FINANCIAL DIRECTIONS

Winter 2010

Inside

Welcome

Welcome to the Winter edition of Financial Directions.

Often the start of the new financial year is a good time to review your wealth creation, retirement and risk protection goals with your Sentry Group (Sentry) professional adviser.

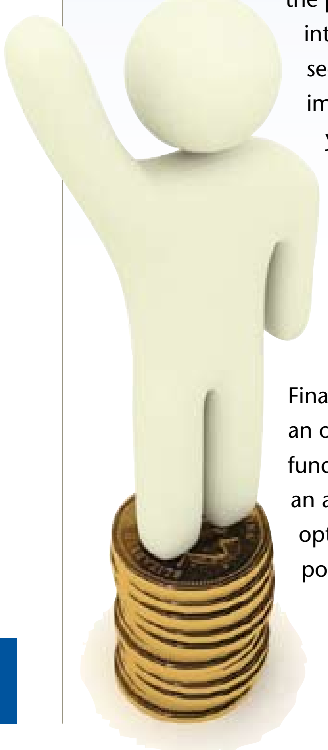
On your list of financial goals to be reviewed, you might wish to include consolidating your super and taking some time to revise your superannuation strategy to ensure you're on the right track.

To assist you we've included an article 'Your super journey through life' which looks at what to consider in your super and investment strategies at each stage in life. Depending on what point you are currently at, the article provides key tips to help you achieve the financial security and comfort you want in retirement.

Another important component of financial security is protection from the unexpected. Many Australians are quick to insure their car or the contents of their home but many neglect to insure their wealth and their family's lifestyle. While the process of looking into life insurance may seem daunting it is an important element of your financial plan.

Your Sentry financial adviser can assist you to determine the appropriate risk protection options for you and your family.

Finally, we have included an overview of mortgage funds and why they are still an attractive investment option in an investment portfolio.



Mortgage funds

A sector in review, with a promising future

October 2008 saw many Australian mortgage funds announce restrictions on redemption of capital by investors. This was in response to the Federal Government bank deposit guarantee, which saw a large number of investors wanting to withdraw their money from mortgage funds, to invest in government-backed deposits.

Traditionally, mortgage funds have been used as a conservative allocation in investments portfolios, providing low volatility, capital stability, regular income payments and returns exceeding cash, and they still represent a valid investment option for the same reasons. Most funds have preserved their capital stability and continued distributing income, while restrictions on withdrawals were in place.

However, some important considerations have to be made on the structure of mortgage funds, as the key for the success of this sector going forward.

The liquidity mismatch

The reason behind the frozen redemptions goes beyond the government guarantee. Mortgage funds, not differently from banks, use investors' money to provide mortgages. These can be short term facilities, or last for many years. Some mortgage funds were providing on-call withdrawal facilities, despite the nature of the debt assets they were invested in. Cash for redemptions was made available by the constant inflow of new investments, plus the on-going redemption of existing mortgages.

This created a clear liquidity mismatch.

When the government issued the bank guarantee, the cash inflows that were keeping the liquidity within the mortgage funds going suddenly stopped, and redemptions started greatly outnumbering new investments. At that stage, it became clear that this mortgage funds model wasn't sustainable.

The good news

Good news is that not all funds were operating under that model. Mortgage funds that were offering term mortgage investments (similar to a term deposit structure) didn't experience the same difficulties during the past couple of years. They remained open, and performed very well, even at the bottom of the interest rates cycle.

(continued overleaf)

SENTRY

The outlook remains very positive for mortgage funds following this investment model, for various reasons:

- The Australian property market remains strong, driven by growing demand and undersupply of properties; and similarly, demand for mortgages stays strong;
- The Australian banking sector is one of the healthiest in the world, and with the tightest bank lending criteria in decades, mortgage funds represent an attractive alternative for people seeking finance. This also enables funds to keep good lending margins – and good returns for investors;
- Variable mortgage interest rates in Australia have bottomed at 5.55%, and are on the rise again. Historically, they reached a top of 17%, and even if they don't get to that level, they remain extraordinarily strong, when compared with the US and Europe, therefore providing a very positive outlook for mortgage fund investors.
- Mortgage funds with a term structure can keep a larger amount of funds allocated to mortgages, therefore increasing returns.

In summary, mortgage funds, if properly managed, are still a very attractive investment option; they need, however, to find their space in an investment portfolio, and not be treated like cash.

Remember to discuss the potential of a mortgage fund in your investment portfolio with your Sentry financial adviser.

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What if I was too sick to work?

Getting seriously ill is probably the worst thing that can happen to a working person – and it does happen. According to the Australian Bureau of Statistics 2008 yearbook, 7,624 Australians were unable to work [(1)] and were reliant on sickness allowance which today pays just $205.75 each person a week for a partnered person [(2)].

These unfortunate people are part of the 69 per cent of Australians who do not have any personal income protection insurance [(3)].

With the average Australian mortgage of $367,000 [(4)], let alone the costs of a car loan and raising children, it is easy to see that a prolonged illness could quickly mean poverty for most Australian families.

Income protection insurance is a sensible and inexpensive way to make sure hard working families are not at risk of quickly sliding into poverty. Our ability to earn a living is usually our single greatest asset yet Australians are insuring their cars and houses rather than their incomes.

For a healthy, non-smoking male of 40 working in an office job and earning the average wage of $1,248.20 per week [(5)] (and with a waiting period of two months), Income Protection insurance costs $62.47 per month [(6)]. If he becomes sick the insurer will pay him 75 per cent of his income, or $1,014.00 per week until he is well enough to return to work – or until age 65 when the contract ceases...

(The reason the benefit is not 100 per cent is to ensure there is still an incentive to get well and back into a contributing role in society.)

Income Protection can usually be accessed through an industry superannuation fund by purchasing additional units of cover, or via a life insurance adviser. One of the significant benefits of the product is that if it is bought separately to superannuation, it is a tax deductible cost [(7)], which significantly reduces its impact on the household budget.

However, regardless of the cost, the key benefit of income protection is peace of mind because families know that if they are unlucky enough to be have the breadwinner struck down with a prolonged illness then they should be able to maintain their current lifestyle while that person is on the long road to recovery. They know that their insurer is standing with them once the sick leave has been exhausted and there is no more salary available.

A consultation with your Sentry financial adviser can help ensure that your financial and lifestyle goals are properly protected with a risk protection strategy.

Provided with the compliments of AIA Australia Ltd

[(1)] ABS 1301.0 2008 Year Book" Income and community support. Accessed 28 January 2010. [(2)]www.centrelink.gov.au accessed 28 January 2010 [(3)] www.lifewise.org.au TNS/IFSA Investigating Income Protection Insurance in Australia July 2006 accessed 28 Jan 2010 [(4)]AFGonline.com.au report dated 3/12/09 accessed 5/1/10 [(5)]ABS 6302.0 Average weekly earnings Australia. August 2009. Accessed 28/1/01 [(5)] ABS 6302.0 Average weekly earnings Australia. August 2009. Accessed 28/1/01 [(6)]Quote provided by AIA Australia April 2010. Quotation figures as at 23 April 2010 based the following: Male, aged 40, non-smoker, White collar duties, Income Protection, Indemnity Value, Benefit Period – to age 65, Waiting period – 60 days, Benefit Indexation not included, Claims Escalation not included. [(7)] Please consult tax and financial professional to obtain appropriate advice

Your super journey through life

When you retire, super is likely to be your main source of income.

Unfortunately, many people fall short of the estimated $535,000* required at age 65 to fund a comfortable retirement.

It's never too early to start preparing for retirement – after all, it could mean the difference between a local or overseas holiday or even just being able to eat out from time to time. Where do you see yourself in retirement and what path will you take to achieve this?

The useful tips below will help guide you through the superannuation life stages. At any age, it's important to work with a financial adviser who will consider your personal circumstances and goals.

Your 20s and 30s – establishing your home and career

At this point in your life, retirement is probably one of the last things on your mind. However setting up the foundations of a strong super account now can help make a significant difference to your lifestyle at retirement.

- Consolidate your super accounts. Chances are you're probably going to have quite a few jobs before you retire and don't forget all those part-time jobs you had when you were studying. Keeping all your super in one place is not only easier to manage but may mean you pay less in fees. You can even search for lost super at www.ato.gov.au/superseeker
- Many members receive automatic insurance cover via their super. You may like to speak with your financial adviser to ensure this cover meets your needs, especially as your lifestyle starts to change.
- As you change jobs, make sure you take your super account with you so you don't end up with multiple accounts.
- Create a budget and stick to it. Setting aside money to put into super and contributing on a regular basis is a lot easier when it's built into your budget.
- If you're earning less than $61,920 p.a. and make an after-tax super contribution, you might be eligible for a Government co-contribution of up to $1,000.

Speak to your financial adviser to learn more about strategies that might suit you.

** Assumptions: Based on ASFA Retirement Living Standard Research – June quarter NSW 2009. Based on a single person, retirement at age 65, female life expectancy. Assumes 7% p.a. return is reinvested. Regular payment is made annually at end of year and is indexed by 3% p.a. Calculations do not take into account any tax payable or age pension. Assumes that the retiree owns their home when they retire.*

Your 40s and 50s – growing your family, growing your super

At this stage of life you'll typically have more financial stability and potentially an increased capacity for investing. Being less than 25 years away from retirement, now is your opportunity to build on your super to fund a comfortable retirement.

- Setting up a regular investment plan is not only more convenient than making a lump-sum contribution, it can save you money over the long term too. By investing a fixed amount at regular intervals, you can lower the risk of investing at the wrong time. As a result the cost is 'averaged' out over time. However, there are a number of methods to contribute more to your super and making regular after tax contributions is just one of them.
- Pay less tax by arranging for your employer to salary sacrifice pre-tax salary directly into your super account. You may save money where the 15% contributions tax is less than your personal marginal income tax rate (up to 46.5%).

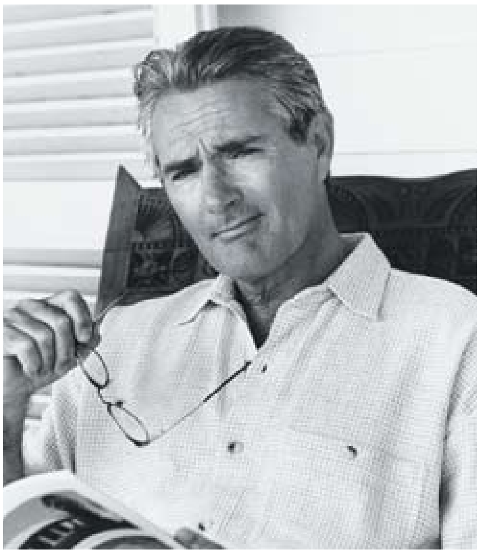
It's easy to set up. Simply speak to your Sentry professional adviser to find out how you can start salary sacrificing. Please note that salary sacrifice contributions are included in your concessional contributions cap, which limits how much you and your employer can contribute before additional tax is charged. Your Sentry financial adviser can help ensure your super strategy is tax effective.

- Now that your family and financial circumstances may have changed it's a good time to review your insurance with your Sentry financial adviser to ensure you're protecting what's most important to you.

55 and over – on the road to retirement

You may now have fewer financial obligations than you did earlier in life, your children may have left home and you may have almost paid off your mortgage. There's never been a better time to look at methods of boosting your super as you start to think about retirement.

• **Speak to your financial adviser** about where you see yourself in retirement and how you can ensure you are financially ready.



Meet Mark

Mark, aged 55, is looking to build his super savings before retiring at age 65. Mark earns $70,000 p.a. and his living expenses are around $40,000 p.a. He currently has about $300,000 in super (67% taxable component and 33% tax free).

The strategy

Mark utilises his super account balance to establish a Transition to Retirement (TTR) pension. By salary sacrificing into his super and supplementing his income by drawing a TTR pension, Mark can further boost his retirement savings whilst satisfying his immediate living costs.

Transition to retirement (TTR) strategies enable you to 'transition' towards retirement by reducing work hours while supplementing reduced employment income with pension income. There are a number of effective TTR pension and salary sacrifice strategies which can also help you to boost your retirement savings or increase your disposable income if you decide not to reduce your work hours.

Commencing February 2010, Mark salary sacrifices $28,767 to his super fund and draws a super pension of $7,600 for the remainder of the financial year. For each subsequent financial year leading up to retirement, Mark salary sacrifices as much as he can without exceeding his concessional contribution cap and draws a super pension of $19,055 p.a. (indexed).

Mark's forecasted super benefits to retirement

Mark's strategy would increase his retirement savings (at age 65) by $98,980. In addition, his cash flow has also increased by $6,927 over the same period. By implementing the strategy Mark has achieved an additional benefit of $105,907 after 10 years.

Mark's Sentry financial adviser explains that by contributing to super and implementing a TTR strategy, he can benefit from:

- having the amount that he salary sacrifices into his super taxed at only 15% compared to his marginal tax rates
- the investment earnings on his TTR pension account being tax exempt compared to being taxed at 15% in his super account
- receiving 33% of his TTR pension payments made prior to age 60 tax free, given the TTR pension's purchase price would be made up of a 33% tax-free component (a 15% tax offset applies to the remaining TTR pension payments which represent the taxable component)
- his TTR pension payments being tax free from age 60

While retirement may seem like a long way off, getting started early and putting a little into super now may make the difference between a modest or comfortable retirement at age 65 – so talk to your Sentry professional financial adviser today.

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For further information contact your Financial Adviser

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