%.

TTR not only suits people who want to reduce their personal tax situation but it is also suitable for people who want to reduce their hours worked and supplement their income from superannuation.

flood, cyclone, bushfire & earthquake

Only a few months into 2011 and what a year so far with floods, cyclones, and bushfires affecting most areas in Australia. Then we experienced the terrible earthquakes in New Zealand and Japan.

These events in Australia have created an unprecedented workload on the country which started with the emergency services, moving to the insurance industry, and will now flow through to the reconstruction and renewal industries.

FINPAC Insurance Advisors and our clients have been severely affected by Cyclone Yasi and the subsequent heavy rains and floods. Our staff, in particular Claims Manager Danielle, have been overwhelmed with around three hundred claims ranging from total house losses in Cardwell to minor home repairs in and around Townsville.

The workload placed on claims departments and associated assessors so soon after the South Queensland floods initially created some problems for us in the north but I am pleased to say that claims settlements are proceeding well.

Most large, total loss claims were being settled in days with one house in Cardwell being finalised the same day the assessor inspected the property.

In general, most small claims where we have photos of the damage and quotes for the repairs are also being settled direct to the client within days. The major difficulty, as it will always be in these situations, is the availability of tradespeople to supply quotes to enable the insurer to quantify the claim.

These types of disasters do present an opportunity for us all to commence a full review of our insurances with particular focus on the specific risks that affect our own situation, be it our home or our business.

We welcome clients who wish to make an appointment to discuss their needs, particularly in the wake of Cyclone Yasi.



trauma insurance - the insurance you don't have to die to get!

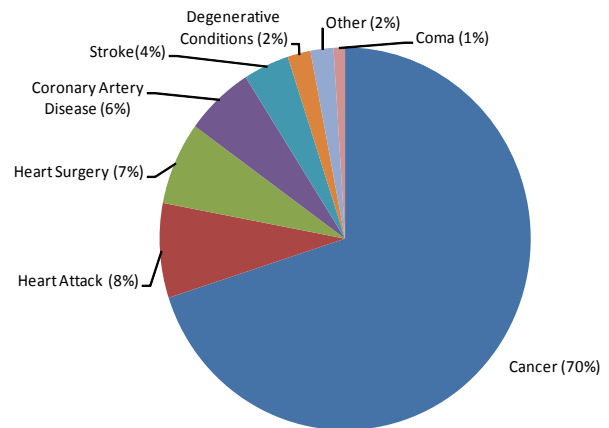
We all know someone who has suffered cancer, heart attack or stroke at varying ages. Trauma cover pays a lump sum benefit if the insured person is diagnosed with any of a number of listed diseases or medical conditions such as cancer, heart attack, stroke and many others. Unlike Life Insurance, the benefit is available to improve the quality of life after suffering a severe medical condition.

As a nation, it has been well documented that Australians are **underinsured and under-prepared**. In fact, **only 22%** of us have Life Insurance.

When it comes to Trauma Insurance, the statistics are worse, with **only 2%** of Australians actually owning cover. This is alarming when compared to the fact that of all the insurance claims paid by Life Insurance companies, around **25% were for trauma claims**.

- **Females (aged 25-40)** are **5 times** more likely to claim on a Critical Illness policy than life cover.
- **Females (aged 25-40)** are **6 times** more likely to claim on a Critical Illness policy than TPD.
- **Males (aged 25-40)** are **3 times** more likely to claim on a Critical Illness policy than TPD.
- The Heart Foundation estimates that heart disease is currently stopping **1.4 million Australians** from living the life they want.
- Cardiovascular disease affects **two out of three** Australian families.
- **One in every three women and one in every two men** is likely to have some form of cancer before age 75. Over 50% will live longer than 5 years after diagnosis.
- Around **20%** of all claims paid by Life Insurance companies are for **breast cancer**.
- Australian Women have a **one in nine** risk of developing breast cancer by age 85.

Total Trauma Claims in Australia



ABS Statistics.
www.heartfoundation.org.au
www.Cancer.org.au
Cancer in Australia: an overview, 2008 Australian Institute of Health and Welfare, December 2008.
General Cologne Life Re Australia, 2002.
AIHW and Australasian Association of Cancer Registries, Cancer in Australia in 2001, Canberra, 2004.



Report by Anthony W Muller, Director & Representative of FINPAC Insurance Advisors PTY LTD [Australian Financial Services Licence 252590]. This bulletin contains general information only and has been prepared without taking into account your individual financial needs, circumstances and objectives. Reliance is not to be placed upon this material, and you should assess your own financial situation before making an investment decision based on it. You may wish to consult your advisor. Any representation or statement made or implied in this material whether by way of opinion or advice or otherwise, is made in good faith, but on the basis that FINPAC Insurance Advisors shall not be liable to any person in respect of such representation or statement whether by reason of negligence, lack of care, or otherwise save where liability cannot be excluded pursuant to law.

what's happening at finpac?

Andrew and Tricia became grandparents for the first time in 2010. Andrew's daughter Victoria and her husband Trevor welcomed their first child, a healthy baby boy named Harrison, into the world on the 16 August. Here is a photo of Poppy and Harrison.



The FINPAC Insurance team has been busy attending numerous training sessions due to changing legislation. These sessions also provide product updates from various insurers.

Tony, Julie and Sarah will be attending the Association of Financial Advisors Annual Conference later in the year. Sarah has also started her study towards being able to give life insurance advice to clients by commencing the KAPLAN Life Insurance program.

On the general insurance side, Karen, Danielle and Alison have also attended a number of workshops run by the Council of Queensland Insurance Brokers and will be attending the CQIB State Conference at the end of April.

Tony, Karen and Danielle are also upgrading their insurance broking qualifications with the National Insurance Broking Association.

Attending these seminars on a regular basis ensures that the staff here at FINPAC are always up to date on the latest products enabling them to provide the services that best suit your needs.