FINANCIAL DIRECTIONS

Winter 2012

Inside

Can you afford to retire?

We all want to retire happy, but working out if you will have enough to retire comfortably means some retirement planning now.

Planning when to retire is one of life's biggest decisions, so when you make it, you want to be sure you can afford to enjoy your new lifestyle.

It may seem a long way off, but if you start thinking about planning your retirement early you can identify whether you may have enough in your kitty to survive financially for the rest of your life.

Better still, you can plan to have enough funds to do some of those things you always said you'd do – go on that round-the-world trip, buy your dream beach house, take up sailing…

What the experts say you will need to live on

It's estimated that a single person needs to generate $40,297 per annum to live a comfortable lifestyle in their retirement, while for a couple the figure is $55,080 per annum.[1]

The Government-funded aged pension maximum entitlement is a mere $29,614 per annum (includes the pension supplement) for a couple (combined). If your other income and assets exceed certain limits, it may even be less. This clearly does not match the figures the experts have calculated are needed for retirement.

When you consider that the age pension is intended only to be a retirement 'safety net' rather than a main source of retirement income, it will often likely fall short for most people to live comfortably once they retire - another reason why considering some retirement strategies is important.

Here is an example that we have put together to help illustrate what you might need in retirement, based on the figures by ASFA, to live comfortably in retirement[2] at $40,297 for a single and $55,080 for a couple.

To last 15 years	$440,621 single
	$602,264 couple
To last 20 years	$533,088 single
	$728,652 couple
To last 25 years	$607,064 single
	$829,766 couple

These figures, of course, will depend on your personal needs, and the type of lifestyle you would like to live.

To help you start preparing for the day you stop work, it may be wise to implement some retirement strategies now. This may include:

Consolidating your super: Instead of having several different super funds from various employers you may have worked for, consolidate them into one account. This can save significant money on fees over a period of time. But before you do, make sure you consider things like loss of insurance cover and exit fees.

Take advantage of government help: If you or your spouse is a low-income earner, the federal government has a superannuation co-contribution scheme that may give you a helping hand.

Remember your spouse's super: Whatever retirement strategies you adopt, make sure you consider applying them to your spouse's fund as well.

Consider a pre-retirement pension: If, after you do your sums, you decide you can't afford to retire yet, you may need to consider strategies to help increase your retirement balance. If you're over age 55 you could think about transitioning to retirement by starting a pre-retirement pension and contributing surplus income back into super. Super's tax breaks means this can help build your super without reducing the income you live on.

1 Data from the Association of Superannuation Funds of Australia (ASFA) Retirement Standard, March, 2012.

2 Assumptions: earning rate 7.7% pa after fees and taxes with inflation of 3% and paid via an indexed income stream. A change to any of the assumptions and variables can produce significantly different results. Amounts exclude the age pension. Eligibility to part or full age pension will mean less is required. This is for illustrative purposes only. Figures are not guaranteed in any way. Investment performance may go up and down.

Provided with the compliments of Colonial First State

Contact your Sentry adviser find out more about how to get ready for retirement

Aged Care Reforms

Who Pays, how much, when and why?

Principal of specialist industry consultancy firm Aged Care Gurus, and co-author of "Aged care, who cares?" Rachel Lane welcomes the announcement of the Federal Government's aged care reforms but highlights that aged care choices are not as simple as stay in the family home, or move to an aged care facility, there are many different legal and financial structures that can apply.

It is not uncommon for people who are seeking care and companionship to enter into living arrangements to meet needs that are not formal aged care. Following the death of a partner a parent may move in with children or vice versa and in doing so, perhaps unknowingly, establish granny flat rights or a life interest in the property.

Similarly, the inability to maintain the family home and the social isolation that can come from the death of a spouse or reduced mobility often leads to decisions to move to an over 55's community (manufactured home park) or retirement village.

So increases to home care packages aren't necessarily about keeping older Australians in the family home but in the accommodation of their choice other than residential aged care, and that's a good thing.

The current cost of home care packages varies widely depending on location and service provider. One of the main reasons for the cost variations has been due to the informal nature of assessing a recipient's capacity to contribute to their cost of care and the fact that the care package is fully funded by the Government.

This is completely at odds with the residential aged care system where the ability for a resident to contribute is determined through a formal process shortly after entry and is used by the government to offset funding of that resident's cost of care on a dollar for dollar basis.

The government's aged care reforms will create a formalised process for determining the contribution home care recipients pay.

In future, home care contributions will be based on the recipient's income, calculated at 50c per dollar above certain thresholds. Full pensioners and those with equivalent income of $23,543 (single) and $36,499 (couple) will not make a care contribution and only pay the basic fee (equal to 17.5% of the full single pension).

For part-pensioners and people with the equivalent level of income up to $43,186 (single) and $66,134 (couple) the care contribution will be capped at $5,000 p.a. While people with income above these amounts will have their care contribution capped at $10,000 p.a.

For all care recipients, a lifetime cap of $60,000 will apply, across home care and residential aged care.

Residential aged care currently has three different types of care; low care, high care and extra services (low care or high care) each with its own cost structure. In low care and extra services the accommodation payment is by way of an accommodation bond, in high care an accommodation charge is substituted.

The inability for aged care providers to charge (and residents to choose to pay) an accommodation bond in high care has been a bone of contention. High care residents with assets above $108,266.40 currently pay $32.58 p.d as an accommodation charge, while residents of low care and extra services can pay a bond up to their total assessable assets minus $40,500.

The aged care reforms will remove the distinction between high care and low care and give residents the choice of paying their accommodation payment by way of a lump sum, daily charge or combination of the two.

The Federal Government's proposed establishment of the Aged Care Financing Authority should ensure the amount of accommodation payment (daily charge and lump sum equivalent) is reflective of the value of accommodation residents will receive.

The new accommodation charge will be subject to an assets and income test. Residents with assets above $153,905 or income above $63,905pa, will be able to pay an accommodation charge of $52.84 per day to facilities built or significantly refurbished after April 21, 2012.

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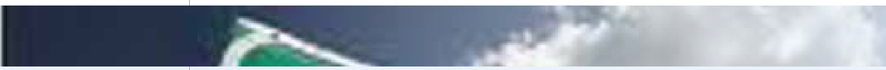
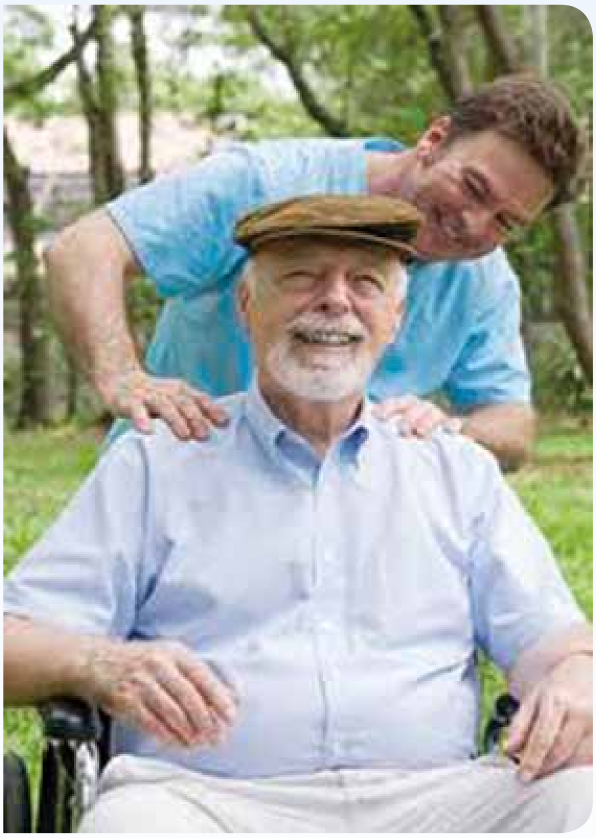


No retention fee will be deducted from accommodation bonds paid after July 1st 2014, currently the maximum retention fee is $318 per month for a maximum of 5 years.

In addition, aged care providers will need to insure their accommodation bond holdings. Currently bonds are guaranteed by the Government and a bond levy can be applied across providers in the event of default, details of how providers would insure their bond holdings were not tabled.



The asset test exemption for lump sum bonds will be retained.

Under the current arrangements residents of aged care contribute to their cost of care through a daily income tested fee.

The fee is not paid by full (means tested) pensioners and is calculated at 41.67 cents per dollar for income above the thresholds.

The care contribution that will be charged to residents who enter aged care after July 1st 2014 will be based on an asset and income test.

The care contribution will be calculated as 50 cents per dollar of income above $23,543 (2012) and on a sliding scale for assets.

Residents whose income is below $23,543 (2012) and assets are below $40,500 (2012) will not pay a care contribution.

The formula for determining the amount of care contribution will be:

- 50 cents per dollar of income above the threshold +
- 17.5% of assets between $40,500 - $144,500 +
- 1% of assets between $144,500 - $353,500 +
- 2% of assets above $353,500

The goal of the comprehensive means testing is to prevent asset rich but income poor residents from not making a contribution towards their cost of care and income rich but asset poor residents from not making a contribution towards their cost of accommodation.

Aged care decisions are complex and the need for specialist advice is, and will continue to be, crucial.

The ***Living Longer Living Better*** plan recognises this complexity and encourages consumers to access financial advice about their aged care costs from qualified advisers with expertise in aged care funding.

Provided with the compliments of
Rachel Lane I Aged Gurus Pty Ltd
www.agedcaregurus.net.au

* Rates quoted as at April, 2012 in line with Federal Government Aged Care Reforms.

Life insurance - Looking after you

Each year on 4 February, the World Cancer Day helps raise people's awareness of cancer and how a number of simple steps can make a real difference in preventing that serious illness later in life. While medical advancements and early detection allow us to be ever-more hopeful, cancer can still have a big impact not only on the lives of those affected, but also their family and friends

A helping hand when you need it most

In Australia, half of all men and a third of women will be diagnosed with cancer before the age of 85.* The good news, however, is that over 60% of cancer patients will survive more than five years after diagnosis.**

When the unexpected happens, money is usually the last thing on anyone's mind. But once the dust has settled the financial stress caused by a cancer event can magnify and create many new problems. Therefore it's important to have a protection plan in place, allowing you to focus on recovering without worrying about your finances.

Did you know that:

- Cancer costs Australian families an average of $50,000 when someone in the family is diagnosed with cancer. That includes loss of that person's income, or the income of a carer. ¥
- Treating cancer costs about $9,000 in out-of-pocket costs. ¥

Choosing the right cover for your protection plan

Not all insurance products and policies are the same. Your Sentry adviser can help you choose the right cover based on your personal circumstances, as product options and medical definitions can vary between different providers – even for cancer.

What one company defines as an "early stage cancer" or "invasive cancer" may not be considered the same by another, which can impact the payout at claim time when you need it most.

Trauma cover is one type of insurance available and will step in to provide a financial support and peace of mind by paying a lump sum up to $2 million for 40 serious medical conditions and procedures, including cancer.

There are also several additional features and benefits that may give you more at claim time. Asteron is one of the only insurers to have extensive cover under Trauma for early stage cancers in place, which provides a partial payment between 15-20% of the sum insured, depending on the level of severity of your condition.

It's a financial helping hand and can be used to cover medical costs and treatment, to take some time off work or to go on a stress-free family holiday – you choose.

Seek advice

For more information on how Life Insurance can protect your financial future and what cover is best for you, contact your Sentry adviser.

* http://riskinfo.com.au/news/2010/07/04/rising-debt-levels-adding-to-underinsurance-burden/

**www.cancer.org.au/about cancer/FactsFigures.htm

† Cancer in Australia: an overview 2008 (Australian Institute of Health & Welfare and Australian Cancer Research Foundation)

¥ Cost of cancer in NSW April 2007 www.cancercouncil.com.au access economics and Cancer Council NSW

Provided with the compliments of Asteron

For further information contact your Sentry adviser

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