keeping an eye on finance

focus

Issue: Winter 2005

Money for Nothing?

How to maximize your Super!

There are a number of ways in which you may be able to reduce your income tax liability for this year, while at the same time increasing your wealth for the future.

Ask yourself;
Before 30 June, am I in the position to:

- make a contribution to super for yourself?
- Make a contribution to super for your spouse?
- Possibly receive a bonus from your employer?
- Enter into salary packaging (or salary sacrificing) arrangements with your employer?

If you answer 'yes' to any of these questions and you take appropriate action before 30 June, you could secure tax savings and increased wealth retirement.

If you would you like to know more call 1300 880 789.

Will you get the most out of this financial year?

With the end of the tax year just under a month away, we encourage you to examine your finances to ensure you take the right action now in order to maximise your wealth creation opportunities before time runs out.

By considering a few issues you can ensure the right decisions and actions are made before June 30.

Checklist:

- Are you, or a family member, eligible for the Government's Co-contribution scheme - should you, or they, make a member contribution to qualify?
- Should you make a spouse contribution to your partner's superannuation fund?
- Examine your personal superannuation contributions - will your contributions or your employer's reach your age based limit?
- Consider Choice of Fund - would you be better off changing super fund for employer contributions?
- Investigate Capital Gains Tax treatment before selling shares or assets - a sale in June may cost you more than you realise.
- (If you are a pensioner) Has the value of your assets changed? If so, collect new values to advise Centrelink or investigate a Term Allocated Pension
- See your financial adviser

This is the time of year to concentrate on future financial strategies - don't leave it until June to make decisions. Finish the financial year right by ensuring all plans have been followed and that you know what you are going to do next year.

Two immediate changes will be relevant for many earners: tax rates have been adjusted in 2004/05, providing some relief for high income earners, and the Federal Government has widened the availability of the co-contribution scheme for 2004/05.

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Words of Wisdom

Before anything else, preparation is the key to success.

\- Alexander Graham Bell

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The co-contribution scheme is designed to encourage Australians to make personal contributions to their superannuation fund by providing free money' for those who take up the offer by making after-tax personal contributions. Low to middle income earners can contribute $1,000 and receive up to $1,500 from the Government - even the spouse of a higher income earner can benefit.

But remember any superannuation contributions can only be considered if you have paid them before 30 June, If you, or anyone in your family, can benefit from the Government's co-contribution then now is the time to seriously consider acting on this initiative which quite simply is about improving your retirement. Make the most of this Government benefit when you can.

Also, if your spouse's assessable income will be less than $10,800 you can claim an 18 percent tax offset on up to $3000 you contribute to their superannuation.

Remember, earnings within superannuation are taxed at a maximum of 15 percent - plus in some cases lump sum tax, depending on amounts and age. This is still lower than many people's marginal tax rate, which could be as high as 47 percent (plus 1.5 percent Medicare Levy).

Historically the end of the financial year sees investors looking to off-load investments. However, before doing this it is essential to be aware of possible Capital Gains Tax (CGT) treatment. This financial year may not be the best time to look at selling shares or other assets as you may be hit for a large CGT bill, depending on your other earnings and the length of time you have held that asset.

This is not the time of year to be making rash decisions about what to sell and buy - it's important to at least consider what will happen for you in the year ahead. CGT is a highly complex area and it's certainly worth receiving advice on managing your taxation liability.

It may also be the time to start considering your budget for the year ahead. Take the time to look at your incomings and outgoings and the best way to structure those to make the most of all your funds. It may be the time to consider the benefits by extreme' salary sacrifice into superannuation in the next year (bearing in mind the potential impacts of contributions surcharge and the age based limit).

Before the end of the financial year is a great time to take stock of everything - even your place in the workforce. If you are able to arrange the date of your retirement, it is important to try to retire at the right time of the year to maximise your benefits.

People who are looking at retiring in the near future need to consider the timing of their departure from the workforce. By waiting until early in the new financial year you may reduce the amount of tax required. (And from 1 July this year, there will also be the new transition to retirement' option to consider for those over 55).

And for those who are already in the retirement phase of life, realising the value of your assets may affect your Centrelink payments. The pros and cons of taking a Term Allocated Pension, which is only counted at 50 percent asset value by Centrelink, is worth looking into.

We can assist in creating a financial plan which takes all your needs into account, including superannuation, investments or the sale of assets.

Look before you leap

Should you move your super money? The "Choice" is yours.

From 1st July 2005, many people will have the opportunity to choose where they want their employer's superannuation contribution invested . Industry information suggests that quite a few people are rushing into self-managed super funds. Others are reviewing fund managers to determine who has produced the highest return.

Before changing your superannuation provider, we suggest you look before you leap. There are many important factors that you need to take into account before you can make an informed decision - not an emotional one!

1. Review where you are now.

To review your current superannuation, you need your latest annual member statement and your fund's annual report. These documents should provide you with:

- details on your account balance
- contributions made by you and your employer
- where your money is invested (the investment portfolio)
- the return on your investment
- fees you pay
- insurance levels and criteria.

More information on the fund can be found in the Product Disclosure Statement.

You may decide that you are happy where you are. If this fund remains your employer's superannuation fund after 1 July 2005, there is nothing you need to do.

If you are concerned that you could be doing better, you need to compare where you are with what is available to you. Your financial adviser can assist.

2. Compare super funds

If you are not sure whether you are in the right fund, you should review your position with us. A fair comparison could include:

- **Investment performance** Look at where your superannuation fund invests your money and remember to compare apples with apples. It would be wrong to compare a superannuation fund with Australian shares as its underlying securities with one that only invests in fixed interest investments. Performance over a five-year period should be the minimum time frame used for comparisons.

1 Excludes state and federal public servants, people employed under an industrial award which specifies a fund/funds into which your super must be paid, or if you are a member of a defined benefits superannuation fund and your membership excludes choice.
2 "SMSFs tipped to double after Choice", Investment and Technology. March 2005 p.42.

- **Investment options** Reviewing your super is also an opportune time to review your investment profile. With our assistance, you can determine your risk profile (how well you sleep at night knowing where your money is invested) and investment strategy. We can then provide you with an appropriate range of superannuation managers and portfolios for you to choose from. For example, if you currently have all your money invested in very secure investments, you could look at your superannuation fund as a viable way of increasing your exposure to some shares and/or commercial property.
- **Death and disability insurance** Based on your existing and desired levels of insurance, are other funds more competitive?
- **Fees**
- **Cost of switching** An analysis of the cost of switching funds from one superannuation fund to another now and in the future, should be undertaken prior to any change to your superannuation. If it going to cost you a substantial amount to change super providers, you need to take into account the number of years to retirement, your investment portfolio, and your current account balance when assessing whether it is appropriate to change at this point.
- **Annual costs** A true valuation of the ongoing costs should be made. These are usually broken down and can include, administration fees, trustee fees, management fees, adviser fees, less any tax minimisation processes.

3. Other considerations

There are other factors that need to be taken into account. The obvious ones are:

- the number of years until retirement
- your state of health. Many superannuation funds require you to pass a medical and do not cover you for pre-existing health conditions. You need to assess whether it is worth risking a change and possible rejection of insurance.
- your ability to manage your money. Do you want to have a say in the way your super is managed and the choice of actual investment? This will influence your choice of funds.
- whether you plan to change jobs in the near future. The "default" fund of your new employer may be attractive and worth waiting for.

Everyone is different. We can assist you in deciding what "other factors" are relevant to your choice of superannuation.

A superannuation comparison worksheet is available at:

http://www.fido.asic.gov.au/fido/fido.nsf/byheadline/Superannuation+fund+comparison+worksheet?openDocument#worksheet

4. Make the decision – stay put or jump

Once you have gathered all the relevant information, and consulted with us, you are now in a position to make an informed decision about your super.

Your employer has 28 days from 1 July 2005 to provide you with the "Choice of superannuation fund Standard choice form– information for employees".

Once you have the form, there are two choices:

stay – you don't need to do anything. Your employer must tell you if, in the future, they change their default fund from the one they advised on the Standard choice form they provided to you.

or

jump – to ensure your compulsory employer contribution are made to the fund of your choice, provide your employer with details (name and contact information) of the fund you are choosing and a statement from your new super provider confirming that it is a "complying fund". You can do this by completing the "Standard choice form" or by a written statement.

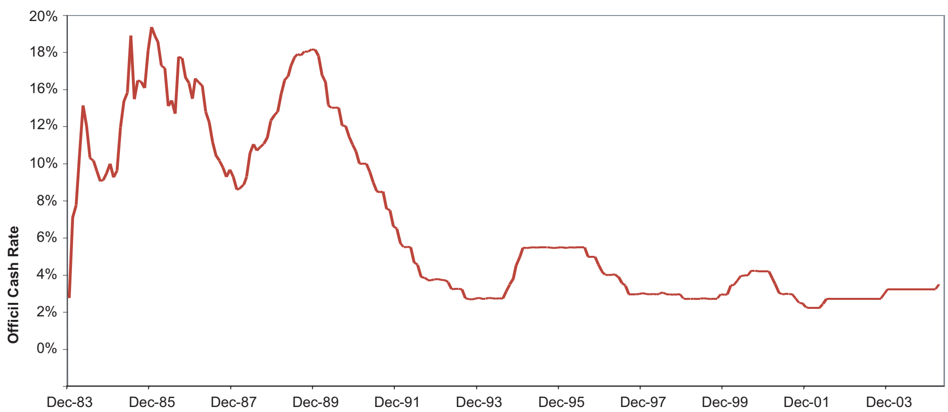
Interest rates and your investments

The Reserve Bank raised interest rates by 0.25% to 5.5% in March 2005, the first change to rates in 15 months. How does this affect your investments?

For many people, the first thing they think of when rates rise or fall is the impact it will have on their mortgage payments. If you have a variable home loan and your lending institution or bank passes on the interest rate rise, it will lead to higher repayments. Equally a reduction in interest rates, when passed on by your lending institution or bank, means a welcome fall in your repayments.

Interest rates over the past 20 years have varied widely. Chart 1 "Australian interest rates", tracks the changes of Australian interest rates from December 1983 to the present. It also highlights the high and volatile interest rates of much the 1980s and, in stark contrast, tells us that since the early 1990's interest rates have been relatively low and more stable.

Chart 1 - Australian Interest rates December 1983 - March 2005



Note: Official Cash Rate is the actual interbank overnight cash rate (or equivalent prior to July 1998) that have arisen from the Reserve Bank's market operations, measured at the end of each month.

Source: Reserve Bank of Australia.

What is the impact of rate changes?

Interest rate changes affect more than just your mortgage repayments. They may also influence the value of other financial assets, like investments across different asset classes including shares, property and fixed interest.

If you own shares in a company that has debt, an interest rate rise means they too will also have to make higher repayments. Some companies may be in a stronger and better financial position than others to cope with an increase in interest rates and the usually associated higher interest repayments. Because such differences occur between one company to another, it is felt that some companies and even different investment types, perform differently depending on whether interest rates are rising or falling.

Table 1- “Major interest rate trends” highlights the periods when interest rates were trending up or down. The table also shows the performance of different asset classes during the periods including Australian shares, listed property and Australian bonds.

Care needs to be taken not to draw conclusions too quickly on the extent of the effect of interest rate changes on investment performance. This is caused by a variety of factors that impact the performance of the different asset classes. These include the level of economic growth, the level of inflation, unemployment levels, consumer spending and confidence along with business investment and confidence, to name a few.

Interesting observations

In four of the five periods of rising interest rates since 1983, Australian shares have provided the best performance among the surveyed asset classes. In contrast, Australian shares have led performance in only one of the four periods of falling interest rates.

Both listed property and bonds have shown a tendency to perform better during falling interest rate periods than rising ones. For example, looking at the performance results for listed property over the nine periods, we can see that four of the top five periods of performance have been during periods of falling interest rates.

Is there a link between interest rates and investment performance?

Bonds and listed property tend to perform more strongly in periods of falling interest rates, however, it is not simply due to falling rates. Equally important is what the actual level of interest rates is.

While some observations can be made, interest rates are just one of many factors that impact on investment performance. It is not prudent to conclude that there is a direct link between movements in interest rates and the performance of different asset classes.

Considering the effects of interest rate changes is important, but it should not be done in isolation. It is important to be aware of and to consider other economic and market indicators when assessing and making investment decisions. In doing so it is best to contact us, so we can assist you in assessing this information as well as your own financial needs.

Table 1 - Major interest rate trends

Period / Interest Rate Range		Rate Trend	Average Annual Returns over Period		
			Shares	Property	Bonds
Dec-83 4.76%	Dec-85 19.39%	Up	20.30%	10.20%	9.30%
Dec-85 19.39%	Jan-88 10.62%	Down	15.20%	22.50%	19.70%
Jan-88 10.62	Nov-89 18.18%	Up	16.80%	7.50%	11.00%
Nov-89 18.18%	Oct-93 4.71%	Down	11.40%	14.80%	18.90%
Oct-93 4.71%	Apr-95 7.51%	Up	6.80%	4.20%	1.90%
Apr-95 7.51%	Jan-99 4.72%	Down	16.00%	15.00%	12.60%
Jan-99 4.72%	Aug-00 6.24%	Up	13.50%	3.00%	2.90%
Aug-00 6.24%	Mar-02 4.23%	Down	6.80%	12.60%	6.60%
Mar-02 4.23%	Mar-05 5.50%	Up	10.90%	15.80%	5.80%

Note: Asset class returns are based on the following indices: Shares – S&P/ASX300 Accumulation Index, Property – S&P/ASX200 Property Trusts Accumulation Index, Bonds – UBSWA Composite Bond All Maturities Index. Bolded figures represent the highest return during the specified period. Post performance is no guarantee of future performance.

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