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Money Matters

Winter 2017

Welcome to this Winter edition of the personal finance newsletter from Richard Shermon at Reserve Financial Consulting. With the new tax year well underway now is a good time to be updating your financial plan.

Index investing continues to outperform Active investing

Regular readers of Money Matters will know that I am a big supporter of Index investing. Indexed funds typically have much lower fees when compared to actively managed funds along with potential taxation benefits. They also offer a higher level of diversification as index funds invest in all or most of the securities in an index. The other key benefit is that index funds can provide competitive long term performance.

I recently compared the five year performance of the Vanguard Wholesale Growth Index Fund (which is a diversified index fund which many of my clients use) with a number of leading actively managed funds with a similar allocation to growth type asset classes (e.g. 61-80% Growth assets such as Equities and Property). The results are summarised in the following table.

Managed Fund	Fund Size ($m)	Five year return to 31 July 2017[1]
Vanguard Wholesale Growth Index Fund	2,190	11.08% p.a.
BT Active Balanced Wholesale Trust	207	9.72% p.a.
Colonial First State Wholesale Diversified Fund	264	9.97% p.a.
MLC Wholesale Horizon 4 Balanced Portfolio	1,386	9.98% p.a.
North Select Active-Balanced	3,264	10.46% p.a.
Perpetual Wholesale Balanced Growth Fund	749	9.97% p.a.
Russell Investments Balanced Fund-Class A	2,017	9.99% p.a.
Ventura Growth 70 Fund	206	9.69% p.a.

[1] Source: Lonsec Fund Profiles. Returns after fees. Past Performance is not an indication of future performance.

The key message is that you should seriously consider using low cost index investing for your wealth accumulation needs rather than pay higher fees to active fund managers who, on the whole, fail to deliver against their benchmark over the longer term.

If you would like to discuss any of these ideas further then please give me a call on **0401 357 071.**

Visit www.reservefc.com.au for more details

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If redundancy strikes there are many things you need to think about

Being made redundant can be a very stressful and worrying time both for the individual and their family.

Not only do you have to cope with the uncertainty of finding a new job there are also many financial issues that need to be considered. Here are a few of things you should think about.

1. Review the redundancy package you have been offered. Some employers will provide a Redundancy kit to help you understand all your entitlements. It is certainly worth checking that the calculations are correct especially the after tax numbers. I have seen several examples where the redundancy package was calculated incorrectly. Also, it may be worth asking for any bonus payments for the current year (at least on a pro rate basis) to be included in any redundancy offer.
2. There may be areas still open to negotiation which could improve your financial position. For example, as the tax free threshold is based on completed years of service (currently $10,155 plus $5,078 per completed year of service) is it possible to move the date of redundancy to increase this tax free amount?. If the redundancy is close to the end of the tax year is it possible for the redundancy date to fall in the next tax year when you may have a lower marginal tax rate?
3. Your superannuation position should also be reviewed. You may find that the fees and charges that you are paying increase as you move into a different category within the super fund. The subsidy that your employer may have been making towards these fees will usually stop when you leave. If you start work with a new employer you will need to consider your options. For example, should you join your new employer's scheme? If so, does it make sense to consolidate your old super into this new scheme? If you have been with your employer for a long time you have some valuable options embedded within part of your superannuation benefit which you could potentially lose if you rolled over into a new superannuation fund.
4. When you leave an employer your life insurance is another important area to consider. You may have an option on redundancy to apply to continue your insurance without the need for any medicals etc. However, if you are in good health, you may well be better off to obtain new insurance cover rather than continue with your existing cover as sometimes the premiums charged are much higher after you leave an employer as you no longer enjoy group rates or employer subsidies.
5. Some employees may have share options or own shares via a deferred incentive type arrangement in their former employer. You will need to consider how best to deal with these as you approach your redundancy date and perhaps look to negotiate an extended period of time to sell any shares.
6. You may have a car under a novated lease style arrangement. You should consider your options with regards to the vehicle on redundancy. It often makes more sense financially to just return the car to your employer and cease the lease arrangement especially if you expect to be unemployed for any reasonable period.
7. As you can see there are many things to consider and seeking quality financial advice at this stressful time is a very sensible option. Often the cost of any financial advice is met by your former employer as part of your redundancy package!

Superannuation changes for the 2017/18 financial year

The concessional (before-tax) contributions cap has reduced to $25,000 for the 2017/18 financial year for all individuals. Concessional contributions are typically your Super Guarantee contributions and any salary sacrifice payments for employed people or deductible personal super contributions (you no longer have to be substantially self employed in order to be able to claim a tax deduction for personal super contributions from this financial year).

The Super Guarantee rate remains at 9.50% for the 2017/18 financial year and the maximum level of salary that this rate has to apply to increases to $211,040 pa.

If you are currently salary sacrificing to make the most of the concessional contribution cap then it will be sensible to review your arrangements at this time of year to ensure they remain appropriate given these changes.

The non-concessional (after-tax) contribution cap has also reduced and is now $100,000. You are only allowed to make this type of contribution if your total superannuation balance as at 30 June 2017 was below $1.6m.

The spouse's income limit to enable the spouse contribution tax offset to be claimed has increased this financial year to $37,000 up from $10,800 for the previous financial year.

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Improvements to the Vanguard Diversified Funds

Many of my clients will have investments in one or more of the four Vanguard Diversified Index Funds (Conservative, Balanced, Growth and High-Growth). These low cost, diversified managed funds invest in multiple asset classes through a transparent and tax-efficient portfolio. The long term investment performance has been in the top quartile of their respective peer groups over three, five and ten year periods up to 31st December 2016 according to Morningstar Australia.

Vanguard has recently announced some changes to these funds from 1st July 2017. The first main change is a reduction in fees with the Management Expense Ratio reducing to 0.29% pa. for each fund. As these funds have grown in size Vanguard are able to pass on some of the economies of scale to their investors via lower management fees.

The other main change is in the strategic asset allocation of the fund (i.e. how much of the funds are invested in each major area like shares, fixed interest etc). These changes have been designed to reduce concentration risk and optimise currency exposure. For example, there is a reduction in the allocation to Australian shares in favour of international shares to reduce risk resulting from the high concentration of banks and mining companies in the Australian share market. Also the allocation to listed property securities has been removed to reduce the concentration risk to property and leaving investors with an exposure to listed property through the allocations to Australian and International shares.

It is worth noting that there has been no change to the overall split between Growth (eg. Shares and property) and Income (eg. Fixed Interest and Cash) assets (eg. The Vanguard Growth Index Fund remains 70% Growth; 30% Income).

You can read more about these changes by clicking here.

How can you obtain quality financial advice?

By contacting Reserve Financial Consulting which is a financial planning business based in the Bayside area. I specialise in providing advice in the area of Investments, Insurance, Superannuation and Pensions.

I am the Managing Director of the business and I have over 25 years experience in the financial services industry in the UK, Singapore and Australia.

Richard Shermon BA FIA DIP FIN SERV (FP)

I provide advice to my clients on a fee for service basis and no commission is received on any of the products I may recommend. A typical financial plan costs approximately $2,500 (plus GST) to research, prepare and implement.

Please give me a call to set up an initial appointment to discuss any personal finance issues or concerns that you may have. I am sure I will be able to help.

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There is no charge for the first meeting

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