April 2008 Edition

TALKING POINT!

In this edition of **TALKING POINT!** we discuss:

- Investment Markets – what has happened since 1 July 2007?
- A reminder about Transition to Retirement Pensions; and,
- Super Housekeeping.

INVESTMENT MARKETS

From the media coverage in recent months you will be aware of the significant volatility and downturn in financial markets. Triggered by the US "sub-prime" issue which hit the headlines in July/August last year, financial markets have become increasingly bearish. Further fuel has been added by the likelihood of a US recession, and slower world economic growth as a consequence, and a global credit squeeze which is affecting liquidity in financial markets and the corporate sector. The consensus view is that the market volatility is likely to continue at least until later in the year.

We estimate that the "average" Balanced Super Fund investment option (with an allocation 70/30 growth/defensive assets) would have an investment return of -8% in the period July 1 2007 to end February 2008 – and returns have deteriorated further during March.

Periods of market downturn are not comfortable for anyone and for some it can be extremely stressful. Fear of loss is a very strong human emotion, and it is often the case that we focus on the negative – As Woody Allen once put it *"More than any time in history mankind faces a crossroads. One path leads to despair and utter hopelessness, the other to total extinction. Let us pray that we have the wisdom to choose correctly"* although he wasn't necessarily talking about investment markets in 2008!

As superannuation is for most people a long term investment one reaction to current events is to ride out the current market downturn and await the inevitable, eventual recovery i.e. don't panic and stay focused on long term returns. In deciding how to react to a market downturn, some considerations are:

- Whether your investment choice in superannuation is structured with an asset allocation and risk/return profile that you feel comfortable in order to achieve your desired long term average investment rate of return;
- There have been several financial years of strong, above average investment returns. History shows that inevitably there are also periods of negative returns that have to be prepared for-, and this now appears to be in such a period.

If you wish to revisit your personal "risk/return" profile, which should guide you in selecting the long term investment strategy appropriate to your circumstances, we recommend you use one of the risk profiling tools that are available of superannuation provider websites or seek personal financial advice.

TRANSITION TO RETIREMENT PENSIONS – a Reminder

In the October 2007 Talking Point! we explained about Transition to Retirement Pensions ("TRP"). For anyone currently over age 55 a TRP strategy could save tax and finance additional super contributions. Very much in overview, a TRP:

- Can be commenced using superannuation once preservation age is reached, even if the person is still employed;
- Allows a maximum 10% p.a. allocated pension to be withdrawn;
- Does not allow lump sum withdrawals until the person has permanently retired;
- Is tax free if the person is aged over 60, and taxed concessionally if aged between 55 and 60.

As with all things connected to super, TRPs offer opportunities but there are some traps as well. Anyone over age 55 should obtain financial advice to see whether a TRP would be tax effective for their situation!

SUPERANNUATION HOUSEKEEPING

- ✓ Make sure that all of your superannuation funds have your Tax File Number;
- ✓ Ensure that you are not going to breach either the Concessional or Non-Concessional contribution limit for the financial year;
- ✓ Make sure that your Nominated Beneficiary is up to date and is a valid nomination. If your fund offers Binding Death Benefit nominations, have you considered whether this is best for you;
- ✓ Have you checked the ATO website for any "lost super"? The Government currently has around $8 billion of lost super, is some of this your super? Check via the ATO website on ato.gov.au or call the ATO on 13 10 20 (you will need your name, date of birth and tax file number to complete a search);
- ✓ Check your investment choice and ensure that this is still the right investment option for you; and,
- ✓ Do you have the right level of personal insurances i.e. Death, Total & Permanent Disability, Income protection/Salary Continuance - should you increase or decrease the level of cover provided through your superannuation fund?

FOR FURTHER INFORMATION

We hope that you find **TALKING POINT!** informative and welcome your feedback. Please feel free to e-mail any comments or questions to us on info@northbridgeadmin.com.au. As with many superannuation matters we believe members need to fully understand the implications of any actions they are considering. We recommend that you take personal financial advice before taking any action on this or many other superannuation matters.

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