keeping an eye on finance

focus

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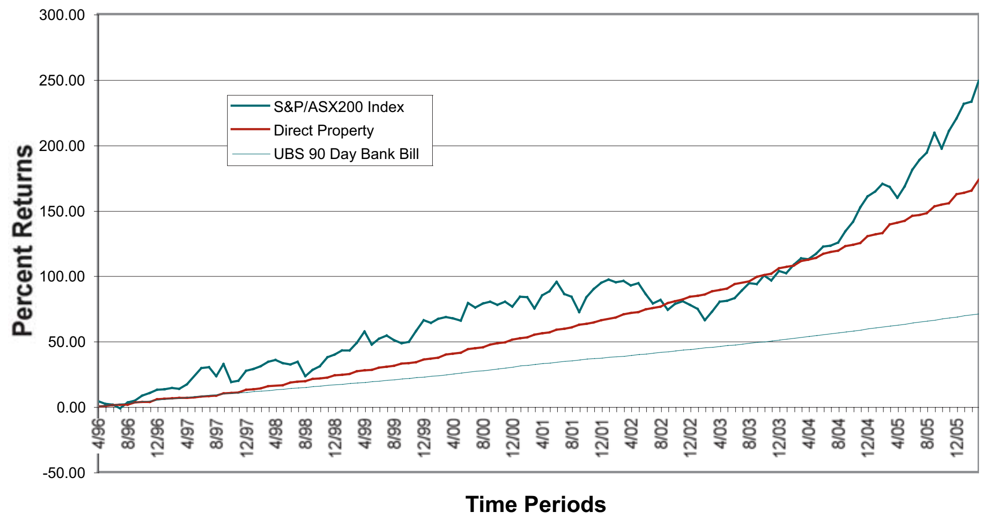
Growth–Cumulative Returns
Monthly Data: Apr 1996 - 2006



Budget snapshot

The latest Federal Budget has proposed sweeping changes to the superannuation system.

Among the major proposals, the lump sum tax on superannuation will be abolished for all Australians who are 60 years of age or older.

In addition, existing Reasonable Benefit Limits (RBL) will be removed, enabling workers to accumulate an unlimited amount of retirement savings without paying tax on excessive benefits.

The RBL had restricted super benefits to $648,946 for a lump sum and $1,300,000 for those who took at least 50 per cent of their super as an income stream.

The self employed are also big winners, with their superannuation contributions to become fully tax deductible. At the moment, the self-employed can claim a tax deduction only for the first $5000 of superannuation contributions and then 75 per cent of any contributions above that amount up to their age-based limit.

The age based limits will be dropped and all superannuation benefits made by the self-employed up to a universal limit of $50,000 would now be tax deductible. From 1 July 2007, a transition period of five years will allow a $100,000 limit for those 50 and over.

The change also allows the self-employed to be eligible for the Government's co contribution for their post tax contributions. Previously, this benefit was only available to employees.

People with assets outside of super will be able to make an additional $150,000 contribution to super, allowing transfers of share portfolios or proceeds from a property.

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Words of Wisdom

'Success is more than a good idea. It is timing too.'

- Anita Roddick, Body Shop Founder

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Singles suffer if out of action

For many single people, having insurance cover in place for their home and contents, their motor vehicle and their health are the three most important considerations when it comes to having adequate risk protection.

Unfortunately, while these insurances are all very important, considerably less thought is put into making sure that there is also insurance cover to pay for everyday living costs should they become totally and permanently disabled, or suffer a major critical illness.

Who will foot the bills?

Changes to your lifestyle, including home and mobility, can be costly to manage, and the need for long-term care is generally very expensive. So who will pay the bills if you're single?

Even if you get married, and there is more than one income earner in the household, the financial burden of losing income can be enormous. But, increasingly, many people are choosing to live single lives. In this situation, there is generally no income back-up at all if you suddenly have to stop work. For example, if you are diagnosed with a critical illness such as breast cancer or suffer a stroke, you could be left in an entirely different situation than a person with a partner.

Without a joint income, single people are more reliant on their income for debt repayments and other living costs.

Critical illness is really critical for singles

In Australia, a 35 year old male has more than twice as much chance of suffering a critical illness compared with the risk of dying[1]. If they are single, the financial effects could be substantial.

Some singles will currently find they are extremely under-insured against critical illness. Various surveys of individuals in the Australian market have shown that a high percentage of people do not have sufficient insurance in place to cover their current income, leaving them with a huge funding gap should they be forced to stop work.

The cost of assistance can be substantial

Unfortunately other income streams, such as social security, sick leave, workers' compensation and superannuation provide only a limited level of financial support.

Whether caused by ill health or an accident, disabilities are almost always unforeseen and can seriously impair your ability to function in the same way you did before. While they don't necessarily have to affect your long term enjoyment of life, they can often have an enormous financial impact.

The cost of medical assistance can be substantial, and restrictions on work and education can severely affect your capacity to earn a living.

Recently, insurance company, Aviva, has added a number of new insurance features to its products, tailored for critical illness. These include improved critical illness definitions, an option to pay out the life insurance if the policyholder becomes critically ill, and another option to pay the funeral costs as a part advanced death payment.

Aviva, in a first for Australia, has also added International SOS to its critical illness policies. This gives critically ill policyholders, who have been paid out a lump sum, access to a global service with medical experts acknowledged worldwide for their ongoing contribution to medical research from some of the world's leading medical institutions – at no extra cost.

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Two single questions that could change your life

1. Have you insured yourself for disability?

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

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

2. Have you insured yourself for critical illness?

Critical illness insurance can help you cope financially with the affect that a medical trauma, such as a stroke, can have on your life. Critical illness 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.

If you believe you may be under insured or would like to review your insurance cover, please contact your financial adviser.

1 Pricing Dread Disease Insurance 1994.Report presented to Institute of Actuaries of Australia by Edward Fabrizio and Warren K Gratton.

Single Facts

The 2001 Census revealed about one fifth of all Australians are living alone, and the Australian Bureau of Statistics predicts that in 20 years the number of single-person households will increase by up to 105%.

What's more, 9% of households have single occupants, and the average household size will drop from 2.6 to 2.3 people during the same time.

(Source: The Age, October 2005).

Tax strategies to consider

The lead-up to the end of the financial year is often a time when we start to think about effective financial and tax planning strategies, to ensure that we are well placed to take action on our personal finances before June 30.

A number of legislative changes have been introduced that are advantageous for individuals saving towards retirement as well as for those aged 55 and over aiming to scale back their working hours and supplement their income from superannuation.

Superannuation is a complex area and it is important to consult us to ensure you optimize your benefits.

Contribution splitting

The introduction of superannuation contribution splitting from July 1 this year, for contributions made from 1 January 2006, will enable couples to better manage their retirement tax positions by allowing couples to more equally distribute their superannuation benefits.

The Federal Government has effectively given more individuals of working age the ability to access tax concessions on their superannuation.

In typical working families, the primary income earner has most of the income in their name and the other parent or partner has very little or nothing. As such, the family's allowable tax concessions are not being maximised and, more importantly, they are not managing their PAYG tax position as efficiently as possible.

On retirement, the net benefit of splitting contributions early can be substantial due to:

- Both spouses maximising use of their individual tax free thresholds which means less tax on withdrawal, and greater flexibility in retirement income strategies
- Both spouses maximising use of their individual Reasonable Benefit Limits which can also increase the effectiveness of salary sacrificing. This can be particularly powerful if combined with a transition to retirement strategy. Please note that the impact of this benefit is now reduced, following the federal Budget proposal
- The smoothing of retirement income between spouses which can substantially reduce the average family income tax per dollar of income
- Maintenance of Centrelink benefits where one spouse is age pension age, while the other spouse is considerably younger

Contribution splitting can also allow better structuring of a couples insurance needs.

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Super insurance cover

The end of the financial year is also an opportune time for families to take steps to ensure both partners have adequate life insurance in place, and to ensure it is correctly structured.

Take a self employed person, for example, who would normally talk to an accountant towards the end of financial year and decide to top up superannuation to claim a personal tax deduction.

Quite often, however, the business owner's spouse – despite potentially doing work for the business and also indirectly contributing to the owner's ability to work in the first place – does not have superannuation or any life insurance cover.Before the end of the financial year, the business owner's spouse may want to consider opening up superannuation account with attached life insurance (which can be bought tax effectively through superannuation).

The money the business owner was planning to put into his or her own superannuation account could then be placed directly into a superannuation account for the partner, or redirected to the partner's super fund via contribution splitting.

Transition to retirement

While not linked specifically to the June 30 financial year end, now is an opportune time for those that are eligible (aged 55 and over) to consider the potential benefits of accessing their super via a tax effective income stream, using a transition to retirement strategy. Transition to retirement was one of the biggest legislative changes to come into effect this financial year, allowing people to maintain an income even if their work hours are reduced, or if they want to increase their super savings.

Many people reaching age 55 wish to scale down their work hours. Transition to retirement strategies enable you to use your accumulated superannuation to commence a retirement income stream to supplement their reduced salary.

Under this legislation eligible individuals can also continue to work full time, salary sacrifice more income into their superannuation, and use their accumulated super benefits to supplement their income. This can effectively mean that more is going into super than what is being taken out, while net income is being maintained at the desired level. Further, the investment earnings of a retirement income stream are tax free!

In other words, more funds at retirement without compromising your current lifestyle.

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