

Prosperitas

Prosperitas: Latin for prosperity & good fortune

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What an amazing final quarter it has turned out to be!

What an amazing final quarter (of the financial year) it has turned out to be! April brought with it yet another positive month in the Australian equities market but by the middle of June all of these gains a little more were promptly handed back. Where to from here for the share market? Our article on page 3 should shed some light on this for you and how you might have been affected.

www.planningpartners.com.au

We are pleased to announce the launch of our 'new' website this month and invite you to have a browse. The site has been designed for ease of navigation, providing access to commonly used forms, publications, product and service information and much, much more.

Did any of us in our wildest dreams anticipate that the May Federal Budget would completely eradicate tax on superannuation withdrawals for over 60s? Was this the boldest fiscal play since treasurer Keating floated the currency way back in December 1983? You will find a concise summary of the Federal Budget on the following page – bottom line is, it looks pretty impressive.

And in June, how proud we were of the brave exploits of our Socceroos at the World Cup in Germany and how relieved we were to reclaim our sleep once the Azzurri drove a stake through our hearts with that unforgettable 93rd minute penalty. A truly heroic performance executed in an unmistakably Australian manner.

We welcome your feedback in relation to our Newsletter and new Website and will once again reward the best email/letter with a pair of Gold Class movie tickets.

Meanwhile, we thank all of those readers who provided their most valuable feedback to our first edition of Prosperitas.

Once again, we very much hope that you enjoy this issue.

Martin R McIntosh
Managing Partner

BUDGET 2006 – WHAT WILL THIS MEAN FOR YOU?

On Tuesday 9 May Peter Costello announced his budget proposals and boy, did it produce some surprised faces. As Mr Costello announced at the time – this is 'the most significant change to Australia's superannuation system in decades.'

These proposals still need to be passed in Parliament and the Government is currently inviting feedback on the superannuation proposals, so it's possible they may change.

Personal Income Tax cuts from 1 July 2006

An increase in tax thresholds and a reduction in the top two income tax rates will be especially beneficial for high and middle income earners.

Current Tax Thresholds (2005/2006)	Current Tax Rate*
Up to \$6,000	0%
\$6,001 to \$21,600	15%
\$21,601 to \$63,000	30%
\$63,001 to \$95,000	42%
\$95,001 +	47%

New Tax Thresholds (2006/2007)	New Tax Rate*
Up to \$6,000	0%
\$6,001 to \$25,000	15%
\$25,001 to \$75,000	30%
\$75,001 to \$150,000	40%
\$150,000 +	45%

* Not including 1.5% Medicare levy.

A major simplification to super from 1 July 2007

The proposed changes are quite radical and will mostly come into effect from 1 July 2007. Not only do these proposals simplify super and retirement planning, but they arguably make superannuation the most tax-effective way to save for your retirement.

The proposals also make superannuation rules for the employed and self employed more alike. The 15% tax on superannuation contributions and earnings will stay the same, but the age brackets used to limit the amount of tax deductible contributions you can make would be replaced with a simple set of rules.

- From budget night 9 May 2006 undeducted (after-tax) contributions are now limited to \$150,000 pa regardless of age (or \$450,000 averaged over 3 years)

If you're employed

Any super guarantee and salary sacrifice contributions (pre-tax contributions your employer makes to your fund) will be taxed at two rates regardless of your age:

- up to \$50,000 per year – 15% tax
- in excess of \$50,000 per year – 45% tax

If you are under 50 this represents an increase in the amount of concessional tax contributions that can be made each year. If you are over 50 a transitional period will apply (see below)

If you're self employed

1. Existing age-based deduction limits (ABDLs) will be removed. This means the amount you can claim as a deduction (where you are eligible) will no longer depend on your age. Your contributions will be taxed at two different rates:

- up to \$50,000 per year – 15%
- in excess of \$50,000 per year – 45% tax

If you are under 50 this represents an increase in the amount of concessional tax contributions you can make each year. If you are over 50 a transitional period will apply (see below)

2. You will be able to claim a deduction for contributions up to age 75.
3. You may be eligible for a co-contribution of up to \$1,500 pa under the new eligibility rules.

Transitional period

If you are 50 or over in 2007/08 a transitional period will apply. This will allow you to make contributions of up to \$100,000 each year for five years at the concessional tax rate of 15%.

Changes to tax rules for converting super into a retirement income from 1 July 2007

Retiring age 60+

- All benefits from super will be tax free. This would mean you pay NO TAX on your benefits, whether paid as a lump sum or as an income stream.

Additional announcements

- Reasonable Benefit Limits (RBLs) will go completely. RBLs basically mean that you are limited to the amount of concessional tax super benefits you can receive. The changes means that, however much you save within super, you will receive it tax free if you retire age 60+.
- The compulsory cashing rules will go. This means you could leave your money in super without being forced to cash it out or convert it into an income stream once you have retired. (This became effective from 9 May 2006)
- Currently, pension payments are set between a minimum and maximum amount. The new changes will remove the maximum amount, so you will not be restricted to how much income you receive each year (except for pre-retirement pensions).

Social security announcements

- The main change is to the Assets Test Taper Rate, which will halve. As a result, people who receive the Centrelink Age Pension will only lose \$1.50 (not \$3.00) in benefits per fortnight for every \$1,000 of assets above the relevant Assets Test threshold. This means the assets you can own before you are no longer eligible for a government pension are much higher.
- Any 'complying' income stream purchased after 20 September 2007 will no longer receive a 50% Assets Test exemption.

We will continue to provide our clients with specific, personal advice on the implications of the Budget changes as part of our Review Service offering.

LOOKING THROUGH THE VOLATILITY

Global sharemarkets have recorded a marked increase in volatility over the past two months, as investors' optimism wavered in response to higher interest rates and concerns over the inflation outlook. These headwinds led to global sharemarkets recording large declines since early May and the Australian market has not been immune to this, with the S&P/ASX 300 Index experiencing an 11% correction. It is not uncommon to see corrections of 10% plus, with similar-sized declines recorded in eight of the nine calendar years prior to 2003.

The more recent pull-back is very much reflective of the record rise in the market since March 2003. The recent price decline has led to many overvalued stocks returning to more sustainable levels, opening up investment opportunities that previously did not exist.

What prompted the decline?

The decline in share prices since mid-May 2006 was primarily triggered by growing recognition that inflationary pressures continue to nudge upwards and global interest rates are on the rise. This was reinforced by the new Federal Reserve Chairman, Dr Ben Bernanke who stated that US inflation is currently beyond his comfort level of between 1% and 2%.

This announcement sparked fears that US interest rates would continue on their upward trend beyond what was initially expected even though US economic growth appears to be moderating. This, in turn, has had a negative effect on commodity prices which had experienced one of its strongest bull runs in 20 years.

The combination of a record run in share prices (where valuations were beginning to be questioned), realisation that interest rates and inflation were likely to rise further, combined with moderating US economic growth was sufficient to cause a decline in world share prices and an increase in volatility across global markets.

Some perspective

While the recent market decline appears very large, it is important to put the fall into perspective in that it follows a 92% rise from early 2003.

It is also important to keep in mind that the Australian sharemarket recorded a total return of 27% since the end of May 2005 (as at 16 June 2006), despite the recent fall. In addition, it is important to be mindful that share prices are volatile and experience many ups and downs throughout the investment cycle. Accordingly, large share price declines are not unusual and we view them as an opportunity to purchase quality stocks at attractive prices.

The outlook for corporate Australia remains positive

Even though global inflation is rising and commodity prices have fallen from their record highs, the fundamental outlook for corporate Australia remains positive, reflecting the view that:

- global inflationary pressures, while rising, are unlikely to return to the levels seen in the 1970s and 1980s
- any increase in global or Australian interest rates is likely to be modest and
- corporate earnings growth should continue to be positive in the wake of solid economic growth.

We expect share prices to remain quite volatile over the near-term given the heightened uncertainty in global financial markets. In these market conditions, we will continue to focus on our client's long term financial goals and select appropriate investments (both direct equities and professionally managed funds) which meet each individual's risk profile. We welcome you to contact us to discuss further.



Messy mail – the problems with using email

Email is now becoming a vital part of life for most of us. Whether keeping in contact with friends and family or using it for business, email is an essential medium with which to communicate.

“Australians spend over 2 hours per day using email.”

Australian Bureau of Statistics (ABS) reports show that Australians spend over 2 hours per day using email. Of this, 60% check their email multiple times per hour while the other 40% check it constantly. While offering significant benefits, the introduction of email has also brought with it a range of other issues that have not been dealt with before including Spam. Spam is unsolicited junk email, which generally advertises for some product and is sent wide-scale to a mailing list.

Over 30% of email users report that half of the emails they receive are Spam and it remains a significant issue for all email users. Even those using anti-spam tools continue to receive large volumes of Spam as technology is unable to keep up with those who are sending out junk email.

One way of avoiding Spam is to protect your main email address. This can be done by creating a secondary email address for all contact that is made outside of your work or social network. This way any Spam would generally be attracted to your secondary account, keeping your main email address free of any clutter.

Email has also raised issues of organisation. Almost all users of email create folders to file messages and the amount of folders created may quite often become unmanageable. Statistics show that most users have over 25 folders holding over 10,000 messages. About 25% of users have between 50 and 500 folders, which can hold up to 100,000 messages making it virtually impossible to organise.

The use of email will continue to grow as society becomes more comfortable with information technology. It is important to consider how we manage the issues that new technology, such as email, will create and how it will affect both our personal and professional lives.



Gavin Collopy

Thirty seconds with ...

Success is... *Relative.*

Great service is... *Rare.*

The person whose career I admire most is... *Charles Darwin*

How I relax is... *running my Dog 'Abbey'!*

I'm reading... *Surrender by Sonya Hartnett. It is an extraordinary piece of writing.*

Last movie I saw was... *Walk the Line*
– *Excellent.*

My favourite TV show is... *Boston Legal, first time William Shatner has been watchable.*

My favourite CD/record is... *Exile of Main St, a Stones classic.*

My favourite gadget is... *I don't like gadgets.*

My three dinner party guests would be... *Mark Twain for human insights; Bill Clinton for his knowledge and Halle Berry for her outstanding acting ability.*

If I could travel anywhere it would be... *Grand Canyon, although I have heard it is a bit of a hole.*

The sports team (eg union, league, AFL or soccer team etc) I mostly follow is... *The Mighty Hawks!!*

My favourite quote is... *The only thing we have to fear is fear itself.*
– *Franklin Delano Roosevelt*



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Insurance through Superannuation

Insurance is an important aspect of your financial planning to ensure that your objectives can be met in case of illness or medical catastrophe.

Planning Partner's Insurance Specialist, Gavin Collopy, is often asked by clients whether insurance should be purchased through superannuation or in individual names. In this article, we examine some of the issues.

Advantages of linking your Insurance to Superannuation

Tax Effectiveness – Life and Total and Permanent Disability Insurance premiums are tax deductible to your Superannuation Fund which reduces the effective cost of your insurance. These premiums are not tax-deductible if paid by an individual.

Access to Superannuation – Use money you can't access in your super account to pay premiums. This means you don't have to dip into everyday living money to pay insurance premiums.

Automatic Acceptance Limit – Where you have Superannuation as part of an Employer Fund, you may have insurance cover accepted automatically up to a specified limit without having to provide any health evidence.

Unlimited Insurance Cover – Under the current superannuation regime, there is a disincentive to apply for life insurance cover in excess of \$1.3 million *within Superannuation* as amounts over this are taxed at 46.5% when paid to the beneficiary. With the proposed abolition of Reasonable Benefit Limits from 1 July 2007, superannuation based life insurance proceeds paid to dependents of the deceased may be tax-free regardless of the amount. This may provide an incentive for people to apply for more life insurance within superannuation (and potentially, save premiums on any existing non-superannuation life insurance policies).

Disadvantages of linking your Insurance to Superannuation

Income Protection Insurance – Payout periods are generally limited to a maximum of 5 years within Superannuation. Furthermore, income protection premiums would be tax-deductible in your own name which means that the after-tax cost may indeed be lower when held outside of superannuation.

Total and Permanent Disablement (TPD) definitions – TPD taken through superannuation will generally only include an 'Any Occupation' definition. This is inferior to the 'Own Occupation' definition which is available for non-superannuation policies.

Under 'Own Occupation' definitions, the insurer will generally pay a benefit if you are unlikely ever to be able to work again in the occupation in which you were engaged when you suffered from the medical event. Under 'Any Occupation, the insurer will generally only pay a benefit if you are unlikely to work again in any occupation for which you are reasonably suited by education, training or experience.

Taxation issues on payout – There may be tax payable on Life insurance payouts from superannuation which are paid to 'non-dependents'. However, superannuation life insurance payouts to dependents (eg. spouse and minor children) are generally tax-free.

No Trauma Insurance – Trauma Insurance is only available as a non-superannuation product.

What to do?

The optimum ownership structure for your insurance policies will depend on your particular situation. Issues such as cashflow, policy definitions and taxation implications need to be carefully balanced to provide a suitable outcome which may ultimately involve a combination of ownership structures. We welcome you to contact Gavin to review your current arrangements.