Financial Planning NEWS

Chifley Financial Services Update

October 2004

The effect of lump sum withdrawals on an Allocated Pension

For those clients who have an income stream product such as an allocated pension, it is important to take stock before withdrawing lump sums and consider the long term effect this could have on the balance of your funds. Any decision could have consequences for your lifestyle, so it's important to speak with your financial planner before making a change.

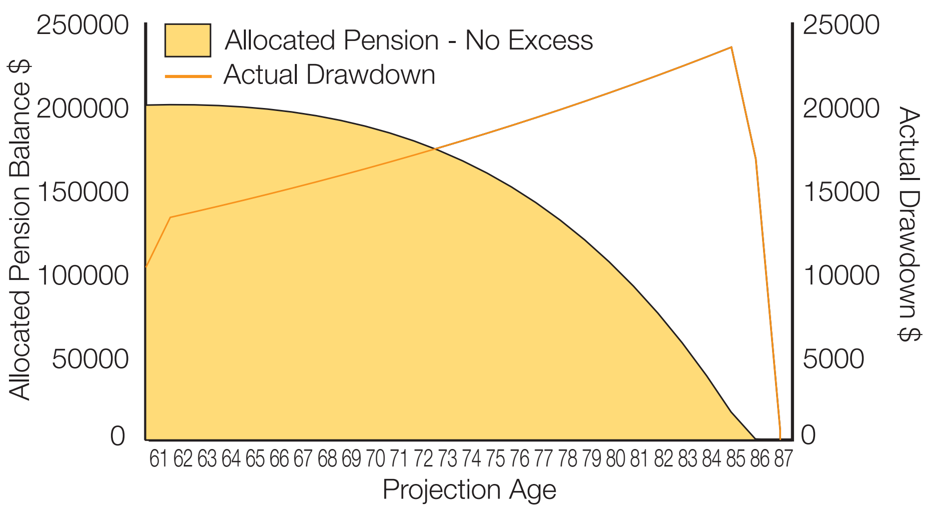
The following example will show you how a lump sum withdrawal could effect your allocated pension capital. The following assumptions have been made:

- Initial capital is $200,000
- Yearly pension income is $13,000 indexed by 2.5% pa
- Investment return is 7% pa

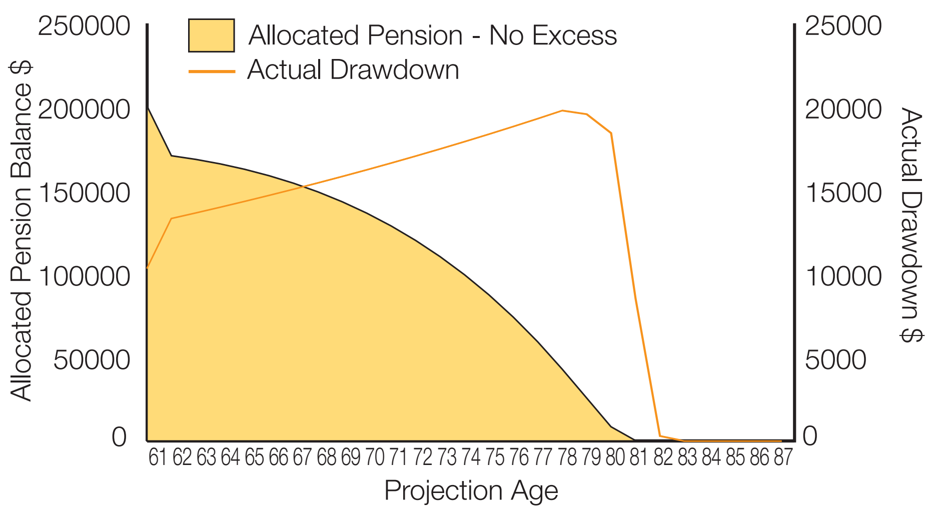
For the purposes of comparison, the first graph features no lump sum withdrawal and so the capital lasts for 25 years - from aged 61 through to 86 years.

The second graph (based on the same assumptions) shows the impact of a lump sum withdrawal of $30,000 in the second year. The effect of this withdrawal is that the capital runs out 5 years earlier, that is, the capital only lasts 20 years instead of 25 years.

No lump sum withdrawal



Lump sum withdrawal



Need more information?

Before you retired, it is likely that you would have met with your financial planner to prepare a budget and discuss how you would manage your expenses through retirement - to ensure that your funds lasted the distance. Any changes to this plan may effect your retirement, so you should seek financial planning advice before making any decision, such as making an unplanned withdrawal.

Contact your Chifley planner on 1800 800 002 to discuss possible ways that you can meet any unexpected expenses as well as make your allocated pension last longer.

Free financial seminars

We offer free seminars for people approaching retirement or those looking to build up their savings and investments. If you would like to find out more or book your place in one of the remaining seminars this year, please contact us on 1800 800 002.

A full listing of the seminars to be held state-wide next year will be published in the next edition of Financial Planning News.

Retirement seminars

November

Tuesday 9th
Gosford
8:45am-2:45pm

Wednesday 10th
Sydney
8:45am-2:45pm

December

Thursday 2nd
Dee Why
8:45am-2:45pm

Morning tea and a light lunch are provided

Wealth creation seminars

November

Wednesday 17th
Cronulla
5:30pm-8:00pm

Refreshments are provided

Office locations

Branches are located at:

Sydney: 28 Margaret Street

Wollongong: Shop 2 & 3/ 60 Burelli Street

Lismore: 81-83 Molesworth Street

Wagga Wagga: 2/209 Baylis Street

Orange: 187 Summer Street

Newcastle: 235 Darby Street Cooks Hill

The following offices are staffed one day per month (bookings essential):

Albury: 429 Swift Street

Goulburn: 148 Auburn Street

Review your financial situation regularly

An important part of the financial planning process involves a regular review of your situation with your planner.

Why undertake a review? A yearly review is considered best practice for the reason that it ensures you remain as informed as possible about your current financial situation. The review also provides you with the opportunity to consider if your circumstances have changed, or just to check that your financial plan is still meeting your needs.

To ensure that we continue to meet your needs, we will now contact you if you have not reviewed your circumstances with your planner for a period of 12 months. A review with your planner will enable you to discuss your situation and any changes to your financial circumstances. You may also be required to complete some paperwork prior to your discussion, so that your planner has all the necessary and up-to-date information needed to review your plan.

In the meantime, if you feel that your financial circumstances have changed and you would like to speak to your Chifely Financial Planner, please contact us on 1800 800 002 for the cost of a local call.

Estate Planning service coming soon

We are currently in the process of developing a range of services to cater for all of your financial planning needs. One of these important developments is in the area of estate planning.

Often, clients have asked for assistance in creating a Will and appointing a Power of Attorney. In the past, we referred our clients to their solicitor, but as part of developing a better and more complete service offering, a cost-effective estate planning service will soon be available.

You will hear more on this new service in future newsletters, so watch this space…

Investment and market commentary

Commonwealth Treasury forecasts suggest solid economic activity over the next two years, with growth to average 3.5% and inflation at 2.5%. This broadly agrees with private sector forecasts and appears achievable.

The economy grew 4.1% in the year to June, house prices fell 1.2% in the June quarter with Sydney falling most sharply (-5.4%). Unemployment came in at 5.7% and the Reserve Bank of Australia (RBA) warned that measures of household financial vulnerability, such as the interest payments to income ratio, have reached record highs. As a result, the RBA will likely leave interest rates unchanged at the moment.

The Australian dollar was up 3.9% against the US dollar during the September quarter.

Australian shares

The September 2004 quarter was very strong for the Australian sharemarket with new highs being set. This strong activity came in the wake of a strong profit reporting season and the prospect of ongoing economic growth. It also occurred despite an increasing oil price and quiet offshore markets. The Australian sharemarket (All Ordinaries) finished the quarter up 4.1%.

The domestic profit reporting season is at the heart of the sharemarket's improvement. Company earnings were very strong and the outlook is for continued, if slightly more modest, earnings growth. A decline in bond yields assisted the sharemarket as returns on shares became more attractive.

The dividend yield on the All Ordinaries Index was 3.6% at the end of September. After adjusting for the tax already paid by companies (franking credits), this equates to a grossed up yield of around 4.7% compared with bond yields of 5.5%.

Outlook

Is the sharemarket overpriced? The answer appears to be 'no' based on the expectation of future earnings.

Importantly, the outlook for earnings appears good. On the positive side we still have low interest rates, low inflation,

ongoing infrastructure spending, solid business investment, real wage growth and firm commodity prices, which all aid economic growth and company earnings. On the downside there are high oil prices, rising US interest rates, the drought, a possible slowdown in home construction and potentially stretched consumers. Nonetheless, economic forecasts point to ongoing economic growth which should support corporate activity.

International shares

World sharemarkets were generally down over the September quarter, having fallen heavily in July and August. They recovered somewhat in September, though, to be down just under 2% worldwide for the quarter in local terms (although this meant a fall of just over 5% in Australian dollar terms due to the movement in our currency). Some of this movement in the currency would not have been felt by most of our investors due to our cautious hedging strategy.

Markets struggled to make headway mostly due to increasing doubts about the economic outlook and persistently high and rising oil prices.

More specifically, US markets saw negative returns for the September quarter. Higher oil prices and storms are being held responsible for a perceived slowing of the economy, despite company earnings being solid. Elections jitters and the higher Fed Funds rate also held back the US market during the quarter.

The major European markets predominately continued the negative trend over the quarter with some recovery in September. Growth is now expected to be in the range of 1.6% to 2.2%. The UK broke the European trend for the quarter and rallied 2.4%.

Asian markets also broke the general negative trend and saw positive returns for the quarter. The notable exception was Japan which released figures indicating that their economic growth had slowed which consequently led to some caution in their market (it was down 7.4% for the quarter). Also holding Japan back is its status as a major oil importer with no supplies of its own.

Outlook

Oil prices at record highs of US$50 per barrel and consumer debt levels are the issues of the day. Sustained high oil prices will slow growth in the short term but the reason oil prices are high is because of strong global growth. High consumer debt levels make further retail spending growth more difficult, but real wages are rising and more people are getting jobs.

Looking ahead, early November will resolve the uncertainty surrounding the US elections and job growth figures in the US should indicate how their economy is travelling. Oil prices may fall and Chinese economic growth seems unlikely to fall below 8%. If these eventuate they would both be positive developments for global sharemarkets.

Fixed interest & Cash

Domestic and global bond yields fell during September, despite rising oil prices. There is an expectation in bond markets that global economic activity is slowing, which in turn will help keep inflation at bay.

Ten year government bond yields fell to 5.47% over the quarter - only 0.2% above the overnight cash rate.

Outlook

The RBA left its target for official cash at 5.25%, having last moved it in December 2003. Regardless of the Australian election outcome, any change in monetary policy is likely to wait until at least November and some forecasters are seeing it steady for all of 2005.

As economic data is pointing to a steadily growing economy, bank bill yields were little moved and cash and bond rates are almost equivalent at the moment.

Changes to superannuation rules

Recently, the Government made a number of changes to the rules relating to retirees and superannuation contributions. As these changes, effective 1 July 2004, may affect your situation, we have outlined the revisions below.

Work test removed for superannuation contributions before age 65

Prior to 1 July 2004, a person had to be gainfully employed (worked 10 hours in a week within the last 2 financial years) to be eligible to contribute to superannuation. The legislation now states that anyone below the age of 65 can contribute to superannuation, regardless of their work situation.

Simplified work test rules for those aged 65 to 74

Retirees within the 65 to 74 age bracket are now eligible to contribute to superannuation if they work at least 40 hours in 30 consecutive days during a financial year. Contributions to superannuation are allowed at any subsequent time during the financial year, once this test is satisfied.

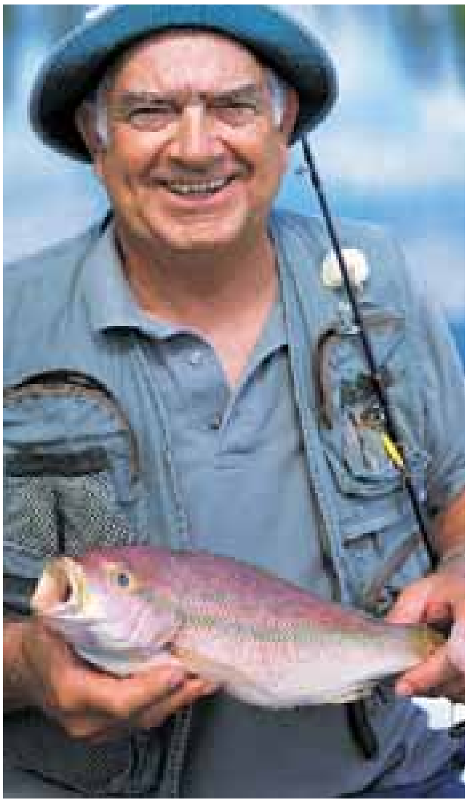
Compulsory cashing rules for people aged 65 to 74

Previously, legislation stated that on turning 65, a person had to be gainfully employed to continue their membership within a superannuation fund. Otherwise, it was a requirement by law to either cash in the lump sum or rollover the balance to a retirement income stream vehicle.

Now, those within a superannuation fund may retain their membership without making contributions, as long as they have worked for at least 240 hours in the previous financial year.

Compulsory cashing rules for those aged 75 and over

Anyone aged 75 or over prior to 1 July 2004 may remain a member of a superannuation fund, provided they work at least 30 hours per week. However, those that reach age 75 on or after 1 July 2004, may not remain a member of a superannuation fund, irrespective of employment status.



Need more information?

For more information, or to clarify the rule changes in relation to your situation, please contact Chifley on 1800 800 002 for the cost of a local call.

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