

# your money your future

FINANCIAL PLANNING NEWSLETTER AUTUMN 2006



## More super returns

**The 2005/06 Federal Budget abolished the superannuation surcharge, effective 1 July 2005. This means that the surcharge is no longer payable on contributions or termination payments made on or after this date.**

The abolition of the surcharge can make a significant difference to your superannuation savings if you choose to salary sacrifice part of your gross income into superannuation. The attached table provides an example, showing the tax advantage of putting money directly into superannuation.

Sara receives a direct advantage from her salary sacrifice of **\$6,400**.

Speak to your financial adviser to find out how you can benefit from salary sacrificing into superannuation.

Sara is 46 and has a gross salary of \$120,000 and investment income of \$4,000 in 2005/06. She decides to salary sacrifice \$20,000 into her superannuation.

	No salary sacrifice	With salary sacrifice of \$20,000
Gross salary plus investment income	\$124,000	\$124,000
Less salary sacrifice	\$0	(\$20,000)
Less tax	(\$41,830)	(\$32,430)
Net salary	\$82,170	\$71,570
Add net superannuation contribution (after contributions tax of 15%)	\$0	\$17,000
Total benefit	\$82,170	\$88,570

\* Note that the taxation calculations are based on 2005/06 tax rates and make no allowance for the Medicare levy surcharge.



### HPH Solutions

#### HPH Hotline Newsletter

Rob Pyne & Adam Smith

Level 1, 35 Outram Street  
West Perth  
WA 6018

**Rob Pyne** Retirement Planner, BSc.ASIA CFP

**Adam Smith** Risk Specialist, Dip FP CFP  
Authorised Representatives

Po Box 1798

West Perth

WA 6872

Phone: 08 9213 0444

Fax: 08 9322 5015

Email: [rpyne@hphsolutions.com.au](mailto:rpyne@hphsolutions.com.au)

Email: [asmith@hphsolutions.com.au](mailto:asmith@hphsolutions.com.au)



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## Tax advantages, a superannuation boost and a simpler transition to retirement

It sounds like an impossible trifecta. However, thanks to some recent government legislation, the jump from work to retirement need no longer be a dramatic event. In fact, taking advantage of 'transitioning to retirement' rules can provide significant tax benefits and give your superannuation a helping hand.

Prior to July 2005, to access your preserved superannuation benefits you had to satisfy a number of conditions. Generally, upon turning 55 you had to declare yourself permanently retired or that you had no intention of carrying on paid employment for more than 10 hours per week. This meant that many people chose to retire prematurely, just so they could access their super.

This situation was impractical, especially considering the flexible and multi-faceted workplace that exists today. In response, the government announced changes to superannuation that make the transition to retirement simpler.

### Easing into retirement

Now, if you have reached your preservation age, generally 55 years of age for most people, you are able to draw on your super without having to retire permanently. This means that you can continue to work and access a portion of your super to supplement your income.

Accessing funds while still being in the workforce can be done through the use

of a non-commutable allocated pension, which provides a regular payment to the purchaser. The amount received for each payment can be varied within maximum and minimums set by government regulations.

Essentially, a non-commutable allocated pension is an allocated pension that does not permit lump sum withdrawals. In the financial industry they are known as NCAPs (non-commutable allocated pensions). Importantly, it is possible to roll back the allocated pension at any stage into your superannuation fund, for example if the income stream was no longer required.

### Tax advantages and a super-building strategy

As a consequence of these rules, an innovative strategy to access significant tax advantages emerged. This strategy also potentially enabled the pending retiree to give their superannuation a substantial boost.

Because there is no requirement for you to reduce your working hours in order to receive the NCAP, it becomes possible to salary sacrifice a substantial portion of your income into superannuation while still receiving a regular payment from your super fund.

Why would you want to salary sacrifice your income while receiving an NCAP? Two reasons:

1. Your super fund will generate tax-free

investment earnings because it is no longer in the accumulation phase.

2. Taxable pension income is eligible for a 15 per cent tax offset, whereas your salary would otherwise be fully taxable.

Not surprisingly, when the strategy first emerged, some were worried that the Australian Tax Office (ATO) might see it as tax avoidance. But concerns have been laid to rest, with the Commissioner of Taxation confirming on 17 November 2005 that such a strategy would not be considered avoidance, even where someone did not reduce their work hours.

Speak to your financial adviser about how you can make a relaxed and financially beneficial transition to retirement.

### Case Study

Doug, aged 55, earns \$70,000 per annum and has \$450,000 in his current super account. Fortunately, Doug enjoys his job and is looking forward to working full-time until he reaches the age of 65.

Doug's financial adviser suggests he begins salary sacrificing some of his income in order to build the amount of funds available for his retirement. But Doug explains he cannot currently afford to lessen his take-home income. Despite this, his financial adviser explains that by beginning an NCAP he can supplement his income via his current superannuation fund, while sacrificing the equivalent amount into his super.

Doug expressed surprise at the suggestion; how can taking money from super and putting it back again, boost the amount in his super? The confusion is understandable because Doug still receives the same income and so he believes the net result would be the same.

Doug's financial adviser explains that the tax advantages of the strategy means that the super fund's investment gains will be tax-free and the NCAP income is eligible for a 15 per cent tax offset. Working through a number of tables and presumptions, he shows Doug that the strategy would give him additional super, by the time he is 65, of up to \$86,109.

Ask your financial adviser how you can benefit from NCAPs and new transitioning to retirement regulations.



## Disability cover: is it really worth the risk?

While we are often told to expect the unexpected, most of us continue through life without worrying too much about the 'what ifs?' It's perfectly normal, but have you ever stopped to think seriously about those 'what ifs?' – what if you were involved in an accident and suddenly became incapacitated, or you developed a serious illness that immediately stopped you in your tracks?

We tend to think of ourselves as invincible but the reality is that no one is bullet-proof. We never know what is around the corner. Whether caused by ill health or an accident, a disability is almost always unforeseen and can seriously impair our ability to function. While a disability doesn't necessarily have to affect your enjoyment of life, it can often have an enormous financial impact on you and those who rely on your income; especially your immediate family.

The cost of medical assistance is often substantial, and restrictions on work and education can severely affect your capacity to earn a living. Also, changes to your lifestyle, including your home and mobility, can be costly to manage, and the need for long-term care is generally very expensive. So, who would pay the bills?

In a family situation, if you are the main salary earner in the household, your partner and children will be significantly affected by any disruption to your income. In assessing the national picture of the extent and impact of disabilities on society, the Australian Institute of Health and Welfare (AIHW) found that when a primary income earner is disabled, the financial cost of care flows on because it is generally the other family members who need to take on the main support functions.<sup>1</sup> This reduces their own capacity to engage in paid work.

### Case study

Ron was a director of a large landscaping firm in Melbourne. His wife Marion was a school teacher. One night, Ron suffered a severe stroke that left him completely paralysed. He was admitted to hospital, where he was treated for three months, and then spent six months in rehabilitation.

Ron had a Total and Permanent Disability option on his Life insurance policy and received a total payment of \$1.2 million. While he can now function independently to a point, he needs constant care.

Marion insisted on caring for Ron. The lump sum insurance payment enabled her to retire and take up full-time care, without financial hardship. The insurance money also allowed Marion to refit their house, so Ron could gain access and support himself more easily. She was also able to purchase a van that better accommodated Ron's needs.



The AIHW research shows that the majority of carers in Australia are family and friends. Of those carers, 21 per cent need to reduce their hours of work, and 11 per cent need to resign completely from their positions of employment.<sup>2</sup> It's important to recognise that the impact of disablement on you and your family is likely to be far-reaching.

### Consider the risks<sup>3</sup>

- 20 per cent of all Australians have reported a disability.
- 41 per cent of Australians over the age of 60 need assistance because of a disability.
- Of the 3.8 million Australians with a disability, 61 per cent need some form of care.
- One in 10 people in Australia need equipment to manage their disability.
- Sources of disability are accident or injury (15.2 per cent), disease, illness or heredity (14 per cent), working conditions and work or over-work (11 per cent).

### Transfer the risk

The financial costs of disability can be high. One way of preparing for this cost is to transfer the risk to an insurance company.

### Total and Permanent Disability insurance (TPD)

TPD covers you for disabilities that permanently prevent you from working. TPD is normally paid as a lump sum. Note that many TPD policies require up to six months of total and permanent disability before paying a benefit.

### Trauma Recovery insurance

Trauma Recovery insurance can help you cope financially with the affect that a medical trauma, such as a stroke, can have on your life. Trauma Recovery insurance is normally paid as a lump sum and can be used to pay for changes to your lifestyle or for care that you may require because of the trauma.

### Child trauma insurance

Some insurance policies contain a child trauma option. This can cover up to five of your children (between 2 and 15 years of age) against certain events.

**Your financial adviser can help to ensure you are aware of the various insurance options available and can advise about the most appropriate protection and help you to arrange cover.**

<sup>1</sup> AIHW, [www.aihw.gov.au/disability/natpic/index.cfm](http://www.aihw.gov.au/disability/natpic/index.cfm)

<sup>2</sup> Older Australians at a glance 2002, AIHW, p 38

<sup>3</sup> The 2003 Australian Bureau of Statistics Survey of Disability, Ageing and Carers

## The benefits of multi-manager investing

### What is a multi-manager fund?

A multi-manager fund provides investors with the opportunity to invest in a single fund and benefit from the investment management styles, strategies and different approaches of a range of fund managers.

A multi-manager fund pools together the funds of individual investors – as does a fund managed by a single investment manager. However, a multi-manager fund allocates a portion of the invested funds to several fund managers who may each specialise in a particular:

- investment technique;
- investment sector;
- asset class;
- industry;
- economy;
- management strategy; and/or
- investment style.

The aim of a multi-manager fund is to bring different managers, investment strategies and techniques together with the aim of providing opportunities for increased diversification and, thereby, delivering more consistent and competitive returns over the long term.

Some of the benefits of multi-manager investing include:

#### • Consistent, above-market performance

Multi-manager funds are designed to deliver consistent returns over most stages of the economic cycle. These returns are achieved by combining fund managers with different, complementary approaches to investing.

By diversifying your investment with a range of investment managers, you can decrease the variability in your investment returns. By spreading your investment between fund managers, you are reducing the effect of any one manager on your overall investment return. This means you are more likely to achieve your investment objectives, providing the multi-manager fund you have chosen meets your investment objectives.

#### • Cost-effective and convenient

Through a portfolio that is regularly balanced, multi-manager funds provide you with access to a variety of fund managers and asset classes without the paperwork and cost of doing it yourself.

#### • Diversification – an excellent way of spreading your risk

When you invest in a multi-manager fund, your investment dollar is spread across a number of specialist fund managers and approaches to investing, such as 'value' and 'growth'. This may help to improve returns and reduce risk. It also reduces the reliance placed on any single fund manager.

#### • Access to niche investment opportunities

Multi-manager funds can give you access to some investment opportunities and fund managers that may not normally be available to you as a retail investor including boutique fund managers and specialist managers located overseas.

#### • Quality research to uncover the world's best fund managers

With more than 50 Australian share managers and hundreds of Australian and international fund managers offering international share funds, it can be difficult to know where to invest.

Multi-manager investors benefit from careful manager selection based on thorough research and analysis designed to identify the best fund managers for each role in the fund.

#### • Ongoing monitoring

Ongoing regular research goes into the selection and retention of fund managers in quality multi-manager funds to detect any changes that may impact future performance. In a quality multi-manager fund, those managing your money are monitored each day to ensure they are on track. Regular monitoring and research, combined with fast, efficient changes where required, can give you confidence that your investment is being actively managed.

#### • A strategy that keeps up with changing market conditions

In an investment climate that is constantly changing, it's difficult keeping up-to-date and ensuring your investment strategy and fund managers remain appropriate. Investors in a quality multi-manager fund need to be confident that any changes to investment markets and fund managers will be identified and assessed and their investment portfolio amended accordingly.

#### What are the next steps to getting started?

Contact your financial adviser today to see if a multi-manager strategy is right for your financial situation. Your financial adviser can help explain the benefits of multi-manager investing further and work with you to see how to incorporate multi-manager investing into your financial plan.

