

Prosperitas

Prosperitas: Latin for prosperity & good fortune

ISSUE 6 • August 2007



Who is taking 'credit' for house affordability?

Is it that we can't afford to buy a house or that we can't afford to buy where we necessarily want to live?

For the past three years, the vast majority of Australians have enjoyed an uncommonly favourable set of economic conditions that are unlikely to collectively repeat themselves, possibly for decades; historically low interest rates, low inflation, near full employment, relative stability in global affairs and an unprecedented level of Asian demand for natural resources. As a direct result, Australians have never been so well off in relative terms where salary and the basic cost of living is concerned despite politicians on both sides of the fence making regular reference to battling Australian families.

Could it be that the ease and availability of credit in its many forms is responsible for the inability of the monthly pay cheque to stretch the 31 day duration – phone plans, internet plans, interest free furniture and home entertainment systems, car loans etc? The employment of a simple strategy of only buying discretionary items when you have the funds to do so could well and truly place our home buying aspirants on the right path to buying a house, not necessarily where they dreamed but a house none the less.

In this quarters addition of *Prosperitas*, now that the fog has cleared from the 30th of June super rush, we have taken an in depth look at the benefits that greet those among us who might be committed super savers (page 2). A further article on page 2 outlines the budget changes and the benefits delivered in the form of tax cuts and super co-contribution – the good news continues.

When is your life insurance policy being 'churned' unnecessarily and when is there a legitimate need to make alterations to your insurance strategy? Gavin Collopy our Manager of Risk Services clarifies this point for us all on page 3 and identifies the sign posts that could make all the difference. Finally, in the middle of August when the motivation for exercise is generally at its lowest ebb, Brendan Rigby, Director of Inspire Fitness for Wellbeing, provides a timely reminder on page 4 as to the many benefits of Strength Training for Older Adults. We very much hope that you enjoy Brendan's contribution and indeed this entire edition of *Prosperitas*.

Martin R McIntosh
Managing Partner



Super benefits for savers

The start of July this year marks the much anticipated superannuation reforms which will bring many positive changes for Australians, sweeping away some of the complex taxation rules of the current super system and making investing in super more attractive.

Here we outline some of the key reforms and how they might help you to get the most out of your retirement savings.

Getting your money out

One of the most important changes from 1 July is the removal of tax on pension incomes and lump sums for the over 60s. This has reduced the taxation complexities retirees previously faced, improved retirement incomes and given greater flexibility to superannuation withdrawals.

Reasonable Benefit Limits (RBLs) – which capped the amount that could be accumulated in superannuation at concessional tax rates—have also been scrapped, so there are now no restrictions on how large your super balance can grow.

If you are considering semi-retirement, there is now a greater incentive to continue work, as you only pay tax on your salaried income and not on your pension income. And if you would rather not draw down on your super upon reaching age 65, you will no longer be forced to. From 1 July your savings can stay put indefinitely, so your money can continue to grow in a tax-effective environment.

Contributing to super

The rules on contributing to super have also been simplified and the previous age-based limits abolished, to encourage Australians to take a longer term approach to saving for retirement. From 1 July there is an annual cap of \$50,000 per year on pre-tax contributions (now known as concessional contributions) for all ages, with a five-year transitional cap of \$100,000 pa for those aged over 50.

It is important to review your superannuation contribution arrangements to ensure that you do not breach these caps. Contributions in excess of the relevant caps will be taxed at the penalty rate of 46.5%. The greatest risk of breaching these caps is for employees who are receiving the 9% Superannuation Contributions from their Employer and also making salary sacrifice superannuation contributions. It is important that the sum of these two amounts do not exceed the relevant cap.

After-tax (non-concessional) contributions have been capped at \$150,000 pa (or \$450,000 over a rolling three-year period for the under 65s). If you are self-employed, the super changes may make contributing to super a more attractive proposition. For the first time you can access the Government co-contribution scheme, which means if you earn under \$58,000, you could receive up to \$1.50 from the Government for every dollar you contribute to super. Another benefit if you work for yourself is that you are now able to claim a full tax deduction on all super contributions, up to your annual limit.

Get advice

Planning Partners will discuss the implications of the Budget changes with all existing clients in your regular Reviews. However, we always welcome existing and prospective clients to contact us at any time, should you wish to discuss your particular situation in further detail.

BUDGET NEWS

There was welcome news in the recent Federal Budget for many working Australians, in the form of the super co-contribution bonus and further income tax cuts. Here we look at how you could make the most of these budget changes.

Super co-contribution

The Federal Government will provide a boost to the superannuation accounts of members who made after-tax personal contributions to their super in the 2005/06 financial year—an initiative which will add \$1.1 billion into the accounts of low to middle income earners.

The Treasurer, Peter Costello, announced in last month's Budget that the Government will pay a one-off additional co-contribution into the

superannuation accounts of those who made eligible contributions during 2005/6, effectively doubling the co-contribution payment. This means that those who were eligible for the full \$1,500 co-contribution will now receive a total of \$3,000. If you were eligible for a payment of \$500, you will receive \$1,000. The bonus will automatically be credited to your account subject to having lodged your 05/06 tax return.

Tax cuts

Another piece of good news in the Budget was the announcement of more tax cuts, to be rolled out over the next two financial years. These will take the form of new income tax scales from 1 July 2007, which will be changed again on 1 July 2008.

In the 2007/08 financial year the 30% tax bracket will increase from \$25,000 to \$30,000, resulting in tax savings for many people. This means that, for example, a middle income earner on \$50,000 will be \$750 per year better off from 1 July this year. There will be further cuts from the 2008/09 financial year onwards when the Government will increase the income threshold for the 40% tax rate from \$75,001 to \$80,000. The 45% threshold will increase from \$150,000 to \$180,000.

Tax Thresholds (2006/2007)	New Tax Thresholds (2007/2008)	New Tax Thresholds (2008/2009)	Tax Rate (excluding Medicare)
Income Range	Income Range	Income Range	Per cent
Up to \$6,000	Up to \$6,000	Up to \$6,000	0%
\$6,000 to \$25,000	\$6,000 to \$30,000	\$6,000 to \$30,000	15%
\$25,000 to \$75,000	\$30,000 to \$75,000	\$30,000 to \$80,000	30%
\$70,000 to \$150,000	\$75,000 to \$150,000	\$80,000 to \$180,000	40%
\$150,001 +	\$150,001 +	\$180,000 +	45%

Instead of spending this year's windfall, there are a number of ways you could use the extra take-home pay to improve your financial situation, including paying off debt, saving into super or investing. If you want to use your tax cuts to reduce debt, you could make significant interest savings by paying off personal and credit card debt early. Alternatively, you could apply the tax saving to your home loan.

Paying just \$10 a week extra off a \$250,000 mortgage with a standard variable interest rate of 7.44% will lop a total of two years and five months off the term. To turn your tax cuts into a bigger windfall, you may want to consider contributing to your superannuation account, which will attract its own tax cuts. Salary sacrificing into super means you save two ways, reducing your taxable income and growing your superannuation balance.

Alternatively, if you are saving for a longer term goal and want to build wealth aggressively, you may use the extra cashflow from tax-cuts to fund payments on an interest only loan to purchase share based investments. Historically the ASX 300 has returned 13.85% over the 10 years to 30 April 2007 significantly higher returns than investing in a savings account generating 5 or 6%, or (for those borrowing funds to invest) the interest rate on home loans which is around 7.5% before tax deductions.



INSURANCE POLICIES

When to renew and when to redo?

A common question asked of Planning Partners is whether to renew insurance policies with existing insurers, or seek 'better offers' from others in the marketplace. Gavin Collopy, Manager, Risk Services explains the key issues...

If you have just received your renewal notice from your insurer advising of the new premium for the coming year you might be wondering "Is there anything cheaper available?" or "Is this insurance right for me?"

The most important aspect is that the right policy is implemented that meets your particular financial needs. This includes not only the amount of cover held but also that policies are owned by the most appropriate entity, that the policy type is suitable (e.g. Income Protection or Trauma Insurance) and that cover is obtained at a competitive price. Lastly, it is crucial that your insurer has not only a history of paying legitimate claims but also the financial mettle to meet long term claims. When originally assessing clients' insurance needs, we apply these criteria so the need for future changes is minimal.

From time to time there will be reasons to restructure your insurance. Exactly when, though, is it appropriate to restructure? Possible reasons are:

- **Change in Personal Circumstances:** For example a spouse stopping work and commencing full time child-care may necessitate a change from Income Protection to Trauma Insurance.
- **Legislative Change:** For example, the recent abolition of Reasonable Benefit Limits (RBL's). These used to restrict the amount of Life Insurance held in superannuation because cover over the RBL (i.e. \$1.28M) would attract tax at 46.5%. In the past, clients requiring cover in excess of this amount needed more than one Life Insurance policy – one via super and one outside of superannuation. This resulted in multiple policy fees being paid and higher combined premiums. With RBL's no longer applicable, all Life Insurance needs can be met via superannuation with the financial benefits being twofold: firstly, the burden on cash flow is reduced and, secondly, the premiums represent a tax deduction to the super fund. Furthermore, only one insurance policy is required (and only one policy fee).
- **Insurance Product Developments:** Another recent issue that is currently being debated is the ability to take Income Protection with benefits payable until age 65 within super. Until now, cover has been limited to a 2 year benefit period, which is insufficient from a financial planning viewpoint. As it is the long term we seek to protect, it is common for Income Protection to be taken in one's own name with a benefit period up to age 65. However, whilst the premiums are tax deductible, they can still place a drain on cash flow. The ability to be able to take long term cover via superannuation will make this insurance more flexible and readily available to the general public.

As can be seen, there are times when alterations to insurances will be warranted but in the main existing policies are retained. Our review process on insurance is integrated with our general financial planning process to ensure that your cover remains appropriate to your needs.



Martin McIntosh

My top three tips for running a business are... (i) *Employ well mannered people capable of social discourse well beyond that relating to the role.*
 (ii) *Regularly measure performance – business, capital, employee.*
 (iii) *Develop and communicate a clear direction for the business to all stakeholders.*

My Ideal client... *Will retire with a multitude of financial choices available to her/him.*

In ten years I see myself... *Entirely convinced that bald is truly beautiful!*

My favourite quote is... *“you can’t eat the orange and throw the peel away – a man is not a piece of fruit.”*
 – Arthur Miller, *Death of a Salesman.*

I’m reading... *‘Gallipoli’ by Les Carlyon and, ‘Carlton’ – A History by Peter Yule.*

My favourite CD/record is... *Like a parent nominating their favourite child! Currently listening to ‘Exodus’ by Bob Marley having been inspired by a recent trip to the West Indies.*

Last movie I saw was... *‘Half Nelson’ – dedicated teacher handicapped but not to overly concerned about a crack cocaine habit – outstanding breakout performance Ryan Gosling.*

If I could travel anywhere it would be... *Mexico with its surf, sand, sun and margaritas probably appeals as much as anywhere at the minute.*

My favourite Gadget... *The watering can – what a great way to pass a summer evening.*



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STRENGTH TRAINING for older adults

Research has shown that strengthening exercises are both a safe and effective method for improving the health and well being for women and men of all ages, including those who are not in perfect health. In fact, people with health concerns, including heart disease or arthritis, often benefit the most from an exercise program that includes lifting weights a few times each week.

Strength training, particularly in conjunction with regular aerobic exercise, has been shown to have an enormous positive impact on a number of our health related measures, whilst also providing benefit for a person's mental and emotional health.

Benefits include:

- **Strengthening of bones** – Loss of bone density particularly as we get older exposes us to a greater risk of fractures. Results from a study conducted at Tufts University, showed that strength training increases bone density and reduces the risk for fractures among men and women aged 50 to 70 years.
- **Proper weight maintenance** – Muscle is active tissue that consumes calories while stored fat uses very little energy. Strength training can provide up to a 15 per cent increase in metabolic rate, which is helpful for weight loss and long-term weight control for older people.
- **Improved glucose control** – Studies show that lifestyle changes such as strength training on reducing the risk, and helping older adults manage their diabetes. In a recent study of Caucasian men and women, 16 weeks of strength training produced dramatic improvements in glucose control that are comparable to taking diabetes medication. Additionally, the study volunteers were stronger, gained muscle, lost body fat, experienced less depression and felt more self-confident.
- **Sleep improvement** – People who exercise regularly enjoy improved sleep quality. They fall asleep more quickly, sleep more deeply, awaken less often, and sleep longer.
- **Healthy heart tissue** – Strength training is important for older adults and cardiac health because heart disease risk is lower when the body is leaner. The Australian Heart Foundation to recommend strength training as a way to reduce the risk of heart disease and as a therapy for patients in cardiac rehabilitation programs.
- **Restoration of balance and reduction of falls** – Strengthening exercises, when done properly and through the full range of motion, increase a person's flexibility and balance, which decrease the likelihood and severity of falls.

It is recommended that including strength training into your lifestyle should be done under supervision to ensure that you follow the correct and safe technique for your routine. A routine should be devised upon your individual needs and limitations, keeping your injuries, posture and health related issues into account. As each individual has differing demands, generic programs should be avoided as they often expose us to injury. We should also avoid relying on fixed machine weights to perform our exercises, as research in sports science demonstrates that these machines fail to activate our important stabilising muscles, which are critical to developing the balance, control and functioning of our body in day-to-day life.

We live and move in a three-dimension world, so let's get out there and strength train for better health, well being and function of our most valuable asset – our body!

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