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WHICH IS MORE SUPER – INSIDE OR OUTSIDE?

Every investor has different requirements, so there is no simple answer to whether saving inside or outside super is more effective. As you move through life, each change brings a different set of investment needs.

Choosing which investments are right for you means sitting down with your financial adviser and determining your dreams for the future. You'll end up with a list of goals, some of which will be short-term, some medium-term and some long-term. You can then decide how much money you'll need to accumulate and which investments can best help you to meet your goals.

If you are just starting out, you probably have a list of objectives you want to meet in the short or medium-term, from buying a home or car to saving for the kids' education. These will all require some savings outside of superannuation.

If you are nearing retirement, you may be concentrating your efforts on increasing your superannuation savings. And even if retirement seems like a long time away, it is never too early to start saving into superannuation, particularly if you

want your retirement to be the good life you have always imagined.

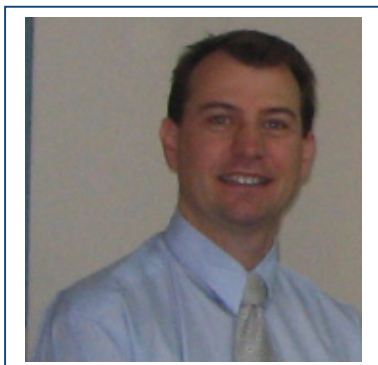
Whatever your plans, the key to an effective investment portfolio is diversification and there are benefits to both superannuation and non-superannuation investments, which we have analysed in more depth here.

Investing in superannuation

- If you are an employee, the compulsory Superannuation Guarantee means your employer may be making a contribution of 9% of your salary to super (up to specified limits).
- Your superannuation will increase over your working life through contributions and investment earnings. Even better, the more you have accumulated in your account, the more it will grow. That's because of compounding, where you earn interest on the interest that has already been added to your account. This means that starting early can reap rewards as you will have longer to benefit from the effects of compounding.
- The Australian Government has added some big tax advantages to super, which can mean the

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return you get can be higher than on non-super alternatives. Once you invest in super your investment earnings are taxed at a maximum rate of 15%. In non-super investments, tax can siphon off up to 46.5% of your return. In addition, there is no tax on superannuation withdrawals after age 60, whereas investments outside super will be subject to capital gains tax.

- Being insured through super is another way to benefit from the concessional tax environment of superannuation. By organising your life, TPD or income protections insurances through super you may benefit by paying your premiums from pre-tax dollars. If you are part of a corporate super fund, you may also pay lower premiums due to the fund's ability to negotiate wholesale premium rates.
- If you are self-employed, superannuation may be a tax-effective way to save. From 1 July this year there is a full tax deduction on pre-tax personal contributions to superannuation until age 75, however if you contribute more than the \$50,000 annual limit, you may pay excess contributions tax up to 46.5%.
- Remember, you can only get super funds out once you have met a condition of release.

Ways to invest in super

There are a variety of ways you can add to your super to derive maximum benefits from the money invested.

Salary sacrificing (concessional contributions):

- Salary sacrificing can be one of the most effective ways to top up your retirement savings. By forgoing some of your gross salary and putting it in super, you can reduce your overall taxable income. If you salary sacrifice, you will forgo some take-home salary but the benefit is pre-tax contributions are generally taxed at a lower rate than if you had taken the money as take-home pay.

Spouse contributions:

- Spouse contributions can also be effective for those on a low income. The spouse offset allows eligible individuals to claim 18% of the contribution as a tax rebate on the first \$3,000 of contributions. If the receiving spouse's assessable income (plus reportable fringe benefits) is \$10,800 a year or less, the maximum rebate is \$540 a year. After that, every dollar of the receiving spouse's income over \$10,800 per year reduces the rebate amount and it phases out once the receiving spouse's assessable income reaches \$13,800 a year.



Government co-contributions:

- The Commonwealth Government may make a tax-free contribution of up to \$1,500 to your super. If you earn \$28,980 per year or less, the Government will contribute up to \$1.50 for every \$1 of personal contributions you make, up to a limit of \$1,500. If you earn more than \$28,980, the co-contribution phases out by 5 cents for every dollar of income earned, phasing out completely at \$58,980. As noted above, from 1 July the self-employed are also able to access the co-contribution scheme.

After-tax (non-concessional) contributions:

- You may wish to make an occasional contribution to super from after-tax income, such as an inheritance. As these funds have already been taxed, they will not be taxed when you contribute to super (up to an annual limit of \$150,000 per annum or \$450,000 over a rolling three-year period).

Investing outside super

- Having some investments outside of super can help you to realise short-term and medium-term goals, providing flexibility to withdraw your funds when you need them. You may also want to have savings outside super if you are planning to retire before age 60.
- Investing outside super can give you a greater choice of investment options, such as direct property, which may not be available through conventional superannuation funds. However, it is important to note that these assets will be subject to capital gains tax when sold or withdrawn, whereas assets inside super are generally not taxed on withdrawal under the current rules.
- If you choose to run your own retirement plan, you may opt to create a self-managed super fund, which should be for the sole purpose of providing you with retirement benefits. You have control over which investments the fund invests in, when you buy and sell and the day-to-day activities of the fund. This is a complex strategy, however, so it is essential to seek financial advice.
- If you prefer to leave the investment decisions to the professionals, you may want to consider a managed fund. This is an investment where you pool your money with other investors. A specialist fund manager invests the money for you, using the fund's buying power to purchase a wide range of investments. Managed funds offer a variety of risk levels, investment timeframes and asset types and can help to diversify your investments across a range of investments.
- There are some investment strategies which can be used outside super which can't be used within a super fund. An example of this is margin lending, or gearing. Investing a combination of savings and borrowed funds allows you to invest more, increasing the potential returns compared to investing savings

only, although it also increases the potential risks. There are also tax benefits to this strategy as the interest you pay on your margin loan is generally tax deductible.

Get advice

Creating the right balance between superannuation and non-superannuation assets will depend on your own personal goals and risk profile. See your financial adviser for more information on the investment mix that will best suit your needs.

AUSTRALIANS STILL LAGGING WITH RETIREMENT SAVINGS

A report just released by the Association of Super Funds of Australia (ASFA) titled 'Are Retirement Savings on Track?' paints a comprehensive picture of the level and diversity of Australia's superannuation balances and shows that some sectors, particularly women, are still lagging behind when it comes to saving for retirement.

The study estimates that 70% of men and 90% of women across Australia have less than \$100,000 in super but pre-retiree balances differ widely, with 10% of individuals holding 60% of total superannuation assets.

ASFA estimates the average retirement payout in 2006 was \$130,000 for men and \$45,000 for women, well short of the \$260,000 ASFA's Retirement Standard index estimates is required for a single person to fund a modest lifestyle in retirement.

If you think your super is in need of a boost, there are a number of ways to increase your retirement savings which your adviser will be able to discuss with you. You may choose to make concessional (pre-tax) or non-concessional (after-tax) contributions and, if you earn less than \$58,000 a year, you can take advantage of the Government's co-contribution scheme.

Also, consolidating your super into one account may help you to save on annual fees. Recent figures from research firm SuperRatings show lost super now totals \$10 billion and from these funds a total of \$100 million in fees was taken last year alone. As there are only 21 million of us in

Australia, the odds are some of these lost funds could be yours.

For more information on how to find your lost super, visit the Superseeker section of the ATO's website on www.ato.gov.au - all you need to do is input your name, date of birth and tax file number. Be sure that you are claiming every cent that is yours and making it work hard for you.

BEAT THE RATE RISE



Our addiction to credit cards is showing no sign of waning, with new data from the Reserve Bank of Australia (RBA) showing the average Australian now owes \$2,990 on each of their cards, driving total credit card debt past the \$40 billion mark.

The RBA's monthly bulletin for July found the total credit card balance rose by \$4.3 billion to \$40.2 billion, compared to \$35.9 billion a year ago, and the figure is rising as households are hit by increasing childcare costs, petrol prices and mortgage repayments.

These costs look set to increase, as the recent 0.25% interest rate rise starts to bite, driving up the current average credit card interest rate of 16%.

A recent national poll by financial service website Artoq shows many card holders are finding paying off credit card bills as onerous as meeting their mortgage repayments, with 32% of the 2,033 people surveyed admitting to feeling trapped by their card debt.

The poll also showed 27% of people had four or more credit cards and 42% did not know what interest rate they were being charged.

Australians' love of credit has also increased the number of bankruptcies, which recently reached the highest level since the late 1990s. July figures from Insolvency and Trustee Services

Australia showed that almost 32,000 people were declared bankrupt in the 2006/7 financial year, an increase of 13.2% on the previous year.

Total personal insolvency activity—which includes bankruptcies as well as debt and insolvency agreements entered into by creditors and debtors—rose 16.9% for the same period.

If you are concerned that your credit card balance is getting out of hand, here are some ways you could save money on repayments and reduce your credit card balance.

- Shop around to find the right card for you—there are a range of online comparison tools which enable you to research the latest deals. If you tend to carry over your balance, you may wish to look for a card with a low interest rate (some on the market offer rates as low as 8.99%).
- Pay off more than the minimum payment on your credit card each month—by only paying the minimum it could take up to 15 years to pay off a \$2,000 balance according to August 2007 figures from Artoq.
- Investigate 'banking packages'. Conducting all your financial affairs through one bank might help you to negotiate a lower interest rate or lower annual fees on your card.
- Opt for fixed-rate interest—the credit card company can only increase this if they give you 15 days notice, giving you the option of transferring your balance.
- Read the small print—make sure you understand the terms and conditions on your card to avoid expensive surprises later on.
- Weigh up the costs and benefits of perks such as air miles, hotel or shopping vouchers as they could cost you extra in fees or interest.
- Avoid taking cash advances as interest is charged immediately from the date the cash is withdrawn and often banks charge a separate, higher interest rate than on normal purchases.



GO GREEN

Green issues have been hitting the headlines more than ever of late, with former US vice-president Al Gore's documentary 'An Inconvenient Truth' breaking box office records last year and July's Live Earth concert attracting big-name stars and millions of viewers.

The environment has become a key political issue and in the run-up to the Federal Election political parties are announcing ambitious targets to improve Australia's green credentials.

To appeal to younger voters, The Howard Government made an announcement on video clip website YouTube in July pledging \$627 million to alleviate global warming. This will include \$15.5 million in a nuclear research program; an extra \$1,000 per household for up to 225,000 homes to upgrade to solar hot water systems and a long-term target to cut greenhouse gas emissions from 2008. Similarly, the Labor party's website states it is committed to reducing greenhouse gas emissions by 60% by 2050.

Australian companies are also keen to be viewed as environmentally responsible. Fuji Xerox Australia, HSBC, IAG, Saab Australia and the Australian Football League, among others, have all announced 'carbon offsetting' plans—including tree planting, using renewable energy and the buying emissions trading credits—to compensate for their greenhouse gas emissions.

Driving these changes are consumers,

who as well as demanding more environmentally friendly products, are looking for ways to make their homes greener. A July study by Matusik Property Insights—'The Matusik Report'—found over half of respondents would be prepared to pay up to \$10,000 more for an environmentally sustainable home.

Developers are increasingly creating housing products that recognise this trend. New styles of housing include an eco-village on the Gold Coast and The Sustainable Homes program in Queensland, which is providing communities throughout the state with display homes incorporating sustainable design and performance.

Soon it will be mandatory for all new Australian homes to meet tougher energy criteria in order to tackle climate change. A five-star energy rating scheme is already in place in some Australian states and will soon be extended to the whole country.

Yet while a number of measures are being taken to make Australia greener, many of us have been left confused by the avalanche of information on the subject. We want to do the right thing and save energy and resources but where do we begin?

A common misconception is that going green is more expensive and will add to the household bills.

However, the Greenpeace website offers tips on easy ways you can practice green habits every day—many of which will even save you money!

TIPS FOR GREEN LIVING

- * Fix any leaky faucets, toilets or water pipes and install water saving faucets.
- * Wash your car the natural way – wait until it rains!
- * Conserve fuel by turning down the heat at night and while you are away from your home — or install a programmable thermostat.
- * Use compact fluorescent light bulbs.
- * Insulate your home and your hot water pipes against heat loss and periodically check insulation.
- * Avoid using cars — walk, cycle or use public transportation whenever possible.
- * Avoid anything battery operated (or use rechargables or solar rechargables if batteries are unavoidable).
- * Buy locally — not only is it good for the local economy, it will save energy on transport.
- * Use non-toxic cleaning alternatives in your home.
- * Avoid the use of aerosols.
- * Do not throw your toxic household wastes, such as paint, paint thinner, and car fluids, in the garbage or down the drain. Check with your local council for proper disposal and avoid these products in the future.
- * Take your own bags to the grocery store. If you take plastic bags, use them until they are worn out and avoid excess packaging.
- * Compost your food waste and use as nutrient rich soil for your lawn.
- * Always use reusable mugs, pens, lunch containers and razors.

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