

**Welcome to the April 2005 edition of the HPH Hotline for 2005.**

In this issue, we have articles on:

- Superannuation Choice: the basic facts;
- Capital Gains Tax Planning;
- Breast cancer: some basic facts;
- A new 'Product Watch' section - in this issue, we feature an investment fund with a difference.

As always, we welcome your feedback on our newsletter, as well as any suggestions you may have for future articles - to do so, just call us or send an email to [info@hphsolutions.com.au](mailto:info@hphsolutions.com.au).

## **Superannuation Choice goes live on July 1 2005**

This much talked about legislation comes into effect on 1 July 2005 and government estimates suggest that it will apply to:

- more than 5.7 million employees; and
- approximately 654,000 employers.

### **What does it mean?**

As the headline suggests, employees will be able to direct their employer's SG contributions to a super fund of their choice. Choice has been introduced to give you more control over your super and presents an opportunity for you to review your personal wealth creation plans.

In a recent report, The Association of Superannuation Funds of Australia Limited (ASFA) concluded that Self Managed Super Funds (SMSF's) will be the major beneficiary from Choice of Funds legislation. For clients seeking advice in this area, HPH Solutions offers a comprehensive SMSF service. Click [here](#) for more information from the HPH website on Self Managed Super.

### **Who is eligible for Superannuation Choice?**

In summary, all Australian employees must be offered superannuation choice except those who are covered by a:

- State Award that specifies a specific fund;
- Certified Agreement that specifies a specific fund;
- Australian Workplace Agreement (AWA) that specifies a specific fund;

or employees who:

- Remain members of certain defined benefit funds (including most Commonwealth Public Servants);
- For whom contributions are made under prescribed legislation; and
- Are covered by an employment agreement under the Victorian Employee Relations Act 1992.

## Employer obligations

For those employees eligible for superannuation choice, the employer must choose an eligible choice fund or a "default" fund by 1 July 2005. An eligible choice fund will act as the superannuation vehicle for employees who are eligible to make a choice but have not done so. This "default" fund must have a minimum level of insurance cover for each employee based on either:

- 1) the amount of insurance that at least 50c per week will buy, OR
- 2) the following table:

Age	Minimum Insurance Amount
20 to 34	\$50,000
35 to 39	\$35,000
40 to 44	\$20,000
45 to 49	\$14,000
50 to 55	\$7,000

From 1 July 2005, the employer must provide employees with a standard choice form (available from the ATO website, or just [click here](#)) and process these forms so that each employee's chosen fund starts receiving contributions.

## What to do next

Employers will receive a choice of superannuation fund information pack this month which will be followed by a government advertising campaign. The pack will provide information to assist employers to implement super choice from 1 July 2005.

## Capital Gains Tax Planning

Capital Gains Tax is payable when an asset is sold and the owner has realised a capital gain over the original purchase price. To calculate the taxable capital gain, the owner can decide between methods - "cost-base indexation" or "50% discount". This taxable capital gain is added to the owner's other assessable income to determine how much tax will be payable.

Reducing personal taxable income lowers the overall tax payable and this also applies to capital gains tax. There are a number of ways to reduce personal taxable income. For self-employed people, making lump sum contributions to super and claiming a tax deduction is one such strategy. This is outlined in the case study below.



## Case Study

Terry is a plumber and has earned \$70,000 this year after expenses. He has also just sold an investment property and realised a taxable capital gain of \$50,000.

Terry is aware that he can contribute money to his super fund and claim a tax deduction and is keen to reduce the amount of tax he will pay. He is also happy to build his super up because he is 51 years old and wants to retire at 55.

To reduce his tax and give his super a boost, Terry decides to contribute \$31,667 to his super fund to claim a tax deduction of \$25,000.

## Where the money goes

Position	Unplanned	Planned
Capital Gain	\$50,000	\$50,000
<i>less</i> 50% discount	<u>\$25,000</u>	<u>\$25,000</u>
<b>Taxable capital gain</b>	\$25,000	\$25,000
<i>add</i> Income	<u>\$70,000</u>	<u>\$70,000</u>
	\$95,000	\$95,000
Super contribution \$31,667. Tax deduction =	n/a	\$25,000
Taxable Income	<u>\$95,000</u>	<u>\$70,000</u>
Tax on Income	\$31,787	\$19,662
Tax on Super Contribution	n/a	<u>\$3,750</u>
Total tax payable	<u>\$31,787</u>	<u>\$23,412</u>
<b>Total Tax saving</b>	<u>\$8,375</u>	

## The Benefits

- Eliminates capital gains tax liability
- Increases superannuation fund
- Maximises after tax gain made on property
- Future earnings taxed at 15% maximum.

## Breast cancer: some basic facts

Breast cancer affects one in 11 Australian women and most commonly occurs in the 50-plus age group<sup>1</sup>. While the disease is the most common cause of cancer-related deaths in Australia for women, men rarely develop it (one in 100).

Breast cancer can be broadly split into two types: non-invasive carcinomas (where the abnormal cells stay inside the milk ducts) and invasive carcinomas (where the abnormal cells have spread to breast tissue and potentially other parts of the body).

While the exact cause of the disease is unknown, factors that seem to increase risk include: gender, advancing age, family history of breast cancer and certain breast diseases (e.g. fibroadenoma). Women who have been diagnosed with cancer in one breast have a greater risk of developing it in the other one.

Other factors that seem to increase risk include: not having children, having children after age 30, menstruation commencing before age 12, late (natural) menopause, high alcohol consumption and obesity. Research has indicated that using the contraceptive pill or Hormone Replacement Therapy (HRT) may increase a woman's risk, but these studies are as yet inconclusive.



Another risk factor is inheritance of cancer genes, such as BRCA1 and BRCA2. Mutations of these genes are responsible for 5% of all breast cancers.

## Early warning signs

All women should check their breasts regularly and consult their doctor if they notice any changes in texture/appearance. Possible signs of breast cancer can include thickening of the tissue, lumps, discharges, inverted/turned-in nipples, puckering/dimpling, shape change and pain.

Initial tests may include physical examination, mammogram (X-ray) or breast ultrasound, while more invasive techniques include fine needle aspiration (to withdraw cells), core biopsy (to withdraw tissue) and open biopsy (surgery to remove whole area for testing).

Treatment for breast cancer depends on its type and size, whether it has spread elsewhere, and on the person's age and health. The first step usually involves surgery – either performing a 'lumpectomy' (to remove the cancer, some surrounding tissues and usually some lymph nodes) or a mastectomy (removing the entire breast and lymph nodes from the armpit).

Further treatment can involve radiotherapy (radiation to destroy any remaining cancer cells), chemotherapy (cancer fighting drugs) and hormone treatment (to reduce the chances of breast cancer developing again).

## There is some good news...

Early detection and advances in treatment mean breast cancer survival rates have increased significantly in recent years.

Breast cancer is one of the specified illnesses covered under a trauma insurance policy. For more information about the peace of mind offered by trauma insurance cover, please contact **Adam Smith** at HPH.

### Reference:

1. Cancer Council Australia

## A new feature

We are launching our new "**Product Watch**" section in this issue of the HPH Hotline in response to requests from many clients who have asked us to keep them informed of financial product developments. Products will only be featured where we have independent research available that reports a positive view. It is important to note however, that the suitability of each product will differ between individuals.

The information presented is general in nature only and does not have regard to the particular needs or circumstances of any specific person who may read it. Before making any investment decision, we strongly suggest you consult **Rob Pyne**, our financial planner, to take into consideration your particular investment objectives, financial situation and needs.



## Product Watch: AMP Capital China Fund 2

### Fund aim

The AMP Capital China Fund 2 provides you with exposure to 25 of China's leading listed companies. Your initial investment (less any entry fee) is capital guaranteed\*, subject to the terms and conditions of the National Australia Bank guarantee on the guarantee effective date (which is currently 23 June 2011 but will be no later than 23 September 2011 as determined by AMP Capital Investors).

### Investment Strategy

If you withdraw your units on 23 June 2011, the value of your investment will be based on:

1. Exposure to the FTSE/Xinhua China 25 Index (price index) from 23 June 2005.
2. A National Australia Bank capital guarantee\* that ensures you receive your initial investment back, less any entry fee.
3. Applying an estimated multiplier of 1.5 to the sum of the capped monthly returns earned by the price index. The cap is currently expected to be 7% per month.

The Fund will gain exposure to the price index by entering into a deferred purchase agreement with National Australia Bank. On 23 June 2011 this agreement will deliver to the Fund securities or other assets equal to the value of the Fund.

This deferred purchase agreement allows the Fund to deliver the share exposure, capital guarantee and the multiplier. The multiplier and cap will be set on 23 June 2005 (or as otherwise determined by AMP Capital Investors).

As the monthly returns earned by the price index are capped (at an estimated 7% per month), you will miss out on any monthly returns above the cap level.

While the companies within the FTSE/Xinhua China 25 Index (price index) may be affected by changes in exchange rates, which may in turn affect the return of the Index, the Fund is not directly exposed to fluctuations in exchange rates between the Australian dollar and other currencies until 23 June 2011.

### Minimum investment

\$5,000.

### Entry fee

2.0% of your initial investment.

### Management expense ratio

1.89% per annum of the total value of the assets of the Fund.

### Withdrawal fee

1.0% of the value of your withdrawal proceeds prior to 23 June 2011.





## Issue price

A\$1.00 per unit throughout the offer period.

## Notes

\* Subject to the terms and conditions of the National Australia Bank guarantee outlined in the PDS, investors are entitled to a guarantee of their initial investment (less entry fee) if they withdraw on 23 June 2011. Investors should consider the risk factors set out in this PDS. The units are not deposits or other liabilities of National Australia Bank. National Australia Bank does not guarantee the performance of the Fund.

## For more information

If you would like more information on any of the items that have appeared in this edition of HPH Hotline, please contact us on **9213 0444** or email us at [info@hphsolutions.com.au](mailto:info@hphsolutions.com.au).

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