

Our Advisers



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The House or the Retirement?

As financial advisers one of the most common questions we get asked is to assess whether someone with extra savings from their salary should pay off their mortgage or invest into super through salary sacrifice.

Although the home mortgage is seen as a lifestyle priority with retirement a vague and nebulous concept lurking in the distant future, the number crunching comparison can produce some surprising results.

Assumptions:

Mortgage \$200,000

Long term interest rate on loan of 7.25%

Salary \$60,000 per annum ie 30% marginal tax rate

Earnings in super 7.5% per annum after fees

Savings capacity \$5,000 per annum

If you were to earn your \$5,000 and pay tax at your marginal tax rate this would leave you with \$3,425 in your hand to pay off your mortgage. If you put it into super via salary sacrifice, you end up with \$4,250 invested in your superfund after tax – so you already start out in front with the super option. But what about if we project this over time into the future?

Assuming our variables stayed the same, if you continued salary sacrificing this amount into super each year, it should amount to \$184,045 in twenty years. Comparing mortgage results, you would have paid \$144,303 off your mortgage in twenty years. So over 20 years you would be \$39,742 ahead in super – if this coincided with eligibility to withdraw from super you could then take the funds and use them to reduce your mortgage.*

Further benefits arise for those earning more than \$63,000 due to the larger tax saving via salary sacrifice. For example someone earning \$68,000 per annum (42% marginal tax rate) would be \$65,022 better off utilising super which has grown to \$184,045 after 20 years rather than only having paid \$119,023 off their mortgage.

Ofcourse the results of such number crunching depend on the assumptions used and this is not a set and forget approach – the variables will change – interest rates change, your salary will change and superannuation legislation changes. That's why it's important to review and revisit these strategies along the way to ensure you are always doing what's making your money work best for you, your family and your future.

*Note: tax of super withdrawal needs to be considered.

Ownership Structure at EIS

In 1988 Sid Spindler and George Butman set up Australia's first financial planning business specialising in ethical investments. They called it S & B Ethical Investment Planning Pty Ltd.

In 1993 Janice Carpenter bought into the business. Two years later she bought the remainder of the business and changed its name to Ethical Investment Services. Over the next decade Janice built Ethical Investment Services into the country's largest provider of ethically screened financial advice. Without a wide range of ethical managed funds in the market Janice lobbied fund managers to pick up the ethical baton and also developed the Ethical Direct portfolio management service

which has become a signature service of the business. Ethical Investment Services currently employs nine people and, whilst we continue to operate from our original offices in Kew, boasts clients from all around Australia as well as several locations overseas.

Whilst Janice continues on as manager of Ethical Investment Services, we are very happy to announce that long-term employees Michelle Brisbane, Anne-Marie Spagnolo and Richard Whan have chosen to become part owners of the business. Richard Byrnes, who has a financial planning practice in the Shepparton-Euroa-Mansfield region, also joins Ethical Investment Services as a part owner.

Green power to the people

Green shopping bags, water conservation and recycling bins have become common place in Australia today. Each is an example of society responding to environmental issues whereby government, corporations and individuals all had to play a part in their success.

Not only will the environment benefit from a few more such initiatives, but it could also be very lucrative for those companies that can be part of the growth. Along with cleaner fuel for our cars and more energy efficient homes, buying energy from renewable sources such as wind power, solar, hydro, biomass and geothermal may be the next environmental idea that will be adopted as widely as water conservation in our homes.

At Ethical Investment Services we think renewable energy use in the home has a bright future. The Victorian Government is giving it a push, as it aims to double the number of Victorian households using environmentally-friendly, renewable energy by the end of the year. Energy retailers are also very aware, with companies such as Origin Energy, AGL and TRUenergy (formally TXU) all offering renewable energy products. Many energy retailers see this as a critical point of focus in attempt to grab an extra share of an increasingly competitive retail market.

To illustrate the potential uptake, a recent Newspoll found that 54% of households would be willing to pay a little extra for electricity from renewable energy sources. At present only 2% of homes have taken the step and signed up. When quizzed on this, 80% of those who haven't taken up a green power option said they didn't know where to get it from.

Since renewable energy is more expensive to produce it does come at a slightly higher price. Energy retailers have responded to different household budgets by offering varying degrees of 'greenness' of the energy available. For



example, you can pay a little extra at approx. \$1 per week to source 10% of your energy from renewables, or you can scale this up to approximately \$5 extra per week for 100% green energy.

Enter AGL's new product, **AGL Green Living**. This product offers households renewable energy at "no extra cost", but in reality it only

generates an additional 5% from renewable energy, which puts it at the lowest of all blended products available. AGL's promotion claims "Great news for you, and great news for the planet", - it will certainly be great for AGL to help raise their customer numbers in a competitive industry, but whether it is great news for the planet needs closer attention.

If you don't know how to go about buying renewable energy for your home, just visit any energy retailer's website or call their main sales line. Remember it is a competitive industry and as such they will be very happy to talk to you. Signing up only takes one phone call, much easier than remembering to take the green bag with you every time you go shopping!

AGL Green Living has branded its product as being 100% renewable with five percent of this coming from government accredited wind power and 95% from other renewable sources. When we called AGL to ask what they meant by '95% from other renewable sources', they explained that it comes from the energy they are required to purchase under the Mandatory Renewable Energy Target (MRET). Under the MRET, every energy company is required to source at least 2% of their energy from renewable sources, over and above what they sell through the accredited green power programs.. Therefore this '95% from other renewable sources' is energy that AGL is already required to source under mandatory regulations. So even though the AGL Green Living product is technically 100% renewable energy, only 5% is additional to the MRET targets. This is far from clear in their promotions and even misleading. They don't hesitate

in stating the 100% claim, but very little is made of only 5% being over and above the mandated scheme. Green washing is what some may like to call it.

The problem is that to maintain share in this competitive market, the rest of the industry may have to follow suit. Why would households pay Origin \$1 per week for only 10% green energy, when they think they are getting 100% for free from AGL? For this reason, we suspect that AGL Green Living will unfortunately put the brakes on the uptake of most other blended products that currently come at a cost. It would take 10 new AGL Green Living customers to make up the same amount of additional renewable energy as one customer who chose to purchase a 50% blend from another provider. Given that

these other products available to households generate much larger amounts of additional renewable energy, a move from these products to AGL Green Living is not such great news for the planet, with only AGL coming out the clear winner.

The problem with the low uptake of renewable energy products for households is not in availability or the extra costs, it is lack of household awareness of how to go about it. If AGL wanted to do something great for the planet they could increase their promotion of higher blended products, not lead the race to the least amount of additional renewable energy. Most green groups, including Greenpeace, The Wilderness Society and Friends Of the Earth agree.

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Corporate Social Responsibility delivers Strong Returns

A recent study by AMP Capital Investors has tested whether companies that behave with the interest of all stakeholders, employees and the environment in mind can deliver financial results that exceed the results of competitors who ignore non financial criteria.

The theory was tested by reviewing the performance of one of their SRI funds, the AMP Capital Sustainable Futures Australian Share Fund over four and ten year periods.

The top 300 stocks were assessed on two criteria:

- 1) **corporate social responsibility**
this includes the company's ability to fulfil financial and legal responsibilities to all stakeholders; its ability to manage work place environmental and supply chain issues and its reputation in conducting business
- 2) **industry sustainability,**
ie this includes the broader social, economic and technological trends that could have a significant impact on the company's future strategic and financial position

After removing other factors that could impact on share price, such as the industry

sector or size of the companies, the results found that companies demonstrating higher corporate social responsibility outperformed by 4.8% over four years and outperformed by 3% over ten years.

On the issue of industry sustainability, the performance comparison was less clear statistically and it was concluded that a longer term study was required to deal with the length of market cycles within industries. The study concluded that "this research.....provides support for the assertion that socially responsible criteria can help to identify outperforming companies".

Apart from investments we do strategies too!

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Financial Planning
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Ethical Direct is a special service for our clients who would like to invest in shares or have an existing share portfolio that they would like actively and expertly managed. Ethical Direct manages the direct buying and selling of shares through a broker to build an individual portfolio for investors. It is highly recommended for those with DIY/self managed super funds.

Ethical Direct Staff



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Ethical Direct Client Services and Research

Self Managed Super - It's Your Choice

Self Managed Super Funds (SMSF) are growing at a rapid rate and are a popular vehicle in which people can grow their retirement savings. The ATO recently reported 2,000 new SMSFs being established every month. Main attractions include the level of control you can have over your retirement savings and the preference for the associated costs and charges over fee structures of the public offer super funds

One of the main attractions of any super fund is the low tax environment that the government offers. Not only is tax relief available for super fund contributions, say as a self employed person or via salary sacrifice, but income earned by investments within the fund is taxed at a maximum of 15% and capital gains are taxed at a flat rate of 10%. All these benefits combine to help the investments of a super fund compound at a greater rate than if they were held in an ordinary investment vehicle outside the super regime.

When it comes to Self Managed Super Funds, further benefits can be achieved by the relative control you yourself have over the underlying investments and the flexibility of investment choices. Specifically targeting investments for the imputation credits earned on fully franked dividends can further enhance your tax advantages. If a dividend is fully franked at the 30% company tax rate – this means a tax refund to your superfund because it is taxed at only 15%. By creating your own investment strategy with your financial adviser, you have the ability to direct your retirement savings specifically towards those industries and businesses you like. Your choice of investments can therefore reflect both your financial objectives and ethical concerns.

Before deciding to use a Self Managed Super Fund, you need to be aware that they are supervised by the Australian Taxation Office (ATO) and must meet certain criteria to achieve their concessional tax status:

- There must be no more than four members;
- The fund's investments must meet the 'sole-purpose test'. The sole-purpose test attempts to ensure that Self Managed Super Funds are operated for the sole purpose of

providing retirement benefits for members or member's dependants. (The beach house, the classic sports car or the wine cellar are therefore unlikely to be eligible investments for the super fund.)

- The fund cannot borrow for investment purposes, ensuring that members are not exposed to the additional risk which borrowing brings (this can make direct property a rather indigestible investment for small super funds).
- As the trustee of your own Self Managed Super Fund, you are responsible for ensuring that your fund complies with the rules and guidelines imposed by the ATO.

Another thing to remember when considering Self Managed Super is that superannuation is in fact a vehicle for investment, and not a separate asset class. If your super is not performing this has more to do with the underlying investment rather than the superannuation regime. The underlying investments should complement your other non-super investments. For example, if you own your own home and have an investment property, then property may not be the best asset class for your super fund to invest in. In this situation it would make more sense to use your super fund to diversify your asset exposure into shares and bonds. Due to ongoing costs – a self managed superfund needs to submit its own tax return and be independently audited each year - it is recommended that you have a minimum of around \$200,000 before commencing one.

If you would like to discuss whether a Self Managed Super Fund would be suitable for you, please call and ask to speak to one of our advisers at Ethical Investment Services.

Ethical Direct is an ideal service for those of you interested in a Self Managed Superfund. In partnership with you we develop a long-term investment strategy and assist you in selecting a portfolio of shares for your fund. We provide quarterly reviews to you; take care of all the administration and at tax time we prepare a report to assist with your accounting and auditing requirements. Ethical Direct allows you to create wealth for your retirement whilst taking into account your ethical and social preferences.

Regional Reminder

To all clients and friends in the Daylesford/Castlemaine area. For investments, superannuation or any financial matters contact Michelle Brisbane, our adviser in your area - telephone 03 9853 0995.

