FUNDAMENTALLY SPEAKING

A simple explanation of the finance terms we all hear about but don't really understand

with Rowan Jones

Disclosure essential to inform shareholders

When you buy a share on the Australian Securities Exchange you are not buying a three letter stock code but rather a small part of a real business.

Ideally that business will grow its earnings and profits. As a part owner of the business you can be rewarded with a healthy dividend and capital growth.

One of the downsides to share ownership is that you are not privy to the day-to-day goings on of the business. Instead you rely solely on the company making regular announcements to the ASX informing shareholders of how the company is performing.

Because shareholders rely so heavily on company announcements there are strict rules that the ASX enforce around what information needs to be disclosed to shareholders and when it needs to be disclosed.

These rules are known as a company's continuous disclosure obligations. Formally they are referred to ASX Listing Rule 3.1.

In a roundabout way the rule states that as soon as a company becomes aware of information that a reasonable person would expect to have a material effect on the company's share price — market sensitive information — they must immediately tell the ASX that information.

Compliance with this rule is critical to the integrity of the ASX market. There have been a number of high-profile cases where companies have been accused of not complying with these rules, resulting in shareholders making uninformed decisions.

Examples of market sensitive information may include a material acquisition or disposal, a material contract win or a major commodity discovery.

Rowan Jones is an adviser with Entrust Private Wealth Management

Illustration: Don Lindsay

Longevity risk: outliving your retirement savings

Jason Featherby

The retirement period for most Australians is getting longer — for about 50 per cent of us this will be a period of 25 years increasing the risk that we will outlive our savings and/or run out of money in retirement.

Anyone who retires faces longevity risk — this is the risk of outliving your retirement savings.

Low interest rates, modest returns from property and sharemarkets combined with improvements in living standards and modern medicine have all contributed to the increasing likelihood our life savings will expire before we do.

Life expectancy tables are updated every five years and, at the moment, a 65-year-old female is expected to live until age 87 while the same age male will live until 84.

The impact of longevity on retirement plans should not be underestimated, and it is important to take into account how long your savings are likely to last when thinking about your retirement plan.

Consider your likely life span. It is then important to factor a five to 10-year "buffer period" into your plan to help ensure your lifestyle will not suffer should you outlive your life expectancy.

How you go about managing longevity risk is an important part of any financial plan and there are three main ways to approach it.

Take steps to ensure you mitigate longevity risk.

The first is to buy an annuity which will pay you back your capital plus a small amount of interest over a pre-determined time frame. Annuities provide certainty, but are generally inflexible, cannot be accessed in part and offer low returns, especially in a low interest rate environment.

You could also try setting your income amounts to match an advanced age. This is simple, and easy to understand and implement, but results in a lower level of income to live off and a lower standard of living while alive.

The third and most flexible way to manage longevity is to use an account-based pension which provides you with access to your capital and the ability to select income levels to suit your lifestyle. Longevity risk using a pension can be managed through your choice of asset allocation, the underlying investments you hold within each asset class and the level of income you draw each year.

Using an account-based pension means the risk of falling markets relates closely to the risk you will outlive your savings, and those retirees who have a reasonable exposure to growth assets, such as shares, have a budget and control their spending, and have a strategy for drawing down on their savings can use the markets to make their savings go further.

Markets over the past five years, however, have made this difficult for even the most organised retiree. Increased market volatility combined with record low interest rates have seen a rise in two common, yet often equally ineffective strategies from retirees trying to counter risk. Some make the mistake of taking a high degree of risk to achieve high returns, while some put all their retirement savings in cash ensuring they receive little income and no growth, and that inflation will eat away their funds.

The key is to set a strategy in place that suits your desired income needs and likely longevity from the start. It will need to be reviewed regularly and altered periodically, but the need for irrational and ill-thought-out changes can be minimised.

Jason Featherby is managing director at Knight Financial Advisors

Women need a super IQ

Katie McDonald

For far too long women have ended up worse off after a de facto relationship breakdown, with WA lagging behind other States when it comes to splitting super.

I've seen too many cases where women have been thrown under the bus when their relationship ends, with some men exploiting the present loophole which allows them to squirrel away hundreds of thousands of dollars in savings and walk away with the bulk of the money.

So it's reassuring to see that changes are afoot and West Australian de facto couples will soon be on a level playing field, with reforms on the table to force all couples to treat their super nest egg like any other financial asset — and to be divided equitably.

But it brings into question do women need to be more proactive when it comes to wealth management?

Women are so darn busy looking after kids, their health, home and career that's it's no wonder looking after their money is put on the back burner.

But if this is the case, then you really need to outsource your financial plan.

You don't want to be enjoying your smashed avocado now but eating baked beans in your retirement because you didn't have time to think about the future.

Which unfortunately is what is happening, and will continue to happen, if women don't invest in their financial wellbeing.

Alarmingly, there's been a 44 per cent increase in women seeking homelessness services in the past five years. A recent ABC investigation found these were smart, well-educated women whose only mistake was not being prepared for a disruption in their life. Disruptions can unfortunately come in many guises such as divorce, illness or unemployment.

According to AMP's white paper For Richer For Poorer, the financial ramifications of a split leave women in a de facto relationship 90 per cent worse off than married women of a similar background.

It's a startling statistic and another reason why a man should not be a part of your financial plan.

Then there's the pay gap. Western Australia has the biggest disparity here, compared with other States, sitting at 23.9 per cent. And with almost half of the female workforce part-time imagine what would happen if your partner lost his job.

It sounds crazy to prepare for the worst but it's essentially what you need to do.

So get some expert advice and start making that plan.

Pay off your mortgage to ensure security in retirement and think about your super; the compulsory 9.5 per cent employer contribution is not enough to ensure you're comfortable in your golden years.

The good news is that in just 10 years you can turn around your finances, own your own home and be looking forward to retirement.

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