



In this issue:

Low rates are a mixed blessing

Level premiums vs stepped

The final log-off

Spring 2013

Economic update

As we head into the warmer months, the falling Aussie dollar remains firmly in the headlines.

After the US Federal Reserve confirmed suspicions that it planned to tighten monetary policy in response to better economic conditions, the Australian dollar tumbled to a three-year low. The news that the United States would trim back its \$US85 billion-a-month bond-buying program boosted the greenback and pushed the Aussie dollar down to US89.71 cents. This is well below its July 2011 peak of \$US1.10.

The United States' improving fortunes, however, saw currency flows moving out of emerging markets such as Brazil, India, Indonesia and South Africa. Other currencies in India, Russia and Turkey also took a battering.

The outlook is less rosy for the Aussie dollar thanks also to falling interest rates and the slowdown in China, Australia's top export market.

Recent data showing stronger manufacturing performance in China lifted the local sharemarket. However, stalling growth in China would have serious implications for Australia, given the banks and resources companies have increased their presence in the region over the past decade.

Local shares moved higher on the back of earnings reports that, despite the challenging sales outlook were better than expected.

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LOW rates are a mixed blessing

Interest rates in Australia have plunged to their lowest level ever with the Reserve Bank's latest cut bringing the official rate down to 2.5 per cent – a far cry from the 17 per cent of 1989.

While the late 1980s proved a shocking time for home buyers with mortgage rates peaking at 17 per cent, investors were earning exceptionally healthy returns of 18.95 per cent from money invested risk-free in the bank!

Of course while the rates were high and repayments crippling, mortgages were smaller. Indeed, the average mortgage back then was just under \$75,000, compared to \$300,000 today.

Baby boomers may be accused of getting all the best deals in life, but it might be worth considering that not only did they have to pay 17 per cent on their home loan, they are now faced with really low interest rates for their retirement savings.

Life is all about ebbs and flows!

Low returns

Fast forward to 2013 and low interest rates. The maximum return on a 12-month term deposit is about 4.1 per cent, while money in an online bank account is earning about 3 per cent.

Just two years ago, you could put money in the bank and get a risk-free return of about 5 per cent a year. To get a similar return in today's market, you would need to take on more risk than a term deposit and look to growth assets such as shares or property.

The low rates are certainly good news for those with a mortgage. The average standard variable mortgage rate is now 5.69 per cent.

According to comparison website Ratecity.com, payments on a \$300,000 mortgage are currently about \$1,423 a month (based on 5.69 per cent). Compare that with \$1,825 a month in August 2011 when the average standard variable mortgage rate was 7.30 per cent. This represents a saving of around \$400 a month.

Weak Aussie dollar

Lower interest rates also impact on our dollar. The currency was trading well above parity when Australian rates stood head and shoulders above the rest of the world. However once interest rates started to fall – at the same time as rates elsewhere were showing signs of rising – offshore interest in Australia began to wane.

Of course there are two sides to a weak Australian dollar. While it may make it more expensive to travel overseas, local manufacturers, tourist operators and exporters all stand to gain from the lower dollar. If these industries start to feel confident then this will lead to greater business investment, which in turn will bolster the economy as productivity (output per worker) increases.

This is good news, and it comes at a time when the Chinese investment

boom is drawing to a close and other areas of the economy need to step up to the mark.

The commodity boom created an imbalance in the Australian economy with the non-mining sector floundering as individuals and businesses grappled with global economic uncertainty.

Indeed, it is this imbalance in the economy that the Reserve Bank has been attempting to fix with interest rates while keeping the inflation rate within its target of 2-3 per cent (see table below).

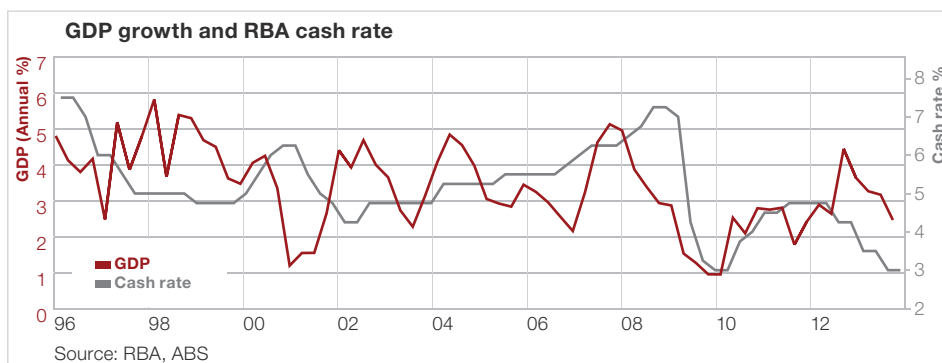
Impact on the economy

Lower interest rates can have a far reaching influence over the whole economy. For instance, if you are paying less interest on your mortgage and are confident of staying employed, then you are more likely to spend money on non-discretionary items such as cars and clothes.

Equally, low interest rates are a boost to investors who want to use gearing.

But of course, not everybody is at the borrowing stage of their lives and low interest rates can prove a negative.

No matter what your circumstances are, we can help you to make the most of the current environment.





take a **future** *view* level versus stepped premiums

Australia has a reputation of being one of the most underinsured countries in the developed world. Less than one third of Australians insure their ability to earn an income and yet 83 per cent don't think twice about having car insurance.

Many believe the automatic income protection cover they may have in their superannuation is sufficient but it is estimated that almost half of Australians are underinsured to the tune of \$1,000 a month.

A vital safety net

Income protection insurance can provide up to 75 per cent of your income should you be unable to work.

The argument against having cover is often that it is too expensive. This was the reason 81 per cent of respondents gave in a 2008 survey by OnePath Life and yet 61 per cent of them overestimated the cost.

Little wonder underinsurance is an issue with so much misinformation. And yet the unfortunate reality is one third of

women and a quarter of men will suffer cancer at some stage, which could drastically reduce their capacity to earn.

The younger, the better

The sooner you take out income protection cover, the lower the premiums because they are determined by age. Making the right choice on the type of premium can also reduce the cost.

Basically there are stepped or level premiums. With stepped premiums, you start off low, but the premiums increase over time. This may seem appealing when money is tight but, over the long term, level premiums often work out significantly cheaper.

Level premiums largely remain the same unless you increase your benefit, the insurer adjusts for inflation, or base premium rates are adjusted.

Long term thinking pays

Ironically with stepped premiums, the bigger payments start to bite in your mid 40s often just when you need the cover the most and when your financial commitments are at their peak. And

by your 50s they tend to jump again. If you stop paying premiums, you will automatically lose your cover.

While level premiums usually prove best, it depends on your circumstances and your cash flow situation. For example, if you require insurance for less than seven years or your level of insurance required reduces over time, say as debt is paid off, it may work out better with stepped.

The most important thing is to have the coverage — and whichever you choose, income protection premiums are generally tax deductible.

Choosing the right insurance cover is a personal matter and really needs sound professional advice. Taking a long-term view can make a big difference financially.

Key considerations

- Don't be fooled by the lower initial premiums
- Make sure your cover is sufficient throughout your life
- Read the fine print on how much premiums will rise.

John's story

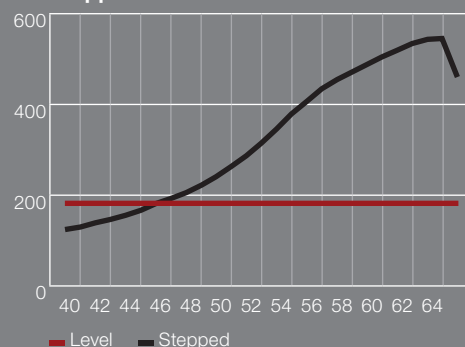
Take John, a 39-year-old non-smoker who is seeking income protection cover up until the age of 65.

His monthly level premiums work out at \$185.42 a month. Over the 26 years he would have paid \$60,076. In contrast with stepped premiums, he would have started at a lower \$124.92 a month but after only seven years, the amount would have overtaken the

level premiums. Indeed, by the time he reached 65 he would have been paying \$463.98 a month bringing his cumulative payments to a whopping \$107,166. Level premiums saved him \$47,090 – money that could be invested elsewhere.

Paying the premiums annually would have saved him even more. Instead of \$60,076 over the 26 years, he would have paid just \$56,144.

Stepped Vs Level Premiums





The *final* logoff

Human fascination with immortality stretches back to the time of Greek mythology with history littered by charlatans, oddballs and megalomaniacs either claiming or seeking the secret to eternal life.

However, the modern tech-savvy generation has discovered, quite by chance, that an immortality of sorts is now freely available via the digital footprint they leave should they meet an untimely end. It's estimated that on Facebook alone, more than 30 million accounts belong to people who are deceased.

As if the pain of coping with the death of a loved one isn't difficult enough, friends and family must now consider the implications of the deceased's online life to go with their material existence.

Your online footprint

Think for a moment about your own digital presence. You'll almost certainly use online banking and shopping facilities, perhaps an online wallet like PayPal, email accounts, a frequent flyer program, a social media presence via Facebook or Twitter, along with potentially thousands of personal files, receipts and photographs.

Most people already understand the importance of estate planning to help pass on worldly goods such

as housing, savings and mementos to their beneficiaries. But how will your heirs even gain access to your computer and your passwords?

Like so many laws relating to the digital world, many are outdated or irrelevant, and several online services have already established their own policies. For instance, Twitter allows family or friends to download a copy of your public tweets and close your account. You need to nominate someone in advance to provide their name and contact details, their relationship to you, your Twitter username and a link to or copy of your obituary.

Digital executors

No laws currently exist in Australia to grant a Will's executor automatic access to someone's social media accounts. However, there are still several options available to help decide on how your online legacy is managed.

The first step is to create a Digital Will. In addition, you will need to select a trustworthy digital executor to handle arrangements for your digital assets and digital legacy once you are gone. Similarly, if you run your own business, it will have its own digital incarnation and its own digital legacy to maintain. Some Australian Will makers offer Digital Wills so people can ensure their online legacy lives on – or fades away – in accordance with their wishes.

Online vaults for safe storage

An increasingly popular alternative is to store important documents and passwords in an online vault. The likes of *SecureSafe*, *Legacy Lockbox* or *Assets in Order* pledge to provide secure online storage of passwords and documents.

Password management accounts can be set up using software such as *Norton Identity Safe* while Google recently introduced a new program called *Inactive Account Manager*, which enables you to choose in advance exactly what you wish to have done with all your Google data – from Gmail accounts to YouTube videos.

Considering how much of our communication takes place online these days, it's worth investing some time thinking about your digital footprint and what is required to manage it when you're gone. A good time to do this might be when next reviewing your Wills and Powers of Attorney.

With a little thought and preparation, you can leave a lasting legacy to your loved ones, well beyond photos or videos, and avoid complications associated with your 'digital immortality'.