Principal Class Advantage
by Frontier Financial Group

October 2014

Frontier is the only Financial Planning Group in Victoria that exclusively works with School Principal Class officers through our Principal Class Advantage Service. We have met you at a network conference in the past year and offered you a free financial planning consultation.

Our commitment to the Principal Class includes ensuring that you are up-to-date and well informed on all the latest financial news.

In this edition of our Aspirations Newsletter you will find the following articles:
- Planning to avoid mistakes
- Mortgages - to fix or not to fix?
- Users to pay for aged care

If you are ready to meet with us for your obligation free consultation, please reply to this e-mail or contact us on 9671 4550 to arrange a suitable meeting time.

If you have any questions or enquiries about any of the articles in our newsletter, or any other financial planning topic, don't hesitate to contact us.

Richard McLean
Principal Adviser

Frontier Financial Group

Level 4
420 Collins St
Melbourne VIC 3000

P 03 9671 4550
F 03 9671 4510
E info@frontierfg.com.au
W www.frontierfg.com.au

Planning to avoid financial mistakes

Selling shares when prices have tumbled or buying a house at the height of a property boom only to dispose of it when the market falls are among the financial set-backs that can happen to anyone on the road to retirement.

Everyone makes mistakes during their investment lifetime; the trick is to avoid them when you can and learn from the ones you can't.

Have a plan

Failing to plan for retirement and build up savings is one of the most common mistakes. Having adequate retirement funds can be undermined by unrealistic expectations about future lifestyle and the savings needed to fund it.

Many retirees are unable to access the age pension because they are asset rich despite being income poor. Putting well thought out investment plans in place to boost your retirement income well before you reach retirement age is the best strategy to overcome such a problem.

It's probably no surprise you are more likely to achieve your financial goals if you have a plan. In the construction of a financial plan you should take account of your risk tolerance, your financial commitments and financial and lifestyle goals. This will give you the confidence to know you can get to your desired destination. A comprehensive plan should also take account of tax, cash flow, superannuation, insurance needs and estate planning issues.

Stay calm

Impulsive decision-making at the first sign of trouble can undermine your investment goals. If a quality share investment or rental property suddenly falls in price due to a market correction, it is often not the best time to offload. As one wit put it, "Don't just do something, sit there".

Staying the course and letting time work its magic will often leave you in a stronger position.

Equally, investment inertia can be problematic. Strong or poor performance can lead to your investment portfolio moving outside your required risk tolerance over time. Regular reviews to rebalance investments back to your target asset allocation will more likely bear fruit in the long term.

Spend less than you earn

Drawing up a budget is vital if you want to discipline yourself to spend less than you earn. Failing to budget makes it difficult to keep track of spending and set aside regular savings to fund a comfortable retirement.

Bank transaction accounts are ideal for daily spending money but not investment money. In order to beat inflation and produce the returns you need to fund your financial goals over time, you need to build a diversified investment portfolio to match your capital requirements.

Spreading money across the major asset classes of cash, fixed interest, shares and property helps minimise risk. It also helps produce consistent returns from a combination of income and capital growth over the long run. The precise combination of assets is dependent on your risk profile. Your adviser should undertake comprehensive research and implement proven portfolio construction principles.

It's never too late

It's never too late to start planning for retirement. Paying off the mortgage is often considered the first step to wealth creation so increase repayments where possible to speed up the process. Once you have built up equity in your home other investment options can be investigated concurrently.

Topping up your super through salary sacrifice is one such option, provided you stay within your annual contribution limits. Your employer pays a proportion of your pre-tax salary into your super fund, reducing tax and boosting your savings at the same time.

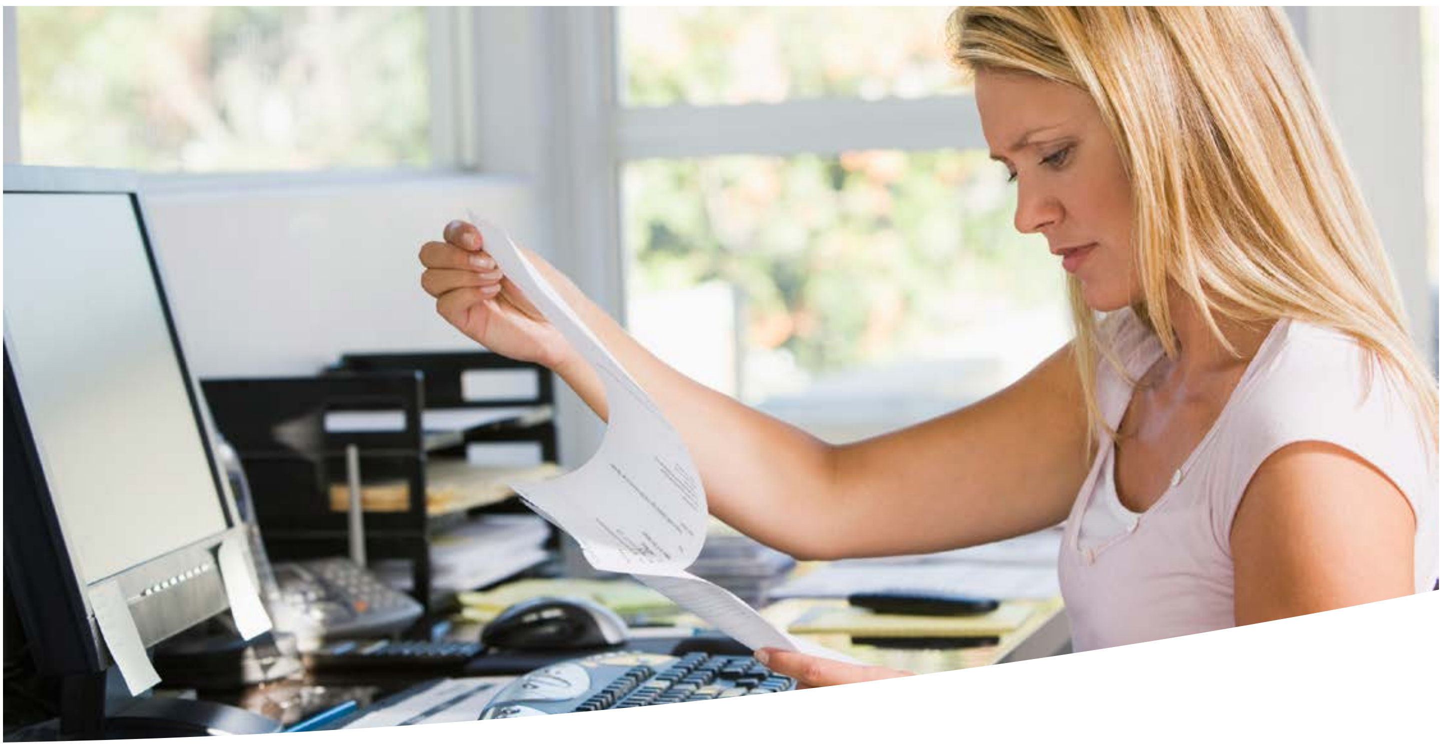
Review regularly

Financial planning is a dynamic process. Regularly reviewing your investments, refraining from knee-jerk reactions, understanding market volatility and staying the course can lay the foundations for a prosperous retirement.

'The five biggest money mistakes', Sydney Morning Herald, 29 January, 2012, viewed 31 March, 2014

'The ten worst retirement planning mistakes', Your life choices, 13 April, 2012, viewed 31 March 2014

'The 10 worst retirement planning mistakes', Count website, first published in Your Life, Your Retirement magazine, viewed 31 March, 2014



Users to pay for aged care

The decision around whether to get some home help or move to where you or a loved one can get support and care is never an easy one.

But from 1 July changes to the aged care system should give individuals and families a clearer understanding of the choices they have and the cost of getting home help or moving to residential care.

The provision of aged care services remains subsidised by the Government, but the focus of the changes is that those who can afford to contribute to the cost of their care should do so.[i]

Home-based care

For people wanting to stay in their own home as long as possible, the Home and Community Care program is the simplest way for people to get help.

Basic services such as cleaning can be accessed following a simple assessment by an approved provider. The amount a person pays for this will depend on the service, the frequency and their financial situation. However, no one will be denied a service they need, based on an inability to pay.[ii]

Where a range of services are needed for a person to remain in their own home there is a more comprehensive Home Care Package.

Ability to pay

Someone on the Age Pension will be charged a maximum fee of 17.5 per cent of the basic rate of single pension, with a maximum set at $9.57 a day.

People on higher incomes may be asked to pay additional fees (limited to 50 per cent of any income above the basic rate of single pension).[iii]

Individuals considering the Home Care Package need an assessment by an Aged Care Assessment Team, arranged through a General Practitioner or within a hospital. They can also be found on www.myagedcare.gov.au.

ACAT assessments are also needed for anyone entering residential care.

Single fee structure

One significant change to reforms covering residential care is the removal of the distinction between low level care and high level care.

In addition, all residents will be subject to the same fee structure, known as an accommodation payment, which will depend on a resident's assessable income and assets.

Residents with greater means will have to pay more for their ongoing care but caps will be put in place to protect those who receive care over a longer period.

Residents will be able to choose whether they pay for their accommodation as a refundable accommodation deposit (RAD) and equivalent daily accommodation payment (DAP) or a combination of both.

To help people determine whether they can afford a certain facility, all facilities must publish their prices on their website as well as a Government website myagedcare.gov.au.

Keeping the family home

The income-tested fee for care is to be replaced with a means tested care fee to determine how much a resident can pay towards the cost of their care. Going forward a person's home may play a greater role in the financial decision making around going into care.

Where someone going into care owns their own home and no-one eligible lives in it, a portion of its value – currently set at $144,500 and indexed to $153,905 - will count towards the assets test. Under the new rules many residents may end up paying a lower means-tested care fee if they keep their home.[iv]

The new rules apply to individuals who enter residential aged care on or after 1 July 2014, with existing residents grandfathered under the current rules. The rules are complex so please don't hesitate to contact us if you would like to discuss your own aged care considerations or those of your loved ones.

i ChallengerTech_Aged Care reforms

ii http://www.livinglongerlivingbetter.gov.au/internet/living/publishing.nsf/Content/Consumer-Directed-Care-Home-Care-Packages

iii http://www.livinglongerlivingbetter.gov.au/internet/living/publishing.nsf/Content/Consumer-Directed-Care-Home-Care-Packages

iv ChallengerTech_Aged Care reforms

Mortgages - to fix or not to fix?

With official interest rates in Australia tipped to rise later this year and the United States expected to follow suit next year, home buyers and existing mortgage holders are faced with a dilemma. Should I lock in a low fixed rate now or wait?

Economists are forecasting rate rises across the globe, including in Australia, but picking the right time to lock in loan rates is notoriously difficult. No-one knows exactly when, or if, the Reserve Bank of Australia (RBA) will increase the official cash rate.

Rising expectations

Signs of a rebound in Australia's economy have heightened expectations of higher interest rates at some point in the next 12 to 18 months. The RBA appears content for the moment to hold the cash rate at the record low level of 2.5 per cent, after cutting rates eight times since late 2011 to boost economic activity outside the resources sector.

In March, the new US Federal Reserve chairman, Janet Yellen indicated that the federal funds rate would increase about six months after the government's asset-buying program ended. The federal funds rate is the interest rate at which institutions lend to each other from funds maintained at the Federal Reserve and are considered a benchmark for other interest rates.

International Monetary Fund executive director Rakesh Mohan echoed her sentiments, forecasting more central banks would lift rates over the next three to five years as global growth improves.

Fixed rates offer greater security

This might seem like a good time to lock in a mortgage at a low rate in expectation of an upturn in the interest rate cycle. Three-year fixed rates offer certainty for borrowers with little capacity to cope with higher repayments. Borrowers will also save money if variable rates edge above fixed rates.

However, the banks are unlikely to offer three-year fixed loans close to current variable mortgage rates when a rise in the cash rate is imminent. They understand the interest rate cycle better than anyone and are unlikely to set fixed rates at a level that will leave them out of pocket.

Lack of flexibility and greater interest payments

There are other drawbacks that make fixing a risky strategy. They are typically substantially higher than variable rates and restrict borrowers from paying off loans early without attracting financial penalties.

This lack of flexibility to make extra repayments squanders the chance to reduce the total interest payments on your loan. Also, fixed rate terms are not long enough to reap substantial rewards given that rates are unlikely to move sharply within the fixed term timeframe. Gone are the days when rates shot to 17 per cent as they did in the 1980s. In contrast, variable rates offer greater flexibility to repay.

Another risk associated with fixing is having a change of heart if interest rates take an unexpected turn. The cost of cancelling a fixed-rate home loan can be thousands of dollars. One way to minimise this risk is to fix part of your home loan, rather than the whole lot.

Fixing has many fans

Despite the drawbacks, recent Australian Bureau of Statistics data revealed a strong appetite for fixed loans.[i] The figures showed 92,251 fixed home loans were financed in the 12 months to August 2013, up 29,122 on the previous year. The average proportion of borrowers fixing their loans rose from 12 per cent to 16 per cent over the same period.

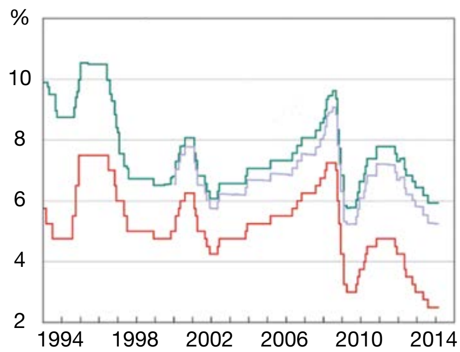
Yet fixed interest rates can move quickly and unannounced. Ratecity[ii] reported 135 fixed rates have moved up to 0.2 percentage points higher so far this year.

Compare loan rates

Borrowers who currently have fixed-rate loans should compare home loans before their fixed term ends and renegotiate with lenders or switch to a better deal. Now is the time to review your mortgage and shop around before rates inevitably start to rise.

Australian Housing Lending Rates

Average interest rate on variable-rate loans



Sources: ABS; APRA;Perpetual; RBA

- Banks' indicator rate on new loans
- Actual rate on outstanding loans
- Cash rate

http://www.rba.gov.au/chart-pack/interest-rates.html

i 'The fixed home loan rort', finder.com.au, 14 January 2014, viewed 29 March 2014 <http://www.finder.com.au/fixed-rate-may-cost-more>

ii http://www.ratecity.com.au/media-room/more-reason-to-fix-your-home-loan