



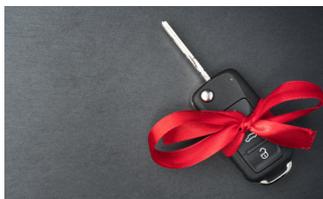
## ABOUT THIS NEWSLETTER

Welcome to the MST Advisors monthly newsletter, keeping you on top of the issues, news and changes you need to know. Should you require further information on any of the topics covered, please contact us via the details below.

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# Superannuation and new cars are very similar!

*Superannuation can be one of the most baffling topics when it comes to managing our finances so let's relate looking for the right fund to something that might be more enjoyable - buying a new car. What do you look for?*

## SIZE AND SPEED

The engine of growth in super is the investments you choose. At one extreme, you can select "vintage" investments that will be slow and steady. At the other extreme, you can choose supercharged V8 investments to take you faster (but sometimes give you a few hairy moments going around corners!).

If you're young, high-speed investments might be appealing. For the more mature, "steady as she goes" might be the way to travel. You can have a super fund where you do everything yourself or you can leave the maintenance to the professionals.

## SAFETY FEATURES

Whilst you want your car to "go" you also want it to stop and be safe. You will want good brakes and seat belts and air bags. There are some risks you can never completely avoid in your car such as the actions of other drivers.

With super, you might reduce the risks by diversifying your investments or arranging life insurance in your super fund. Insurance can be for a basic amount or can be increased to cover all of your needs. There are some types of insurance that cannot be placed in your super fund such as trauma cover and health insurance.

## TRUSTED NAME

Many people look for a well-known name when buying a car. There is a feeling of safety buying from an established dealer because they have their reputation to consider if things go wrong.

With super, you want this same degree of safety knowing a reliable and established organisation is behind the fund. You want it to be managed well and to comply with all of the rules and regulations. You expect consistent and trustworthy administration and for the manager to continually improve their services. You want the key people in

the organisation to make wise decisions about your investments.

## EDUCATION

The more sophisticated your new car the more assistance you need to ensure you use it properly. Many motorists seldom read the handbook until something goes wrong. If you are buying a 4WD you may look for driving courses, booklets and videos explaining how the vehicle operates compared to a normal car.

In a super fund, you may expect nothing more than an annual report and personal statement telling you how much you have accumulated. On the other hand, you may value newsletters, educational seminars and online access to your account. You may prefer to use a financial planner to help customise the fund to your needs.

## PRICE

When buying a car, you might decide to trade in your old model or sell it privately for a better price. You will be concerned about how much you will have to outlay to drive your new car away. But it doesn't stop there. Once you are driving, you need to consider fuel consumption, spare parts and maintenance costs. The costs will depend on how you drive and how you use your vehicle.

For super, there are the same complexities to consider. The running costs will depend on how you use the fund – more complex investment options and more insurance will increase costs, whilst staying with standard options will be cheaper but may not meet your needs.

## OPTIONAL EXTRAS

Many vehicles now include standard features that were once optional extras, but you can still choose colours and accessories such as a tow bar, roof racks and so on.



Super is the same. For instance, you may be able to nominate who gets your super when you die. Membership of some funds may qualify you for special deals like access to home loans or discount travel.

While you may only be concerned with accumulating money in super now, in the future you will want to access it. This could be in the form of lump sum or pension withdrawals. The nearer you are to retirement, the more important it is to select a fund that will serve you well when you start to draw an income.

## MAKING THE CHANGE

Buying a new car is not something most of us do every day and it should be the same with changing super funds. It is a human foible that we tend to focus on short-term issues rather than the more important long-term outcomes. Buying a car is much more exciting and immediately rewarding than planning for your future.

Super choice provides an incentive to consider all of your financial needs and ensure your fund is working for you.

And finally, you wouldn't buy your new car from a dodgy dealer, so don't rely on any old advice on your super. Always consult a professional financial adviser who specialises in this area.

# Super in your 30s. It's important to squeeze it in.

If you are in your thirties, chances are life revolves around children and a mortgage. As much as we love our kids, the fact is they cost quite a lot. As for the mortgage, this is the age during which repayments are generally at their highest, relative to income. And on top of that, one parent is often not working, or working only part time. Even if children aren't a factor, career building is paramount during this decade.

Are you really expected to think about super at a time like this?  
Well, yes, there are a few things you need to pay attention to.



## Short-term plans

As careers start to hit their strides, the thirties can be a time for earning a good income. If children are not yet in the picture, but are part of the future plan, then it's an excellent idea to squirrel away and invest any spare cash to prepare for a drop in family income when Junior arrives. Just remember that any savings you want to access before retirement should not be invested in superannuation.

## Long-term comfort

Don't be alarmed, but by the time a 35-year-old couple today reaches retirement age in 32 years' time, the effects of inflation could mean that they will need an income of about \$159,420 per year to enjoy a 'comfortable' retirement. To support that level of income for up to 30 years in retirement they will want to have built a combined nest egg of about \$2.76 million!

If you are on a 30% or higher marginal tax rate, willing to stash some cash for the long term, and would like to reduce your tax bill, then consider making salary sacrifice (pre-tax) contributions to super. For most people super contributions and earnings are taxed at 15%, so savings will grow faster in super than outside it. For example, if you're earning \$100,000 per annum, making a contribution of \$10,000 from

salary to super will save you paying \$3,900 in income tax for that year – and increase your super balance by \$8,500.

## Growing the nest egg

Even if you can't make additional contributions right now there is one thing you can do to help achieve a comfortable retirement: ensure your super is invested in an appropriate portfolio. With decades to go until retirement, a portfolio with a higher proportion of shares, property and other growth assets is likely to out-perform one that is dominated by cash and fixed interest investments. But be mindful: the higher the return, the higher the associated risk.

Another option for lower income earners to explore is the co-contribution. If you are eligible, and if you can afford to contribute up to \$1,000 to your super, you could receive up to \$500 from the government. Or to keep your partner's super humming along while she or he is earning a low income, you can make a spouse contribution on their behalf and gain a tax offset of up to \$540.

## Let your super pay for insurance

For any young family, financial protection is crucial. The loss of or disablement of either

parent would be disastrous. In most cases both parents should be covered by life and disability insurance.

If this insurance is taken out through your superannuation fund the premiums are paid out of your accumulated super balance. While this means that your ultimate retirement benefit will be a bit less than if you took out insurance directly, it doesn't impact on the current family budget. However, don't just accept the amount of cover that many funds automatically provide. It may not be adequate for your needs.

Whether it's super, insurance, establishing investments or building your career, there's a lot to think about when you're thirty-something. It's an ideal age to start some serious financial planning, so talk to a licensed financial adviser about putting a plan into place so you can have everything now – and in 30 years' time.

i Value of \$61,909 today – the income required to provide a couple with a "comfortable" level of income as calculated by The Association of Superannuation Funds of Australia (ASFA) (June 2020) – in 32 years at 3% inflation.

ii Sum required to fund an annual income of \$159,420 for 30 years at a return of 4% pa after inflation, fees and tax, disregarding any age pension.

# Using your equity to build wealth



The equity you have in your home is simply the difference between the current market value of your home and the amount you still owe on your home loan. For example, if your home is worth \$800,000 and your outstanding loan balance is \$200,000, your equity is \$600,000.

Your equity increases as home loan repayments reduce your loan balance or whenever your property increases in value. While you can't control the property market, the more that you can pay off your home loan the quicker you build equity.

Many people are content to sit on this growing equity. However, it's possible to utilise even modest amounts of equity to boost the rate at which you can build

additional wealth. And you don't need to pay off your entire mortgage to do so.

## Putting equity to work

Putting your equity to work involves borrowing against your increased share of the value of your home and investing the proceeds. This could be by:

- Buying an investment property.
- Investing in shares or other growth assets.
- Renovating your home, provided the increase in home value exceeds the cost of renovations.

The key requirement for boosting wealth by using equity is that the long-term returns from your selected investments (capital growth, rent, dividends or distributions) need to exceed the long-term costs (interest payments, insurance, repairs and maintenance, taxes and management costs).

The emphasis here is on 'long-term'. In the short term property and share prices can fluctuate. If your investments fall in value, so does your equity. Taking on too much debt, even to fund productive assets, can lead to real financial stress. Interest rate rises may increase your loan servicing costs. It's therefore important to introduce buffers such as not borrowing too much

and factoring in possible interest rate rises to ensure that your strategy can survive the ups and downs of the various markets.

Also bear in mind that the out of pocket costs of funding an investment may be higher in the early years. Over time, however, increasing rent or dividend income help to cover costs.

It may be tempting to use some of your equity in your home to fund lifestyle, such as a holiday or new car. And if it adds to your enjoyment of life, why not? Just be aware that funding living expenses with debt tends to erode wealth rather than build it.

## Be informed

Using the equity in your home to help you build your wealth is just one form of borrowing to invest. Done well it can provide a real boost to wealth. However, as this is quite a technical area of financial planning it's important to understand how building wealth with debt works and to appreciate the risks involved.

Your financial planner will be able to look at your specific situation and help you design a strategy that will allow you to take advantage of your equity.

And when it comes to putting that strategy into practice, a mortgage broker can help you find the loan that's right for you.

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# A guide to planning for aged care

*The Australian Bureau of Statistics tells us that Australians aged 65 years and over account for 16% of the population – and that figure is rising. Whether you're concerned about your future self or a loved one, aged care is an issue most of us will have to manage at some time in our lives.*

At the time of Federation, Australians at birth had an average life expectancy of around 55 years. The most common causes of death were infectious and parasitic diseases resulting from unsanitary sewerage and water systems, poor quality food and limited health education.

Improvements in public sanitation, health and medicine have seen lower death rates and longer life expectancies. Enhanced living standards meant we began living longer, cancer and heart disease became our most common causes of death.

The latter part of the 20th century witnessed substantial advances in medical treatment, which reduced the impact of these diseases and further increased Australians' life expectancy.

Given mounting pressures on governments to assist an aging population, more Australian families are taking the support of elderly loved ones into their own hands – and this is where it pays to do early homework.

## Assessment

Illness, disability or the passing of the years can make it difficult for you or your loved one to maintain an independent lifestyle.

The ideal is to remain in one's own home for as long as is reasonable and safe, but knowing when independence is no longer feasible is the difficulty.

Your first step is a visit to your doctor to discuss your or your loved one's situation. If necessary, your doctor can refer you to an Aged Care Assessment Team (ACAT).

The ACAT consists of appropriately qualified people usually based at a local hospital. They can visit the elderly person in their home and, following a government-approved guideline, assess how much and what type of care may be required.

## Levels of care

Care options include in-home care and residential care providing standard accommodation and personal services. Residents pay for optional additional services.

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## **In-home Care**

Four levels of care:

1. Basic
2. Low level
3. Intermediate
4. High

### **Best suited for**

Elderly person capable of living safely and independently in their own home.

### **What it includes**

Actual services included depend on the level of care, but include some or a combination of the following:

- Personal care – showering, dressing, grooming, etc.
- Errands – grocery shopping, bill paying, visiting friends, laundry, washing and ironing, etc.
- Meal preparation
- Companionship – outdoor activities, reading, letter writing, assisted exercise, etc.
- Nursing, allied health and other clinical services – these services are included under Levels 3 and 4 as more complex clinical needs.

### **What it costs**

The cost to the client depends on the means tested income of the client as well as the level of care provided.

The government provides subsidies for home care, but basic fees apply in line with the age pension.

Those on incomes in excess of the age pension may be required to pay more.

Maximum fees payable are determined by the level of care required and other living expenses: rent, utilities, pharmaceutical, etc.

## **Residential Care**

### **Best suited for**

Elderly person not able to live safely in their own home or who, due to illness, disability and/or frailty needs continuous care.

### **What it includes**

Accommodation services – including bedding, laundry, meals, cleaning and toiletries, building maintenance and daily activities.

Personal care assistance – including bathing, eating, dressing, moving, communicating, administering medicines and arranging health care appointments.

### **What it costs**

Fees apply to all residents of care facilities, depending on level of care and ability to pay.

Fees include:

- Basic daily fee – covers living expenses, meals, laundry, etc.
- Means tested care fee depending on income and assets
- Accommodation cost - based on income and assets
- Fees for extra or optional services.

Points to note:

1. Government assistance packages are available. New residents undertake an assets test conducted by Centrelink or Department of Veterans' Affairs to determine eligibility.
2. Accommodation costs can be paid as a lump sum refundable deposit, a regular rent-type payment or a combination of both.

### **Planning and preparation**

Statistics forecast an increasingly aging population – a challenge for any government. Consequently, future generations may not have access to current levels of government subsidies.

According to the Australian Bureau of Statistics, a man now aged 65 could live to be over 85 years old – a woman could see 87.

While Australians have embraced the concept of self-funded retirement, we evidently need to start considering those decades beyond.

Could your superannuation support you for twenty-plus years – including funding the level of aged care you might need? Could you afford the additional expenses if your partner remained in the family home while you moved into aged care facilities?

We can assist you to prepare a strategy that helps you afford the care you or your loved one might need, from help around the home to more substantial care.

Living long enough to receive a letter from the Queen is one thing – affording it is another!

It's all in the planning.



# What happens to your super when you die?

*Most people are familiar with the idea of leaving the house, the boat or the stamp collection to someone in (or sometimes outside of) their family through their Will. But what about superannuation – what happens when you die and how can you make sure that people aren't unreasonably disappointed?*

## Your estate

The assets that you own form your estate and are distributed according to your Will. You can choose to give your assets to anyone. If you don't have a valid Will, your assets are distributed according to legislation. Your assets are property you own personally like bank accounts, shares, managed funds, real estate and lifestyle assets (such as cars and boats). Assets held by companies or in trusts do not form part of your estate.

## Your super

Although superannuation is held in your name it's not yours – the super fund trustees hold it in trust for your benefit. If you die, superannuation legislation requires them to pay the money to your dependants. This means to your spouse, your children, someone who is financially dependent on you or someone living in an interdependent relationship with you.

The aim of this legislation is to enable the trustees to pay out the super quickly on the production of a death certificate. In most cases, this is quicker than finalising your estate. Sadly, in some cases, family disputes mean that even a superannuation payment is delayed.

## What can you do?

It is important to know that the super fund trustees should consider the intentions of your Will in making a decision, so make sure you have one and that it is up-to-date. You might also be able to instruct the trustee directly of what you want to happen, under a "binding nomination" or similar facility.

It is also worth thinking about telling your beneficiaries what you intend, as this will give them the chance to prepare for the outcome rather than be surprised at a difficult time. And, as always, seek advice on a tailored plan for your personal circumstances.



# Hitting an insurance home run

*Most people either cringe or yawn when the word insurance is mentioned but regardless of whether you find it scary or boring, managing risk is a necessity in the world in which we now live. Let's cover all of the bases to help make your home run as easy as possible.*

## First Base – Income Protection

Considering that over 114,000 people in Australia made a workers' compensation claim in 2018/19, what would your future look like if suddenly you were unable to work?

For most of us, the ability to earn an income is our most valuable asset. Depending on your age, your future income may well be worth far more than a house and its contents, a couple of cars, a boat or caravan all combined. Yet few people properly insure their income, and if illness or injury prevents them from

working, financial hardship often results. With around half of us likely to spend more than three months off work due to ill health during our working lives, Income Protection insurance should be the first item on the personal insurance list.

Income Protection or Salary Continuance insurance can pay you a regular amount, usually up to 75% of your normal income if you are unable to work due to illness or injury. Benefits are taxable, and commence after a waiting period. Payments continue to be made until you return to work or until the benefit period expires. The waiting

period and the benefit period are selected at the time of application.

## Second Base – Life & Permanent Disability

Life Insurance pays a lump sum benefit if the policyholder dies. But what happens if they don't die and can never return to work in their chosen occupation? Total and Permanent Disability (TPD) insurance can help ease the financial burden caused by loss of income by providing a lump sum payment.

Cont...

Most people underestimate the level of life insurance they need. The insured sum should be enough to clear net debt, cover future expenses such as school fees, and provide an adequate replacement for the income that the deceased would have earned through to their normal retirement age. For a breadwinner with young children, an appropriate amount may be well in excess of \$1 million. This cover is also important for primary care givers to ensure the children are properly cared for.

### Third Base – Trauma Cover

Trauma Insurance fills a gap between Income Protection, Life and TPD Insurance. It was designed by a doctor who found that his patients' recoveries were hampered by their concerns over the financial burden caused by major illness. Trauma Insurance pays a lump sum benefit on the occurrence of a specified condition such as cancer, heart attack or stroke, which can strike at any age. It often provides a benefit when neither Income Protection nor TPD Insurance claims can be made.

Unlike Income Protection, where the benefit is paid if you are unable to work regardless of the nature of the illness, trauma payments are based upon the specific illness, not the degree of disability.

Trauma Insurance is designed to cover out-of-pocket medical expenses and other costs associated with major illness, and to allow recovery to take place without financial worry. It isn't a replacement for the other types of personal insurance. A comprehensive insurance portfolio will include Life, TPD, Income Protection and Trauma Insurance.

### Home Base – General Insurance

Most people insure their house and contents, motor vehicles and other possessions. The key here is to make sure that all possessions are covered for full replacement value. Insurance companies provide guides on their websites to determine an appropriate level of cover. Don't forget valuables like jewellery, antiques or artwork, which often have to be separately noted in the cover.

### A super way to insure

Most superannuation funds (and all industry funds) offer Life and Permanent Disability Insurance.

There are a number of advantages in holding life insurance inside your super fund.

Super funds can often negotiate wholesale insurance rates, so premiums for their life insurance are often lower than can

otherwise be obtained as an individual. In addition, premiums are paid from your superannuation balance. Whilst this reduces your ultimate retirement benefit, the relative effect is usually small, and by relieving the strain on the household budget, you may be able to increase your overall savings. The main advantage of insurance held in super is that the premiums are tax-deductible to the fund, which ultimately reduces your cost of insurance.

When you join a superannuation fund you may be offered a minimum level of insurance. This is rarely enough to provide adequate cover and it's up to you to request an appropriate level. Depending on your age, medical history and the level of cover you require, you may also need to undergo a medical examination

When leaving a superannuation fund you should find out what happens to your insurance cover. You may be offered a "continuation option", which is an ongoing policy provided by the insurance company. If you don't take this up within the period that the offer covers, you may find yourself without insurance. If this happens, and if there has been a change in your health, it may be difficult and cost much more to obtain replacement cover in the future.

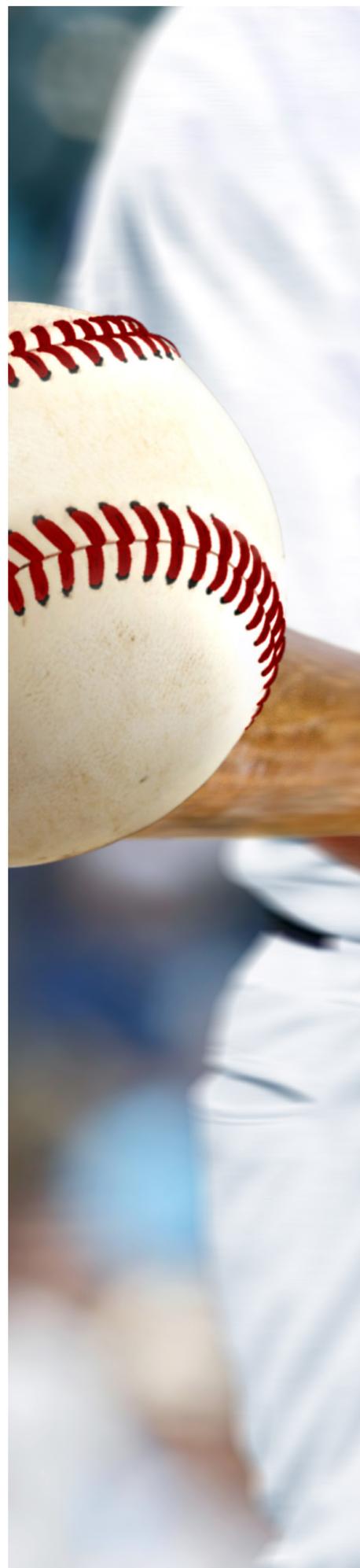
From 1 July 2019, to ensure that super balances aren't unnecessarily eroded by insurance premiums, if your superannuation account receives no contributions for 16 consecutive months, it is deemed to be inactive and any insurance held in the fund will be cancelled unless you notify the fund that you wish to retain the insurance.

### Find a Coach

Insurance is a complex area. Policies vary in their detail and insurance companies differ in their approach to processing both applications and claims.

Each type of insurance has a role to play and it is a job for an expert to work out the right amount of each type for you. You should also seek expert advice whenever you consider allowing a policy to lapse to ensure you are fully aware of the potential consequences.

We can analyse your insurance needs and recommend cover that's right for you and your budget. After all, you don't want to strike out before reaching first base.



# If you think you'd never fall for a scam, read this...

*If you are aged over 50, male, highly educated, financially literate and manage your own super, beware. You're at a higher risk of being the target (and victim) of organised investment fraud.*

This isn't necessarily because your demographic is particularly gullible. Rather, it's because you're more likely to control higher levels of wealth, perhaps as the trustee of a self-managed super fund (SMSF); you're accustomed to making financial decisions; and you're actively looking for attractive investment opportunities. What scammer wouldn't want to target you?

And even with so much growing public awareness, investment scams increased by 34% in 2019 over the previous year! More than \$61 million dollars were lost via clever investment scams, with males accounting for \$44.7 million of that staggering figure.

Scams take many forms but when it comes to superannuation, two stand out:

1. fraudulent investment schemes, and
2. schemes offering early access to superannuation.

Either way, the result can be a major financial loss and dreams destroyed.

## Golden opportunity

One clear warning of a scam is an unsolicited approach. Someone contacts you, usually by phone or email, offering an investment that is 'both safe and delivering high returns'. This person will often know a lot about you, reciting accurate personal details they claim you provided in a questionnaire you completed earlier. Their story is supported by an apparently authentic website and, enticed by the attractive returns and smooth sales talk, you make an initial investment. At the beginning you receive statements showing your investment is growing steadily prompting you to add further funds. Then things go silent. Their phone number is disconnected, emails bounce and the website disappears, along with any hope of recovering your funds. Your stomach lurches. A cold sweat saturates you. You've been scammed.

Wonderful as modern technology is, it makes it easier for fraudsters to appear legitimate and transfer money in an instant.



They close down one operation and set up another with ease. It doesn't help that we give away much of our personal information, and what isn't available for free can often be purchased by criminals.

## Early access

The other major scam that lures many who need money quickly is the promise of early access to superannuation. This is how it works.

Bob's superannuation is just sitting there, the solution to his financial problems if only he could access it.

He searches the internet for options and an advertisement promising early access to super pops up. This puts Bob in touch with a 'specialist' who helps him set up a SMSF, telling him that as the fund trustee he will be able to get hold of his super money. Bob signs the paperwork to set up the fund and rollover his super, but the money doesn't turn up where it should. Eventually Bob discovers that his retirement savings were transferred to a bank account controlled by the scammer then moved overseas.

Not only has he lost the lot, Bob now faces a big tax bill for accessing his super prematurely. The scammers didn't tell him that early access to super is only available:

- in cases of incapacity,
- to pay for medical treatment if seriously ill,
- if in severe financial hardship and can't meet immediate living expenses, or
- if terminally ill.

## Protection is the best cure

A few simple precautions can help protect your super (and other savings) from scammers.

- Hang up on unsolicited phone calls and delete suspicious emails.
- Take care when sharing personal information.
- Visit [scamwatch.gov.au](http://scamwatch.gov.au) for updates on scams that are doing the rounds.
- If you suspect a scam report it to Scamwatch, even if you haven't lost any money.
- Seek advice from a licensed adviser. Legitimate advisers and investment managers appear on ASIC's list of Australian Financial Service Licence holders.
- And beware of dating and romance schemes. They are more common than fraudulent investment schemes, result in bigger financial losses, and are targeted at the same demographic!

This newsletter contains general advice only, which has been prepared without taking into account your objectives, financial situation or needs. You should, therefore, consider the appropriateness of the information in light of your own objectives, financial situation or needs.