



Written by Hudson Retirement Specialist - [Paul Jackson](#)

14 November, 2011

In this Edition

[Investing in retirement](#)

[Estate Planning](#)

[Insurance in Retirement](#)

[Grieving in Retirement](#)

[General Advice Warning](#)



[PRINT OR SAVE](#)

## Retirement investing in Global Armageddon



It is very easy to understand the current aversion to shares both globally and in Australia following the continual seesawing of the markets to date. Many pre-retirees have swung their superannuation portfolios back to cash to protect their benefits and are even making all future contributions go towards more conservative assets. But is this really the wisest move?

Firstly, those that have crystallised their losses already have now moved closer to guaranteeing they are likely to miss any recovery, as timing their entry back into the market usually coincides with the confidence that comes with new record highs. But have they made the right choices?

Let's look at one Australian blue chip company - The Commonwealth Bank (CBA). It is a mature business and a well-known icon. CBA was worth slightly more than \$5.60 in June 1992 and paying a dividend of nearly 7.5%. It grew steadily with some volatility until its heady heights of approximately \$55 in June 2007 just as the Global Financial Crisis (GFC) struck. At that time it was paying a dividend of nearly 4.6% of its peak value. But shortly after we were seeing prices of around \$28 in December 2008. Since then it has recovered to nearly \$54 in Dec 2009 and it has tailed off slightly since then.

But the real story is in the business earnings - dividends are usually only a part of the earnings a business like CBA makes. In 2007, the dividend was \$2.56 per share and in 2008 it was \$2.66. In 2009 it contracted slightly to \$2.28 and was up to \$2.90 in 2010. More recently in 2011 the dividend hit a new record of \$3.20 per share.

| CBA                       | 2005    | 2006    | 2007    | 2008    | 2009    | 2010    | 2011    |
|---------------------------|---------|---------|---------|---------|---------|---------|---------|
| <b>DRP Price</b>          | \$37.19 | \$45.24 | \$54.80 | \$42.41 | \$44.48 | \$51.75 | \$47.48 |
| <b>Dividend Per share</b> | \$1.97  | \$2.24  | \$2.56  | \$2.66  | \$2.28  | \$2.90  | \$3.20  |
| <b>Yield</b>              | 5.30%   | 4.95%   | 4.67%   | 6.27%   | 5.13%   | 5.60%   | 6.74%   |
| <b>RBA Cash Rate</b>      | 5.5%    | 5.75%   | 6.25%   | 7.25%   | 3.00%   | 4.5%    | 4.75%   |

According to the table above, the investor who switched for example, \$100,000 of their superannuation portfolio around December 2008 when the CBA share price was as low as \$28, not only missed the opportunity to see their capital rise to \$178,000 from when they cashed it out, but they have locked their capital into earning interest on that much smaller level of capital that is not growing in size. Their \$100,000 deposit has only earned an average of \$4,500 per year since 2008, whereas those cashed shares would now be earning almost \$12,800 each year in dividends. Who can see the wisdom there?

Worse still, the investor who has changed his contributions to conservative assets has missed the opportunity to buy those CBA shares at the bottoms of \$28 and enjoyed an incredible return on their contributed capital of possibly 78% in only a few years. Instead, they are seeing the true value of their cash pool diminishing by 3.5% inflation each year as punishment for their folly. And the market is still far from being recovered!

So if you are still fearful of returning your capital to the share market, think seriously about directing your contributions to growth assets until you do. You'll be so glad you did.



# Estate Planning



## The case for Intestacy

One of the fun parts of attending specialist training in Estate Planning is to cringe at the terrible mistakes people make, and the mess they leave behind after they pass away only to be tidied up in their absence. It's almost like Montezuma's revenge, for those who are cynically minded. But it came home to roost more solidly than ever when a personal situation arose for a close friend of mine recently.

But let me begin at the start, and with Estate Planning the place to start is the default option – Intestacy!

### What is Intestacy?

Intestacy is the situation where someone dies and leaves no legal instructions for the disposition of their estate. That means instructions for their final remains as well. It can also include those who actually leave a Last Will and Testament but for some reason it becomes invalid, and not able to be executed. I guess many of you are thinking, "Well that is no problem – the Government has a provision for those situations". Well that is true to a point. There are some rules for Intestacy, however they vary from state to state and more importantly, they may not deliver the outcome you had hoped for.

Imagine poor Bob - He passed away at age 59. Bob had never made a Will as he lost everything in his marriage breakdown 20 years ago and felt he didn't have much that mattered to anyone. Bob had accrued some solid work entitlements over the years and he simply thought it would pass to his girlfriend with whom he'd lived for the last year. The problem is Bob had never felt he needed to tidy up his marital situation with a proper divorce. So now Bob's situation was that he was still technically married to his former wife, but he also had a de-facto relationship that had commenced in recent times. Under the rules of Intestacy for most states, any amounts are automatically passed to the wife. In some states an amount above a certain threshold (\$75,000 in WA, and \$60,000 in NT) is divided between wife and children. So, it might be that his former wife tidies up yet again, perhaps his current de facto might have some small claim, but the payout of \$50,000 might not be worth the legal fees it might cost her to pursue it. Sorry Bob, it seems the wrong person will be thinking more warmly of you tonight!

Now to my friend – Their parents divorced some 20 years ago and the father remained in the family home after that, but it was agreed they owned the property 50/50. The father went to the trouble of drawing up a Will and leaving his half of the home to his 4 children before he died three years ago. And to this day, everyone including his ex-wife believed she owned half the house, and the children shared an eighth each.

They soon discover that the home was never changed from Joint Tenants and right now the Mother technically owns 100% of the home. Joint tenancy means the asset is automatically passed to the survivor and does not form part of the Estate. And the father's Will was not worth the paper it was written on. Thankfully the mother is not deciding to sell the home and taking her long-term boyfriend on a prolonged overseas holiday as she certainly is entitled to do by law if she wished. And the possibility exists that in the event of a split with her boyfriend; he may also have a claim against the children's inheritance. It seems Dad's intention of leaving them his share of the home has failed at the most fundamental level.

The moral to these stories are to make certain your Will and Estate is rock solid before you pass on avoiding the headache and heartache being passed to your loved ones after you die.



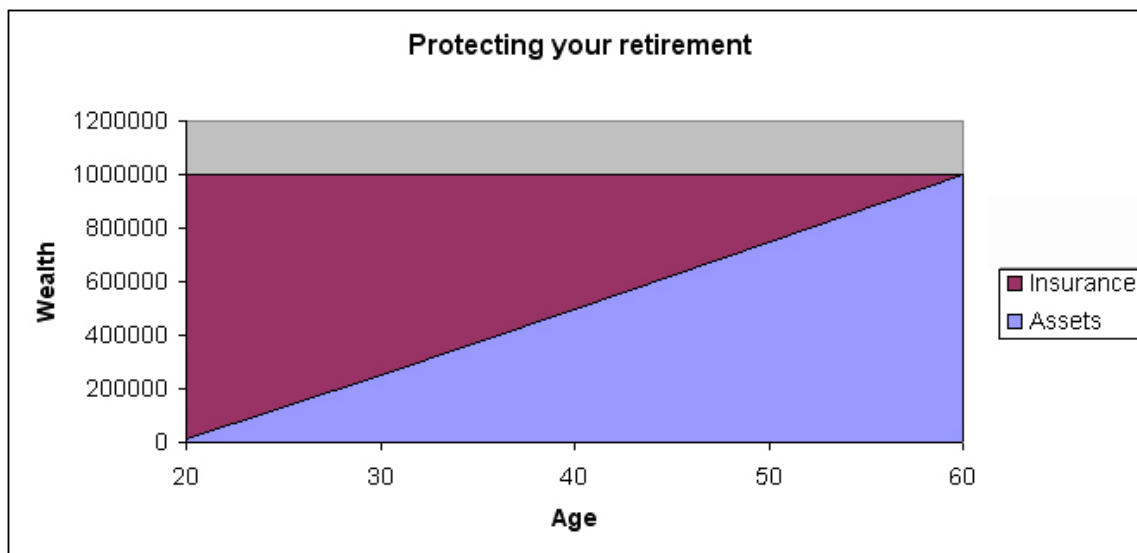
## Personal Insurance leading up to retirement

A common question I am asked by pre-retirees is *whether insurance is required for them any more?*

The cost of insurance cover raises exponentially as you age as the chances of a claim increases. In some cases, the premium rises to be almost 5% of the death benefit payable however I believe the premium could be better used – How? The answer depends on the type of insurance and why you took it out in the first place.

### Life Insurance Cover

Usually when assessing the required amount of life cover at any stage of life, we look to what level of retirement assets you are aiming for. At age 20 you may feel that \$30,000 per annum is a reasonable retirement amount and you will need a home worth \$400,000 and roughly \$600,000 in retirement assets to fund that income. So it makes sense to take out \$1,000,000 of life cover. As you move through life and your asset base grows, the gap representing the level of retirement assets that you need to fund diminishes accordingly.



So in simple terms, the amount of life cover you require should diminish as your retirement goals are approaching fulfillment. In the final years you can reduce the level of cover accordingly and keep the premiums manageable. **Total and Permanent Disability** is treated similarly.

## Trauma Cover

**This is an insurance to cover the costs of medical treatment if you suffer a serious illness or injury.** Sadly for this cover, the chances of illness only increase as you age and the price escalates as well. It might be that as you are approaching retirement you may feel you have access to adequate capital to cover the cost of medical treatment and recovery and do not need this type of insurance any more.

## Income Protection

This is required until the day you stop working, or at least until you scale back your workload. Closer to retirement, some of you may be in the situation where you have assets working to provide a portion of your income anyway. The best way to look at this type of cover is to decide how much income you need to receive if you couldn't work for an extended period. As you have sufficient funds to share the risk of not being able to work for a period, it might be possible to negotiate an extended waiting period on a claim to 3 months to 2 years to save on premiums.

If you have any questions regarding your level of insurances as you approach retirement please give book a time to chat with me >> or call our toll free number 1800 804 296. I can help you qualify your objectives and our insurance specialist Peter Dale will help weigh-up the cost of the cover-versus-benefit to you.

Book a consultation with Paul Jackson by calling **free call 1800 804 296** or [book online](#)



**General Advice Warning** Information contained herein is general financial product advice and does not take into account individual situations, needs or goals. It should not be relied upon and persons should satisfy themselves through independent means that any decisions based on this material are appropriate. **We recommend that you consult with your qualified and licensed Hudson Adviser who will be able to make a recommendation based on your specific circumstance**

**DISCLOSURE** - Employees of Mainview Securities Pty Ltd currently hold shares in: ASX Codes: The Hudson Institute is not a stock broker. The research for our stock recommendations is collected from various sources: Intelligent Investor, Morning Star, Ord Minnett, ABN Amro Morgans and Citigroup. Employees of Mainview Securities Pty Ltd currently hold shares in: ASX Codes: ABQ, AIO, AMP, ANZ, BHP, BIL, CBA, CCL, CGF, COH, CPU, CSL, DYE, ENE, EWC, FLT, GUD, HSP, HVN, IFM, LEI, LLC, MAP, MQG, NAB, PTM, QBE, RIO, RMD, SHL, SIP, SUN, TAL, TCL, TLS, TOL, TWR, WBC, WDC, WEB, WES, WHG, WOW, WPL - Managed Funds APIR Codes: - FSF0264AU, FSF0035AU, FSF0409AU, FSF0877AU **This list is for disclosure purposes, this is not a recommendation.**

**Copyright** The material provided in the Hudson Report and at [Hudson Institute web site](#) by Mainview Securities Pty Ltd, is copyright protected. **Credits** - Cornucopia was prepared by [Paul Jackson](#), Financial Adviser, Authorised Representative, and Edited by M.Arrighi Mainview Securities Pty Ltd T/A THE HUDSON INSTITUTE. As this information is copyright protected, It is not for distribution. Any requests to use information provided for commercial use may be directed to - The Hudson Institute. The Hudson Report Online is published by [The Hudson Institute](#), trading under Mainview Securities Pty Ltd, Australian Financial Services Licence No. 241177

