

your money your future

FINANCIAL PLANNING NEWSLETTER SPRING 2006

Latest News

Now the dust has settled from the recent budget announcements, some exciting proposed changes to superannuation are becoming clearer. These are summarised in our second article.

Additionally, our third article covers ways of benefiting from the tax savings created from the new rates that became effective on 1st July this year.

Since our last newsletter, we have had an addition to the HPH team. Bronwyn Reynolds has joined us in a Para Planning role and is responsible for the preparation of retirement advice in conjunction with Rob Pyne.

We hope you enjoy this spring edition of our newsletter which will be posted on the HPH Solutions website under "Downloads".

All the best.
Rob & Adam

Medical expenses tax offset

It's that time of year again to prepare your annual tax return, and many of you will be including various deductions to help reduce your tax liability.

But have you considered claiming your net medical expenses? Net medical expenses are the medical expenses you have paid, less any refunds you have received, or could get, from Medicare or a private health fund.

You can claim a tax offset of 20 cents in every dollar on the net medical expenses you have paid over \$1,500 in a financial year.

Expenses relating to the treatment of most illnesses or operations, paid to

qualified doctors, nurses, chemists and hospitals can be claimed. To find out more about claiming medical expenses as a tax deduction, visit www.ato.gov.au.

Medicare can provide a Medicare financial tax statement, and if you are a member of a private health fund, you can request a benefit statement. Both statements show how much you have paid for medical expenses and how much you have claimed back over the last financial year. Together, these can be used to calculate your net medical expenses.

For further information on other sensible strategies combining wealth creation and enhanced tax deductions, speak to your financial adviser today.



HPH Hotline
HPH Solutions

Rob Pyne & Adam Smith
HPH Solutions
Level 1, 35 Outram Street
West Perth
WA 6005

Rob Pyne BSc. F.Fin CFP Retirement Planner
Adam Smith Dip FP CFP Risk Specialist
Authorised Representatives

Po Box 1798
West Perth
WA 6872
Phone: 08 9213 0444
Fax: 08 9226 4933
Email: rpyne@hphsolutions.com.au
Email: asmith@hphsolutions.com.au
Web: www.hphsolutions.com.au

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Super is going through big changes – what will they mean for you?

You're probably aware of plans to simplify the superannuation system, announced in the 2006 Federal Budget.

And the proposed changes, due to take effect from 1 July 2007, will make super an even more attractive place to grow your retirement savings.

But do you know how these proposals will work and what they could mean for your retirement nest egg?

Some of the major proposals and their likely impacts include:

Proposal	Likely impact on you
Tax free benefits for over 60s	
If you are over 60, you will be able to take your super as either a lump sum or pension and receive your benefits free of tax (effective 1 July 2007), provided you have satisfied a condition of release that allows you to access your benefits	Placing investment money into your super fund, rather than investing it elsewhere, could result in significant tax savings – a good reason to consider super over other forms of investment.
Reasonable benefit limits abolished	
Reasonable benefit limits (RBLs) – the limits on how much super you can receive at lower tax rates when taking a lump sum or pension – will be abolished (effective 1 July 2007).	You won't need to worry about the tax impacts of accumulating too much money in your super fund as there will be no limits on the benefits you can receive at lower tax rates – another good reason to consider super for your investment funds.
You won't have to withdraw your super after you reach 65	
If you are over 65 and not working, you no longer have to withdraw your super benefits and can leave them in your super fund if you wish (effective 10 May 2006).	If it suits your financial circumstances, you can leave money in your super fund indefinitely, allowing these assets to grow in a concessional-taxed environment and providing new estate planning opportunities for you.
No maximum limit on pension payments (except NCAPs⁶)	
Rules about the type of pension payments and the acceptable amount of annual payments will be simplified (effective 1 July 2007). There will no longer be any maximum limits on the amount of income you can draw each year from most pension products, only minimum limits. However, this no-maximum provision will not apply to non-commutable allocated pensions (NCAPs), which will allow a maximum of 10 per cent of the account balance to be paid as annual income.	You will be able to draw as much pension income from your super as you like, provided it is above the annual minimum limit, and provided your pension is not an NCAP.
Changes to deductible contribution rules	
The present age-based limits relating to deductible contributions – those for which a tax deduction can be claimed – will be abolished (effective 1 July 2007). Instead, an annual limit of \$50,000 would apply (or a higher transitional limit if you are over 50).	If you are under 50, the new limits will allow you to make increased contributions. But if you are over 50, the new limits will impose a reduction in the amount that can be contributed.
Changes to undeducted contribution rules	
The present rule allowing an unlimited amount of undeducted contributions – those for which a tax deduction has not been claimed – has been replaced by an annual limit of \$150,000 (effective 10 May 2006). This can also be averaged over a three-year period to allow a larger one-off contribution of up to \$450,000 (the limit applies to each member of the couple – meaning a combined total of \$900,000).	The limit is still high enough to allow you to contribute significant amounts into your super and reap the benefits of growing these assets in a concessional-taxed environment.
Government co-contributions extended to eligible self-employed	
The Government will extend its co-contribution scheme to eligible self-employed people (effective 1 July 2007). This means the Government will contribute extra money to your super fund if you make personal, undeducted contributions and your total income is less than \$58,000 per annum.	If you are an eligible self-employed person, there will be financial incentives for making personal, undeducted contributions to your super fund. (The present co-contribution benefit for employees is still available.)
Contribution incentives for the self-employed	
Self-employed people will be able to claim a full tax deduction for all contributions up to the annual limit (effective 1 July 2007).	If you are self-employed, there will be improved tax advantages in making contributions to your super fund.

⁶ A non-commutable allocated pension (NCAP) is a type of allocated pension available to people aged 55 to 65. It has features suited to those transitioning to retirement and is attractive for many tax reasons.

While the proposals are designed to simplify the super system, it is still a complex area which can be confusing to people who don't have specialist knowledge about super. That's why you should speak to your financial adviser to find out how the proposed changes may impact on your personal situation.

Tax cuts may have returns for the savvy saver

Have you considered how you can make the most of the tax cuts that came into effect on 1 July 2006? Have you asked yourself ‘is there a better way to use any additional income, before I become accustomed to spending it?’

As Table 1 shows, changes to taxation legislation have resulted in lower taxes for a broad range of income earners. The top tax bracket threshold has been lifted to \$150,001 and while this is only relevant to 2 per cent of Australian taxpayers, income earners who earn \$21,601 or more will also benefit from the new tax thresholds.

It’s important to remember that it can be easy to take for granted any additional income, particularly when the individual weekly or monthly amount seems relatively small. Any extra amount – whether \$15 or \$50 each week – can be frittered away without a second thought when higher petrol prices and increased mortgage repayments make day-to-day living more expensive.

Your financial adviser can assist you re-evaluate and put in place a financial strategy to take into account any additional income. For example, your adviser may recommend options such as salary sacrificing or an investment using dollar-cost averaging, both of which have the potential to make a difference to the quality of life you can enjoy down the track.

Case studies

Sacrificing for the future

Andrea is 35 years old and married with two children. Following the tax cuts, Andrea’s annual income of \$65,000 resulted in an annual tax saving of \$750.

At first, Andrea was disheartened to learn that her tax saving was an amount she considered insignificant. However, her financial adviser calculated that by salary sacrificing into super rather than receiving the tax cut in her net salary, Andrea’s superannuation balance will be about \$55,000 higher than she would otherwise have anticipated when she reaches age 65.

If Andrea spends her additional annual net income of \$750, she would spend \$22,500 over thirty years. However, by investing the additional amount into her superannuation fund via salary sacrifice, it is anticipated to accumulate to more than \$55,000, helping her super balance exceed \$310,000.

Table 1: Tax thresholds and corresponding rates¹

Old tax thresholds income range (\$)	Old tax rates %	New tax thresholds income range (\$)	New tax rates %
0 – 6,000	0	0 – 6,000	0
6,001 – 21,600	15	6,001 – 25,000	15
21,601 – 63,000	30	25,001 – 75,000	30
63,001 – 95,000	42	75,001 – 150,000	40
95,000+	47	150,001+	45

Investing gradually may mitigate risk

David is a veterinarian at the local animal hospital. He is 36 years old. Under the new tax limits, David’s net income increased by around \$43 per week (based on an annual income of \$90,000).

Following his financial adviser’s recommendation, David immediately arranged to have his additional income invested into a managed fund using dollar cost averaging.

Dollar cost averaging is an investment technique that aims to reduce market risk through the systematic purchase of a given investment at regular intervals and a fixed dollar amount – regardless of developments in financial markets.

For example, assume David decides to invest his additional income and purchase \$170 worth of investment units, each month, in a particular managed fund.

As Table 2 shows, David purchases 94.16 investment units at an average price of \$7.22. With the price being \$9 at the end of the period (1 November), his total investment value is \$847.44. As a result, his overall position is \$167.44 ahead, despite the fact that the stock declined in value over the period (dropping from \$10 to \$9).

By comparison, had David invested \$680 on 1 August, his holding would total 68 units and, with the price at \$9 on 1 November,

his investment would show a loss of \$68, instead of a profit of \$167.44.

By using dollar cost averaging, David was able to take advantage of the lower average unit price over the longer term, and with the power of compounding interest, his regular savings accumulated into a substantial amount.

By understanding the impact of the tax changes, you are in a better position to make the most of any additional dollar in your pay packet. While dollar cost averaging and salary sacrificing are two ways in which seemingly insignificant amounts can be invested at regular intervals over time, your financial adviser can provide you with quality financial advice and help you choose the most appropriate way for you to use your additional income.

- <http://www.treasurer.gov.au/tsr/content/pressreleases/2006/043.asp>.
- As determined by superannuation calculator at www.asic.gov.au—based on today’s dollars, assuming a salary of \$65,000 pa, annual salary sacrifice contributions of \$1,070, 9% SG contributions, 7% investment returns, 2.5% inflation, 15% contribution tax and 15% earning tax. No fees or other taxes have been taken into account.
- The example has condensed the dollar cost averaging process into a very short timeframe which only endeavours to show the way averaging of unit prices can affect an overall investment (as opposed to investing up front with a lump sum). It demonstrates one particular scenario of many possible scenarios.

Table 2: Example of how dollar cost averaging works over time.³

Date	Unit price	No. of units	Cost
1 August	\$10	17	\$170
1 September	\$7	24.28	\$170
1 October	\$5	34	\$170
1 November	\$9	18.89	\$170
Total		94.17	\$680
Average unit price	\$7.22		

Covering cancer

Cancer can be a devastating illness. Not just for the person who suffers from it, but also for their family, friends, and even their workplace.

Truthfully, when cancer strikes, money is usually the last thing on anyone's mind. But when the dust settles, the financial stress caused by it can magnify and create many new problems.

Men and cancer

For Australian men, the most commonly diagnosed cancer is prostate cancer. This accounts for 23 per cent of all cancers suffered by men and, in 2001, there were 11,191 new cases of prostate cancer diagnosed.

Facts show that melanoma of the skin makes up around 11 per cent of all cancers found in Australian men. Other kinds of major cancer include colorectal and lung. The four types of cancer mentioned account for 60 per cent of all registered cancers for Australian men.¹

For Australian men, it is important to realise there are many types and variations of cancer. Still, understanding some of the more common types may assist to modify individual behaviour and reduce the likelihood of contracting cancer. Your doctor will be able to provide more information.

A helping hand when you need it most

The financial cost of cancer can be distressing – time off work, travel to and from hospital and rehabilitation expenses.

And, while there is not a great deal that can be done to prevent the initial emotional and physical shock of cancer, having good quality insurance cover can ensure you and your family are financially secure.

Safeguarding your financial future against cancer can be achieved by purchasing a Trauma Recovery Insurance Plan. Trauma Recovery insurance sits among the suite of insurance solutions, including life insurance, income insurance, total and permanent

disability (TPD) insurance, and business expenses insurance. Each is designed to mitigate certain happenings:

- Life insurance, typically, pays a lump sum upon a person passing away.
- Income insurance, in the event of you being unable to work due to sickness or injury, will provide a regular income stream to assist in paying your general livelihood expenses.
- If you were to be totally and permanently disabled, TPD insurance will help with recovery and rehabilitation costs. For example, it may enable you to refit your home or allow a family member to reduce their work hours to care for you or to pay for a professional carer.
- Business expense insurance will assist with business fixed costs, such as rent, rates, electricity, water and gas bills. It

will also provide funds to pay employees' salaries (although not for a replacement of the insured salary).

Distinct from all of these, Trauma Recovery Insurance provides a lump sum if you suffer from one of a comprehensive list of traumatic events, such as cancer, heart attack or major head injury. And, thanks to new comprehensive cancer options in many Trauma Recovery insurance products, it is possible to purchase a specific option to cover you for a range of pre and early cancerous conditions, in addition to the coverage already available under a trauma recovery plan or option.

For more information on how you can safeguard your financial future against the risk of cancer, speak to your financial adviser.

¹ Cancer in Australia (Australian Institute of Health & Welfare), 2001

Brendan's cancer shock

Brendan aged 35, recently married his girlfriend of six years.

Two months ago Brendan's wife noticed a new mole on his right shoulder and suggested that he should get it checked by his doctor. After all, both had heard how high the rate of skin cancers was for Australian men and women.²

Brendan's doctor assessed the mole and confirmed that its appearance was consistent with melanoma. He explained that he would need to perform a biopsy and have it tested.

The result of the biopsy was that it tested positive for a malignant melanoma that required a small operation to remove the affected area. Brendan's doctor also referred him to a cancer specialist who performed some additional screening tests to make sure the cancer had not spread elsewhere in his body.

In the future, Brendan will need increased monitoring and regular check-ups with his doctor every six months for the first two years. The good news was that he will more than likely make a complete recovery.

Fortunately, upon getting married, both Brendan and his wife had discussed their future with a financial adviser. After this discussion, their adviser recommended Brendan purchase a trauma recovery plan of \$200,000, along with the comprehensive cancer option.

This meant that when he was being diagnosed with the very early stages of melanoma, Brendan received a lump sum partial payment of \$20,000 (ie 10 per cent of his trauma recovery benefit). The insurance payment meant he didn't have to worry about taking time off work or paying for out-of-pocket recovery expenses.

² Melanoma is more common in Australia than any other country. Fact Sheet (Australian Cancer Research Foundation) www.acrf.com.au