

Insurance Art Continued...

There are two definitions of Total and Permanent Disablement and careful consideration needs to be made on which option is selected:

1. Own occupation – This definition of Total and Permanent Disablement is you are disabled if you are unable to do your own job.
2. Any occupation – This definition of Total and Permanent Disablement is you are disabled if you are unable to work in any occupation, for example certain office workers may be better off with an any occupation definition as the loss of an hand may not stop them doing their own job or any other job. The only things that may stop them doing their own or any job is a brain or spinal injury, for them it may not worth the expense of putting in place an own occupation policy.

Two common ways to hold TPD insurance are:

1. In your personal name – you pay the premium.
2. Within your superannuation fund - the superannuation fund pays the premiums and receives any benefit. An important consideration in choosing this option is that to be able to draw money from a superannuation fund you must meet a condition of release, one of which is meeting the any occupation definition.

Death Cover (Life Insurance) Is designed to pay a lump sum in the event of an insured's death. This lump sum can then be used to pay for things such as extinguishing debts, children's education, putting in place an income stream, funeral expenses or any other purpose.

Death cover can also often pay on the diagnosis of a terminal illness, when the insured is given less than 12 months to live.

Quotes from **Warren Buffet**, the worlds most famous and successful investor to help us stay focused in the volatile markets we have witnessed of late.

"I never attempt to make money on the stock market. I buy on the assumption that they could close the market the next day and not reopen it for five years."

"Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it."

"Price is what you pay. Value is what you get."



Once again common ways of holding death cover are:

1. In your personal name
2. Within your superannuation fund, in which case the superannuation fund would pay the premiums, upon the insured's death the benefit is paid to the insured's superannuation fund.

Trauma Insurance (also called Critical Illness or Recovery Money) Pays a lump sum in the event of a traumatic event happening to you, for example you suffer a stroke, heart attack, major burns or are diagnosed with certain cancers through to traumatic events such as the loss of a child.

This insurance came about due to advances in modern medicines and its ability to cure and prolong the lives of those who suffer a traumatic event.

Due to these advances it was found there were many people who were suffering a traumatic event which in previous years would have resulted in a payout of their Death, TPD or Income Protection but due to modern medicines new abilities these payouts were not being triggered but the insured was still left with medical bills and other costs which put them under financial strain, thus the insurance industry came up with Trauma Insurance.

Using a real life example, a healthy person was on a treadmill at the gym when he suffered a heart attack. He was taken to hospital but was back at work in 6 weeks. Due to the fact that he was not disabled he could not claim on his TPD insurance, he had not died so there was no life cover payment and he was not off work long enough to see out the waiting period on his Income Protection, but he still had bills to be paid, luckily he had trauma insurance which paid him a lump sum.

You can also tailor Trauma insurance to include cover for TPD and Death. In some instances the premiums on Trauma can actually be cheaper when including Death cover, rather than just having Trauma insurance by itself.

Every insurance policy is different, to determine exactly what is covered you should check your current insurance schedule or the Product Disclosure Statement of the proposed insurance.

We would urge you to contact this office to undertake a full review of your current insurance arrangements to make sure they are suitable for what you want to protect against.

CAPITAL COMMUNICATOR

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THE QUARTERLY NEWSLETTER OF CENTRECAPITAL



Welcome to the fifth edition of the *Capital Communicator*, the quarterly newsletter of Centre Capital.

We've developed this communication tool to keep our valued clients informed of the most up to date financial advice and investment opportunities, provide you with tips and strategies for managing your budgets and consolidating your wealth, and update you on changes in the law that may be relevant to your finances.

Capital Communicator is available in email or hard copy. Let us know how you prefer to receive your edition by logging on to www.centrecapital.com.au Click on the **CLIENT AREA** section of the home page to update your details. You can also download this newsletter from our website. Please feel free to forward Capital Communicator to any family, friends or colleagues who may find its content of interest.

We'd like to know what you think...

We would welcome your feedback on what you think of this edition of Capital Communicator and would also like to hear from you about the types of information and articles you want to read about. Please email advice@centrecapital.com.au with any feedback and suggestions and we'll do our best to include these in future editions.

Did You Know?

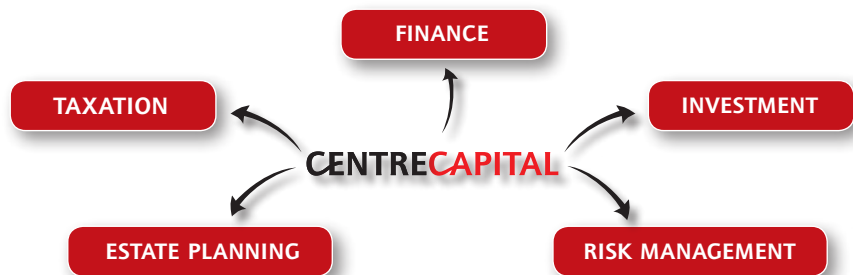
"In the 2005/06 financial year, age pension benefits paid to Australians totalled \$20.5bn".

Source: Year Book Australia 2007

With an ageing Australian population, the Government has been justifiably concerned over its ability to provide income support for the baby boomers once they reach retirement. The first baby boomers will turn 65 on 1st January 2011.

How are you positioned to provide for your own retirement?"

Contact our office on **1300 132 214** or email advice@centrecapital.com.au



Centre Capital offers a range of services. We tailor our advice in each of these areas to meet the individual needs and objectives of every client. In future editions of Capital Communicator we'll provide a detailed analysis of how each of these services might help you. In the meantime, here's a brief overview of what they all mean:

Tax optimisation

Are you aware of the latest strategies to reduce the tax you pay? By constantly being aware of your ongoing situation we can become more proactive in managing your tax burden.

Investment advice

Are you aware of the range of investment opportunities that could increase your wealth while managing your risk? We can introduce you to a range of these options and recommend those of greatest benefit to your individual situation.

Retirement Planning

Will your current retirement plan allow you to retire with the lifestyle you enjoy now? Would you like to explore ways to maximise your retirement income and protect your wealth?

Finance

Would you like to learn about the latest approaches to structuring loans, including how to minimise expenses and maximise benefits? In addition we have access to a wide range of home loans, investment loans, special purpose lending and business finance. We will find the loan that best meets your requirements but more importantly advise you on a strategy that will focus on increasing your overall wealth.

Risk Management

What protection do you currently have in place to cover your family or business from unforeseen loss? In the event of death, injury or illness you need to adequately provide for mortgage costs and other living expenses. We can assist you to protect your most valuable asset... you.

Estate Planning

Wealth can easily be lost across generations if the right decisions are not made to properly transfer and protect wealth. Business succession is often overlooked. How will your business survive if you are not there? What tax consequences will you be faced with if you sell your business?

Economic Update by ROB COYTE



Well it appears the Christmas break was not kind to equity markets around the world. At the time of writing this article, the Australian Stock market was down around 12% for the calendar year which comprises of only 5 weeks...

What has changed? Well from an Australian economy perspective not much, our economy is probably now becoming a victim of its own success with the Reserve bank of Australia (RBA) letting the market know that they are significantly concerned about the threat of inflation. The continued resource boom and the record level of low unemployment are feeding through cost and wage pressure into our economy. This means higher interest rates for those that have borrowings and this pattern of increasing interest rates will continue until the consumer stops spending and the RBA feels that inflation is under control.

Global markets have revisited the sub prime jitters and the fact the US looks like it is going into recession. Being the largest economy in the world any misery in the US will be felt all around the world notwithstanding the Asia boom. Interestingly the last few recessions in the US were not known about (ie didn't receive the economic data) until the recession had passed. Hopefully any recession or downturn will be short and not a protracted affair.



What does this all mean? The short answer is that assets have become cheaper and there is also a fair bit of angst and fear going around the market at present. This is a test of metal for those already invested in the market but a golden opportunity for those with cash ready to inject in the market.

For those already in the market the right mental framework at this point is assessing the quality of the underlying assets that you own and not that the underlying price has fallen. Assessing these fundamentals going forward is also not done over the next 6 months but 5 years. If these fundamentals are still present there is no need to bail out in particular because when overall selling is the market theme the price will more often than not drop well below the "rational" price the asset should trade at.

I will look at a couple of situations that we are seeing develop in the market at present.

The sub prime concerns and Centro fiasco has resulted in listed property sector being sold down heavily. It has lost around 40% of its value in the last 14 months or so. The largest play in this sector is Westfield which I am sure you are all aware of their shopping centres. We had deliberately shied away from the bigger plays as we felt they were over valued and instead focused on a couple of smaller opportunities.

Orchard Industrial Fund (OIF) has a portfolio of industrial property located around key logistics such as airports. About 2/3rds of the income is from Woolworths which has leases in place for the next 12 years and all their debt is fixed for the next 8.5 years at about 6.22%. What can move? We look at this as a property ownership play over the next decade... that is decade. In any case if they were to sell all the assets now and repay the debt and distribute to shareholders they would be left with about \$1 per share. The share has just traded at \$0.63. More importantly is the income stream currently being generated for shareholders which is about 13% per annum at present levels.

Other sectors that we had liked but thought were too expensive in the past such as resources and the engineering and mining services companies have also suffered weakness. This is as a result of a reality check for investors whose expectations in the short term may have been too high but if you take a long term view and if you believe the story of China,



India and other developing countries then guess what we have a long term opportunity and a reasonable entry price into some businesses that have a very exciting future.

Another battered sector has been the banks and diversified financials as a direct concern in relation to the sub prime. Whilst there have been huge mistakes made and there will be some short term pain (nice way to say loses) what will the likes of Commonwealth Bank, Macquarie Bank do over the next 10 years. My view is they will make profits and lots of them. Therefore lets get Macquarie Bank at \$60 rather than \$90 odd it was trading at a few months ago.

These ups and downs are all part of the cycle. The trick is to not panic and if anything look to benefit from those that are.

Insurance Art

by CLINT CHRISTOFF



Continuing on from last quarter, Clint takes a further look at Insurance which can protect you and your family from the unexpected.

In the previous issue of the Capital Communicator we looked at the importance and necessity of having insurance. We will now take a look at the different types of insurance covers which can protect you and your family from the unexpected.

We would urge you to consider these scenarios in your context and contact us to undertake a review of your current situation.

Income Protection (IP) This insurance cover is important for the majority of working people. Income Protection is designed to allow your income to continue should you be unable to work as a result of sickness or injury. The simplest way to see the benefit of this insurance is to consider how your lifestyle would be affected if your long term ability to earn an income was to cease tomorrow.

The basics of Income Protection are as follows:

- Income Protection Insurance premiums are tax deductible.
- The insurance will pay you 75% of your insured income per month, for example;
 - Tom's current wage is \$40,000 p.a.
 - If Tom were to be injured, his insurance would provide him with an income equal to 75% of \$40,000 i.e. \$2,500 per month or \$30,000 p.a.
- There are two types of Income Protection Policies to consider, they are;
 1. Indemnity Policy - this policy will pay you 75% of your last 12 months earnings, up to a maximum of the insured amount.
 - Due to the possibility of you earning less in a 12 month period than the amount you are insured for, an Indemnity Policy is a cheaper option than an Agreed Value Policy.
 2. Agreed Value Policy - this policy will pay you 75% of the amount that is agreed upon when putting the policy in place.

- The Waiting Period - This relates to the length of time you feel, that in the event of a claim, you can live without any employer support. During the waiting period you would be required to live off accumulated savings, support from family etc, the main waiting periods are 30, 90, 360 and 720 days.
- The length of the benefit - We recommend that you put in place a benefit payable until at least age 65. Many people may have in place a benefit payable for 2 years, often in their superannuation fund. What you need to consider with these types of policies is, is 2 years long enough? If you have not been able to return to work in that 2 year period, what are the chances of you returning to work after 2 years and 1 day?
- The types of premiums structure:
 1. **Stepped Premium** - As you age, the risk of something happening to you increases, stepped premiums increase each year to reflect this.
 2. **Level Premium** - Start out more expensive in most cases, but have already had your future risks factored in to them. In the long run they are often a less expensive option. We often recommend a level premium, due to the fact that the later years of your life are the times that you will need the insurance the most. At this stage of your life, you may also be questioning the cost of a stepped premium, and wondering whether it is worth holding the insurance.

The most important thing is getting the insurance policy in place. You may choose to change aspects of your policy at a later stage.

Total & Permanent Disablement (TPD) This cover is designed to pay you a lump sum should you become totally and permanently disabled. This payment can be used to pay for such things as medical expenses, home modifications (i.e. for wheel chair access), payout debts, put in place an income stream or any other purpose.

Continued over...

Stepped vs Level Premium Comparison

