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### A REFLECTION ON INTEREST RATES

Australia now has one of the highest official interest rates in the world but many economists still call them low. So what's high and what's low?

In most developed countries, the official interest rate sets a benchmark from which mortgage, credit card and other loan rates are set. If interest rates are "low", individuals, businesses and governments will borrow to invest or increase consumption. We buy more DVDs, cars and property whilst companies expand production and governments build infrastructure. If rates increase, we put off buying and investing and the economy slows down.



Raising or lowering rates is always likely to be controversial because the decision will be based on imperfect data. It takes time for statistics to emerge and show what the economy is doing. And often there are flaws in the data or the figures conflict with each other. Using interest rates as an economic tool is not an exact science. Cutting rates too quickly could trigger a recession and moving too slowly could allow inflation to get out of control.

In theory there should be a "neutral" interest rate that will keep the economy ticking along nicely. The Reserve Bank says this is between 5.5% and 6.5%.

The problem with growing too fast is that demand outstrips supply and prices start to rise. Signs of this have been emerging with shortage of skilled workers, higher prices for raw materials and infrastructure bottlenecks. These problems cannot be solved overnight so the "solution" is to slow the economy to reduce demand.

How well the strategy works depends on the response of individuals, businesses and governments. The economy, after all, is the result of the

decisions we all make. A household with high levels of debt may tighten their belt. Alternatively, if each person holds a secure job and still feels confident, they may not change their spending patterns at all.

A business may decide to defer expansion plans not just because credit is now more expensive, rather they see lower demand for their products. Another strategy could be to proceed with expansion plans and try to steal a march on their competitors.

It all depends on how we personally react to the words and actions of the Reserve Bank.

### GENERATION X RETIREMENT

It's not too surprising that retirement planning is the furthest thing from the minds of most 30 year olds. After all, it is 30+ years away and the Government will have changed all the rules by then. Many are happy to have the superannuation guarantee and worry about retirement later.

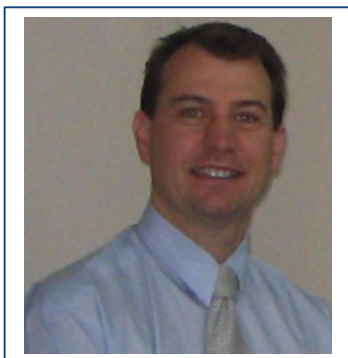
However, the whole notion of retirement is changing and it might be a lot different to what it was for our forebears.

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## Look at your grandparents

What did their working life and retirement look like?

Let's imagine your grandparents are age 80. It is likely Grandad started work in his teens and worked for one employer for most of his life. He retired at 55. Grandma may not have had much paid employment. Their life can be broken into three phases – education, work and leisure. They probably did not imagine retirement would be as long as it has turned out to be. They are still going strong health-wise and may be worried about outliving their money.

## Look at your parents

What did their working life look like? What might their retirement look like?

Let's imagine your parents are age 60 – typical baby boomers. They were better educated than Grandad and Grandma and both worked, though Mum took time off to raise the kids. They moved between employers in their working lives but accumulated quite a bit of superannuation, though Dad has more than Mum.

Whilst they have long talked about retirement, now they are getting closer to it they face it with some trepidation. It would be nice to have more time to travel and do the things they would like to do. They are both fit and healthy and if they live as long as Grandad and Grandma that will be 25 or 30 years of leisure. Will they have enough money to live as they want for that long?

They may consider moving to different jobs that will give them more freedom and still have enough to pay the bills. After all, now the kids have left home and the mortgage is paid off life is cheaper.

Their life can be broken into the same three phases. Education went on into their twenties and they studied more during their working lives. They worked for a few employers and have ended up in careers they never imagined in their youth. As for retirement - well they are designing that now.



## What about you?

What is your working life like? What might your retirement look like?

Your age group is better educated, more mobile between employers and more willing to take risks than your parents. You may have deferred buying a house and having children. Travel and having fun could be more important just now.

Research by the AgeWave Corporation in America has shown many 30 year olds are not committed to one employer and one career. They would like to take time off to travel, do volunteer work or try new adventures. When they resume their career they are prepared to be re-trained. What this means is they will have multiple periods of education-work-leisure in their lives and will continue working well past traditional retirement at age 65. They will be much healthier than previous generations and don't see working longer as a problem.

When you come to think of it, when you consider the possibilities it is exciting to design your own life and "retirement."

## GETTING YOUR SUPER TOGETHER

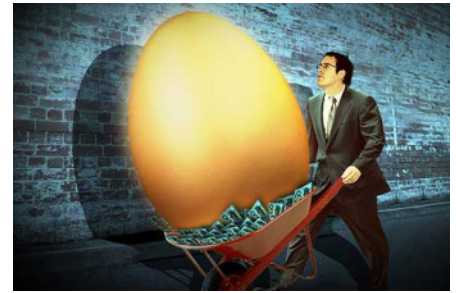
If you've had many different jobs with different employers over your working career you will probably have superannuation accounts in many different funds. Apart from costing you extra in fees, there are three more serious concerns of which you should be aware.

### Investment strategy

Choosing the right investments for your situation is critical to maximising your retirement nest egg. Super is for the long term and just 1% extra in returns every year can make a significant difference. For example, if you were earning \$45,000 and just contributing 9% of your pay to super, you would have \$141,127 after 20 years if the fund earned 7% pa. If it earned just 1% pa more, you would have \$16,409 more!

### Paperwork

More than one fund means more than one annual report and statement and more than one account to keep track of. Apart from being a nuisance, the big danger is your super fund loses contact with you. There are billions of dollars in "lost" superannuation accounts in Australia with more 'lost' super accounts added to the list each month.



## Lost super

Super funds have systems to identify members who are "lost". It usually means they have had mail returned as undeliverable usually because you have changed address. But they can also declare your account as "lost" if your previous employer is no longer making contributions.

The Australian Tax Office has a database of "lost" members. You will need your Tax File Number and (ideally) details of past employers to enable them to search for lost accounts. They can be contacted on 13 10 20.

Alternatively a new service has been established that will search many "lost money" registers including super. This service can be found on [www.findmysuper.com.au](http://www.findmysuper.com.au).

Whichever way you do it, the key is to get your super all together now and make it work for you.

## STARTING A NEW JOB

[Depending on how you look at it, changing jobs can either be an exciting time or a stressful one. With so much happening, you can be forgiven for being more focused on the new job than on sorting out your superannuation and life insurance. However, both need attention at this time, so here are a few tips for when you make your career move.](#)



### Do you need to move your superannuation?

If you've been in an employer fund, it's possible you may need to select a new fund. This may be an opportunity to set up a new fund that's more suited to your long-term needs and risk profile.

### Notify your new employer of your preferred superannuation fund.

In most cases, you can now choose your superannuation fund. Once instructed, your employer will be required to make all compulsory contributions to this fund.

### Review your life insurance.

This is particularly important if you're changing superannuation funds and you held life insurance with the old fund. Most life insurance companies offer a "continuation option" which allows you to replace your former cover with personal insurance cover (to the same amount) without the need for underwriting. Don't make the move until you have new cover in place.

### Review your income protection insurance.

If you are moving up in the world, make sure you increase your level of income protection insurance to reflect your higher salary. If you don't have income protection insurance, now is the time to get it.

### Start a savings plan.

If you have something to save up for, you may be able to arrange for a regular deduction from each pay packet to be paid into a high-interest savings account or managed investment fund.



### Is salary sacrifice available?

For most people, superannuation is the best environment in which to accumulate funds for retirement. Ask your new employer if they will allow you to make higher contributions to superannuation from your pre-tax income.

After all the excitement has died down, a change of job can have a significant impact on your financial plans. Talk to your financial professional about how to make the most of it.

## **TEACHING YOUR KIDS ABOUT MONEY**

Teaching kids a sense of thrift in today's world is not easy.

From their earliest days they see money pouring out of machines and their parents slapping a piece of plastic on the counter to obtain whatever they want. The thought as to where it all comes from is unlikely to even cross their minds unless they are trained at an early age.

Some children like to hang onto money when it comes into their possession – others cannot spend it fast enough. Whilst teenagers and young people can enjoy their money, if they are not taught to manage it effectively when they're young they are highly likely to have problems when they come to handling adult responsibilities.

### **So how do you teach them?**

The answer is to start young and be firm. Children who get everything they ask for will never learn the value of money.

As soon as they are old enough to understand, generally four or five years old, children should be given a basic weekly allowance – something the parent can easily afford. When the allowance is spent they get no more for the rest of the week. As they get older the amount should be increased each year in line with extra responsibilities to be fulfilled.



### **Other hints include:**

- Talk to your children about money – discuss saving for particular objectives. You may wish to match their contributions dollar for dollar to keep them motivated.
- Let them make their own decisions – if they spend it on something frivolous and then cannot buy something they really want, this is a good lesson.
- Set up their own bank account – even if they have little in it, they will learn from the exercise by watching it grow.
- Give them a clothing allowance when they are old enough – even if you need to supervise how that particular allowance is spent.
- Help them shop for an interest-bearing account when they start to accumulate some savings – and teach them the value of compounding interest.

Being tough with money in the early years may create a few hassles but your children will thank you for it in their adult lives, particularly when they are ready to buy cars and homes, and are raising their own children.

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