MONEY MATTERS.

Advice. Life. Investments. Superannuation and Retirement. Edition 4, 2018

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Why super fund default insurance is not always a ‘super’ option

Life insurance held inside superannuation can seem cheap, but is it always good value? A recent Productivity Commission review has raised several questions.

Many people use a super fund to access cheap life insurance – but it can often come with substantial hidden costs.

It is known as ‘group’ insurance and about 12 million Australians fork out around $9 billion a year for life insurance policies covering death, total permanent disability (**TPD**), and income protection.

It can provide valuable protection against risk but the automatic nature of enrolment and opaque terms and conditions can often mean that life insurance isn’t there when it’s needed most.

The issue has reached boiling point in recent years, voluntary industry code of practice has recently been introduced, aimed at improving customer outcomes.

“This is a small first step at addressing some of the most egregious problems,” according to the Productivity Commission’s recent draft report into superannuation efficiency and competitiveness.

The government has also proposed new legislation from 1 July 2019, that would make group insurance opt-in for new members aged under 25 years, member who have balances under $6,000, or whose accounts are inactive.

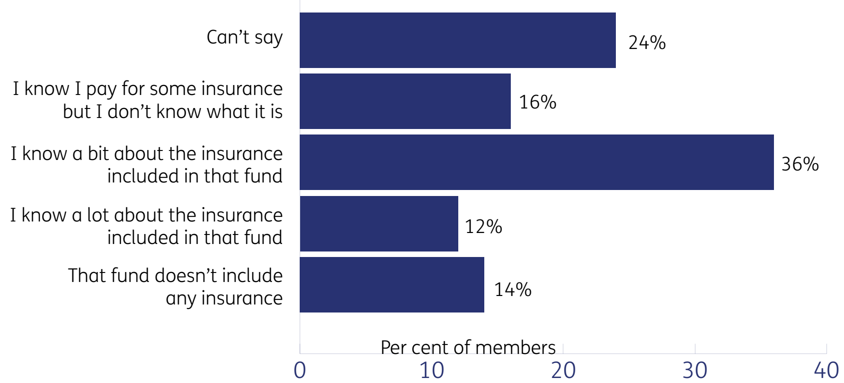
A key issue is the sheer volume of unnecessary insurance policies, which cost $1.9 billion in annual premiums: a symptom of the complex and incomparable policies that populate the group life insurance landscape.

The Productivity Commission estimated that 17 per cent of super fund members have duplicate policies across multiple super accounts – a situation that can erode their retirement balances by more than $50,000.

Worse, some members are defaulted into insurance products known as ‘zombie’ policies because they are ineligible to claim on them.

Many members have little understanding on insurance in superannuation*

What do you know about the insurance that is included in your fund?



*Weighted using Productivity Commission weights.
Source: Productivity Commission Members survey.

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Please contact our office if you would like to discuss any item in this edition with an Adviser.

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Not all policies are equal

While super funds pay out a high percentage of insurance premiums as claims, insurance still accounts for more than one-third of all member complaints against their fund, the Productivity Commission found.

Income protection policies are a particular source of contention.

Many people are unaware that only one income protection policy is typically valid (so multiple policies will not be paid out) and a claim can only be claimed by members who are working.

This is an issue for many thousands of members with multiple super funds who are also automatically charged for default insurance and those who have intermittent work patterns over their lives.

Confusion can also arise because the terms of every contract are different.

For example, one large super fund reduces its TPD lump sum payouts by the amount of income insurance paid out. This spurred two members to recently launch legal action against the fund, arguing that it made the TPD cover essentially worthless and that the offsetting approach was not adequately disclosed.

TPD coverage is also not always comparable given some funds have put in place higher hurdles compared to the standard definition that a person cannot work again in their chosen field. These requirements, which assess a person's ability to complete basic tasks such as showering or dressing, are not always applied equally between professions.

It highlights the complexity of insurance policies on offer, which are a default add-on to a funds' main product: superannuation.

The industry's Insurance Code of Practice, which commenced on 1 July 2018, is one attempt to improve the situation.

Funds will provide a standardised 'key facts sheet' and policy information to new members, as well as cap premiums at about 1 per cent of average salary across the membership. It also has a range of specific safeguards for young or low balance members.

However, the code is voluntary and unenforceable, with the Productivity Commission pointing out that it falls below the corporate regulator's requirement for code approval.

Further changes are likely to boost the effectiveness of group insurance.

While financial advice was outside the scope of the Productivity Commission review, a separate major review by the corporate regulator found term life, TPD, trauma, and income protection claims were declined least often when an adviser was involved (7% of claims), followed by group insurance (8%) and non-advised channels such as online (12%).

High quality financial advice has a key role to play if life insurance is going to be there when it's needed most and should be considered by every Australian.

Contact our office today and speak to your financial adviser today to ensure that your life insurance coverage is tailored to your specific needs.

Rising global inequality becomes an issue for investors

Inequality has rarely been a concern for investors – until now. It has already changed the face of politics and has new implications for economic growth. What should investors consider in this new world?

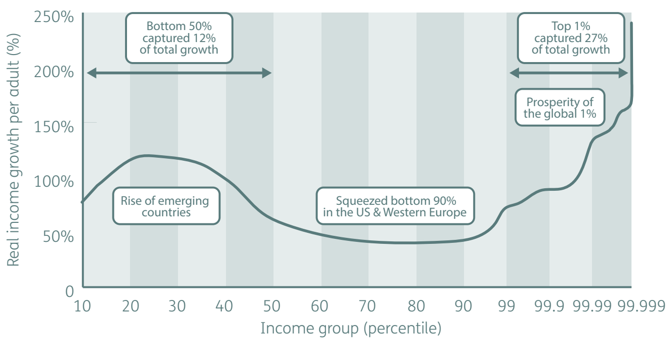
Rising inequality has always had significant repercussions: when the divide between the haves and have-nots reaches breaking point, social upheaval ensues.

But new evidence suggests it may also have broader implications given rising inequality can also threaten long-term economic growth and investment returns.

It is a particular issue given the quantitative easing policies instituted by central banks around the world, which were aimed at restoring economic growth in the wake of the global financial crisis, also turbocharged the value of assets.

The chart below shows the extreme growth in the income of the most wealthy in recent years, with the top 1 per cent capturing 27 per cent of total global income growth from 1980 to 2016.

Global income growth 1980 - 2016



Source: World Inequality Report 2018, Frontier Advisors

"We believe inequality will have a material impact on long-term growth and investment outcomes particularly as it relates to government policy," Frontier Advisors Director of Investment Strategy, Chris Trevillyan, said while presenting research at the investment consultant's annual conference earlier this year.

Historically, capitalism has not been particularly concerned with such disparity given the overall size of the economic pie was also growing. However, a number of respected organisations are now recognising a tipping point.

The United Nations has acknowledged that "evidence shows that, beyond a certain threshold, inequality harms growth," while the IMF found that "rising inequality poses risks to durable economic growth".

The most immediate impact of growing inequality is political risk. Populist and extremist parties are gaining ground in several countries as disaffected citizens look for new answers. Donald Trump's unexpected US election victory has ushered in a new era of uncertainty, with globalisation and free trade now under threat.

Since the 1970s, corporate profits and executive remuneration has climbed but workers' share has fallen – while this is good for investors in the short-term, it may act as a longer-term brake on growth as consumption is larger for those on lower incomes.

Trevillyan suggests investors need to consider growing inequality in the same way they consider the impact an ageing population has on long-term investment returns and volatility.

"The tough part is what are the investment implications of this? There is no easy clear answer from that," Trevillyan said. "We think it is important to consider inequality, to start thinking about long-term growth, and it's important to consider the risks ahead. Being aware of this problem is the starting point."

The case in Australia is more nuanced. Productivity Commission Chairman Peter Harris recently said in a speech presenting a new report into inequality that while Australia was poised to enter its fourth consecutive decade of economic growth, many Australians are suffering from poor wages growth and feel they have missed out.

However, "unlike North Atlantic nations now caught up in a populist vortex, the benefits of income growth since the last recession in 1990 have been fairly evenly shared across every income decile in Australia."

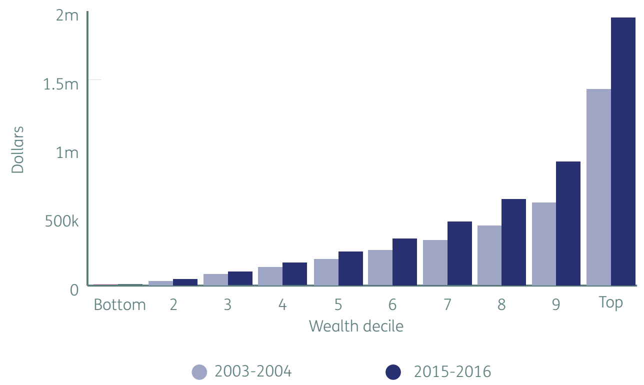
The Productivity Commission report did find that inequality in Australia has been marginally rising over recent decades, particularly in the distribution of wealth and consumption. A large proportion of that wealth is held by older Australians in residential housing and superannuation.

The view of everyday Australians may be slightly different. A survey conducted by the Committee for Economic Development of Australia (**CEDA**) asked people who had gained from Australia's record breaking run of economic growth: 44 per cent said they had not gained at all while just 5 per cent said they had gained a lot.

That public dissatisfaction will have broader investment implications in years to come although only time will reveal the exact ramifications.

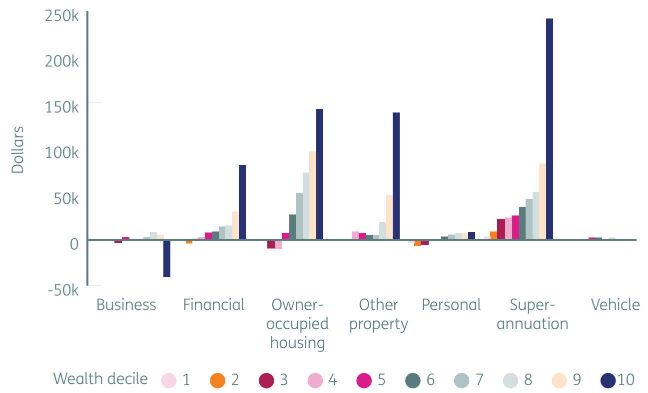
Wealth has increased across the distribution, especially for the top half of the distribution...

Average equivalised wealth by wealth decile



...with housing and superannuation balances accounting for most of the increase

Absolute change in average household wealth by wealth type, for each wealth decile, 2003-04 to 2015-16



Source: Productivity Commission report: Rising Inequality – A stocktake of the evidence

Speak to your financial adviser about how to enjoy your retirement today while planning for your needs tomorrow.

Australia's burgeoning tech sector brings new investment opportunities

Australian technology companies have long taken a back seat to blue-chip banks and mining companies on the share market. But times are changing as innovation takes centre stage.

Around 3,500 people flocked to a Miami pool party-themed event in Brisbane earlier this year where they enjoyed ping pong, basketball, mini-golf and the sounds of a DJ.

But this was no party – the attendees were accountants and the occasion was Xerocon – accounting software provider Xero's annual exhibition.

Attendees were treated to a wide range of presentations and exhibitors but all had one thing in common: technology and innovation held a central position as a way to improve business.

While just 2.6 per cent of the benchmark S&P/ASX 200 comprises information technology (**IT**) companies, the Australian investment landscape is becoming increasingly dotted by start-up hubs and FinTech companies. Many either count major corporations as investors or are working alongside them.

It wasn't always this way. Australia has traditionally relied on innate good fortune – largely its ability to export commodities – to drive economic growth.

Even today, the largest public companies are still blue chips in traditional sectors, such as the big four banks, mining company BHP Billiton, conglomerate Wesfarmers, retailer Woolworths and telco Telstra Corp.

ASX-listed tech-focused companies such as Xero, which has global expansion plans, are still the exception. In 2015, Atlassian arguably Australia's largest software provider, chose to list in the US where the innovation culture still reigns.

The S&P 500 is dominated by tech companies such as Apple, Microsoft, Amazon and Alphabet (Google). Online retailer Amazon recently joined Apple as a trillion-dollar valued company and IT now accounts for more than one-quarter (26.5 per cent) of the US market.

While those companies have disrupted many industries, such as retail and media, a range of others are just on the horizon.

Investment firm ARK Invest says there has never been a moment in history where so many disruptive innovative technologies have arisen at the same time, highlighting DNA sequencing, automation (including robotics and 3D printing), energy storage, next generation internet (including deep learning, artificial intelligence, and the internet of things), and blockchain technology.

It shows that innovation is not constrained to the IT sector. Arguably Australia's biggest current success innovation story is global biotechnology manufacturer CSL, which has grown into Australia's third largest public company.

It was originally a government-owned business that was privatised in the 1990s, and it now produces treatments for serious diseases and health products such as vaccines. The company's chief executive, Paul Perreault, has previously called for corporate tax cuts and skilled migration incentives to help spur further Australian innovation.

The government's $20 billion Medical Research Future Fund is also expected to be another driver in coming years as it ramps up support for new drugs, devices and therapies to fight rare cancers, diseases and complex conditions.

While the potential is enormous, innovation is not without investment risks.

While established businesses are typically valued based on future earnings, tech and innovation-focused firms are valued based on potential. Many firms make heavy losses while on a fast-growing customer acquisition strategy.

For example, Xero has more than 1.3 million subscribers but remains in loss-making territory. Analyst Morningstar estimates its forward price-earnings ratio is 190 times – well above the broader share market which tends to trade at 15-20 times.

Sentiment can turn quickly – even Facebook's share price has suffered significantly this year as slower customer growth and potential new regulations to counter privacy concerns weigh on its future.

While a balanced investment portfolio that balances risk and return is a proven strategy to achieve long-term goals, innovation and technology present a growing opportunity for savvy investors.

Contact our office today and speak with your financial adviser to ensure that your investment portfolio is set to help you achieve your personal goals.

Time to 'Shake It Up': boosting research into Parkinson's disease

Parkinson's disease is a degenerative disease of the nervous system that affects more than 110,000 Australians but it is only now receiving much-needed funding and research attention.

Parkinson's disease affects more Australians than prostate, bowel and breast cancer, yet there are no treatments to slow, stop, or reverse the disease.

However, there is growing hope with several promising lines of research underway, says Simon Lewis, Professor of Cognitive Neuroscience at the University of Sydney and Royal Prince Alfred Hospital.

"In the last 20 years I've been around Parkinson's, there's been nothing except fine-tuning the symptom-relieving treatments that we have – tablets, injections, patches, surgeries. It's only in the last two years that people have got serious about doing the trials."

Vicki Miller, Executive General Manager of Strategic Partnerships at the Shake It Up Australia Foundation, says fast-tracking promising research that can slow or stop the progression of the disease is crucial.

"For anyone who's been diagnosed with it or is watching a loved one living with it, if they knew they weren't going to get any worse than they are today, they can live with that outcome."

The reason is uncertainty. More than 110,000 Australians suffer from the complex movement disorder with each affected differently.

"You can't give someone a crystal ball to show what their future's going to look like," Miller says. "They might live comfortably with Parkinson's for the next 10 or 20 years or they might decline really quickly and be unable to move unaided. It affects their speech so they can't talk; a lot of people end up in wheelchairs unable to feed themselves."

The Shake It Up Australia Foundation was set-up by successful business owner Clyde Campbell, who was diagnosed at the age of 44, to raise awareness and boost research funding.

All funds raised go towards research (Clyde and his brother Greg personally fund the Foundation's administrative costs) while a partnership with The Michael J. Fox Foundation means it co-funds many Australian research projects on a 50/50 basis.

Fox, the star of films such as Back to the Future and TV series Spin City, was diagnosed with Parkinson's at the height of his Hollywood career in 1991, aged just 29 (about 10% of Parkinson's cases are diagnosed under the age of 40).

A number of other high-profile cases have also brought attention to the disease including boxer Muhammed Ali and, more recently, singer-songwriter Neil Diamond and actor Alan Alda.

Professor Simon Lewis says there is no strong evidence that lifestyle factors cause Parkinson's while genetic risk factors are rare.

However, existing drugs used to treat other diseases are now being trialled because some appear to have a positive impact on Parkinson's sufferers. For example, a recent trial repurposing an existing treatment for diabetes has shown promise and will be the focus of a future international trial.

"In my working lifetime there's

probably been one major stand-out success that the medical world has made and that's the fight against HIV," Lewis says.

"When it came along we thought we had no chance and now we talk about vaccinations and living a normal life. It happened because there was a co-ordinated effort across the globe by governments with a lot of money saying we had to do something."

Donations to the Shake It Up Foundation can be made at shakeitup.org.au.

Speak to your financial adviser to ensure you have adequate insurance cover in place to enable you to maintain your lifestyle should the unexpected occur.

Markets maintain strength despite global trade tensions

Investment markets have stayed strong despite the threat of a trade war while the Australian economy continues to grow at a stronger than expected pace.

The global economy and investment markets continue to perform well despite a potential trade war between the US and China.

US equities continued to post new record highs as its economy surged, although President Trump's plan to impose new tariffs on Chinese goods and levies across $US200 billion of Chinese imports pose a concern for markets. Meanwhile, talks between the US and Canada to renegotiate the North American Free Trade Agreement signals another potential headwind to global growth.

The US unemployment rate dropped again in July to 3.9 per cent, business and consumer surveys were positive, while corporate earnings remained robust. However, emerging market equities have been dragged into negative territory this year, as well as other major equity markets such as Germany, UK, broader Europe and Japan.

The Australian economy grew by a stronger than expected 0.9 per cent over the June quarter, bringing annualised growth to 3.4 per cent – its fastest rate since 2012.

However, concerns remain about the proportion of growth being driven by relatively high levels of immigration compared to other OECD countries and consumers dipping into their savings. Meanwhile, house prices are declining, mortgage rates are rising, while wages growth remains weak.

After a volatile opening to the year, the S&P/ASX 200 steadily climbed over the three months to August despite weakness in the major financial services sector.

The Reserve Bank of Australia maintained official interest rates at a record low 1.5 per cent but major banks made small increases to their variable home loan rates in response to higher wholesale funding costs.

The value of residential property continued its steady decline, led by Sydney which is down about 5.6 per cent over the past year. The decline has been partly driven by tighter credit conditions as banks clamp down on lending in response to the concerns of regulators and the Royal Commission's revelations about lax lending standards.

The Australian dollar continued to weaken against the Greenback over the quarter as the US Federal Reserve has slowly raised rates in response to a strongly growing economy. The Australian dollar opened the year trading at around US78c but has since declined to about US71c.

Your adviser can help you structure an investment portfolio that meets your risk profile. Contact our office today.

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