



# A super transition to retirement

**George Burns once said: "Retirement at 65 is ridiculous. When I was 65, I still had pimples."**

When the retirement date was first set, life expectancy for retirees was just a couple of years past 65. Of course, times have changed – life expectancy has soared and as a consequence people need more money to fund their retirement.

To encourage us to save more, the government has introduced legislation that allows more flexibility in how and when we retire. The legislation is very beneficial for pre-retirees, and if you're close to or over 55, you should find out how it affects you.

## How does it work?

If you've reached preservation age<sup>1</sup> you can now access your super (in the form of an income stream) while still at work.

An income stream is a pension payment from your super fund. To set up an income stream you'll need to purchase an allocated or complying pension – your adviser can help you choose the most appropriate option.

<sup>1</sup> The age at which you're retired and can access your benefits. It ranges between 55 and 60, depending on your date of birth.

Using the income stream to support you will give you **more options** such as:

1. You could take it easy and work part time close to retiring, and use the income stream to 'top up' your income.



2. Or you can live off the income stream and salary sacrifice much more of your salary. This option can substantially boost your retirement savings as:

- you'll pay just 15% tax on your salary sacrificed contributions, instead of your marginal tax rate; and
- you'll contribute more funds overall, resulting in a higher super balance at retirement.

## Other benefits

**Fund your own retirement** – Having more super means you're less reliant on the age pension, decreasing the risk if the pension is cut in the future.

**Eliminate Superannuation Earnings Tax** – Once your superannuation has moved to pension phase, you'll enjoy a 0% tax rate on all income and capital gains earned by your super.

**Social impact** – older Australians have valuable skills and much to contribute to the workforce.

## Super policies go hand in hand

If the transition to retirement strategy significantly raises your super balance, you could consider using super splitting (splitting your super contributions with your spouse) to help with tax and RBL issues.

## The importance of wealth advice

With wealth advice, the structure of your financial strategy can make all the difference. For example, the extra funds you'll build by using the above strategies will be in addition to any gains from the performance of your super fund.

## CONTENTS

- 30 June is too late for end of year strategies **2**  
 How much does it cost? **2** Tax-effective investments **3**  
 Protecting your wealth with risk insurance **4**  
 1990 **5** A life's share **5** News bites **6**

# 30 June is too late for end-of-year strategies – act now!

Time flies when you're having fun – or perhaps time just flies, full stop. Before you know it 30 June will be here, and June is generally too late to put end-of-financial year strategies in place. So, what can you do now to get organised?

We've designed a quick-reference of the issues that may affect you. Of course there isn't a one-size-fits-all strategy when it comes to planning your finances, so it's important you check all the information below and contact us or your accountant to find out if any of these strategies are appropriate for your specific needs and circumstances.

## The early years

1. Set up a salary sacrificing arrangement to decrease your taxable income and make the most of tax concessions within super.
2. If you or your spouse is eligible for the government's co-contribution scheme (e.g. earn less than \$58,000 p.a.) consider making a personal contribution to super.

## The retirement years

1. If you're under 65, you may still be able to contribute to super. You may wish to use super to qualify for tax deductions e.g. if you have a capital gain.
2. If you're aged 65 to 74, you can still contribute to super if you've worked 40 hours in 30 consecutive days in the current financial year.
3. If you're retired and have assets you'd like to bring within super without paying capital gains tax, ask us about the 'unsupported person rule'.

## Baby booming wealth creators

1. Interest on equity or margin loans is tax deductible, and if you borrow to purchase a rental property then maintenance costs are tax deductible too.
2. If you made a capital gain this year, consider offsetting any capital losses you've made in this or previous years.
3. Another option if you have capital gains is a tax-effective investment. For more details see the article on page 3.
4. Considering a self-managed super fund (SMSF)? Holding off until July will save you audit fees for this year end. SMSFs can also be tax-effective – contact us for more details.
5. If you want to split your super with your spouse, you should apply to the trustee of your super fund at the end of the financial year – you may also consider increasing your super contributions to maximise the benefits.



**Note:** The reduction of the super surcharge to 0% means that high earners can particularly benefit from salary sacrificing. Be aware of the maximum deductible contributions allowable per year for your age group.

## Whatever the time of year, don't forget to...

- Check that the binding nomination in your super is current (it lapses after three years).
- Make sure you've got an up-to-date will that reflects your current wishes and takes into consideration any recent changes to your family.

## How much does it cost to...

Have you ever wondered how your hard-earned cash slips so easily through your fingers? Setting up a budget can help, as the costs associated with day-to-day life can amount to more than you think – take a look at some examples below.

### Raise a family?

It costs about \$448,000 in today's dollars for the average Australian family to raise two children from birth to age 20. That means around \$310 a week, to cover transport, recreation, food, clothing and education.<sup>2</sup> *Baby bonus anyone?*

# Tax-effective investments

## *In what circumstances should you consider investing in agribusiness?*

If you have a high taxable income this year, for example if you've made a substantial capital gain, you may consider postponing your tax liabilities by investing in a tax-effective agribusiness project. Agribusiness is simply the business of growing commodities such as nuts and timber. When the project matures, the harvest proceeds are paid to investors. Tax is still liable on this return, however depending on the timeframe of the harvest (timber may not be harvested for 20 years!); the income is often received many years down the track, when your taxable income may be lower, e.g. after retirement.

However, although the offer of a tax deduction never goes astray, a far more important part of your investment strategy is building wealth, taking into account your individual needs and objectives.

So, you must consider the **quality** of the agribusiness project **and whether this type of investment suits you!**

For example, agribusiness investments can offer higher returns but they are generally riskier or more "aggressive" than traditional investments, and are therefore only suitable for investors with a growth or high growth profile. You must also be comfortable with the long-term nature of the projects (you won't have access to your investment until the project ends), and accept variable returns/losses if market prices change. It's also important that you diversify your portfolio so that you don't rely on the income generated by the harvest proceeds.



### **Business owners and self-employed**

- Defer income due in June to July, if you think your income will be less next financial year.
- Pre-pay next year's expenses if you expect income to be lower next year.
- Make a personal contribution to your super fund to reduce your assessable income (you'll need to receive less than 10% of your income from eligible salaried employment). You can potentially claim the first \$5,000 as a tax deduction and 75% of the remainder, up to your age-based limit.

### **The mortgage and family years**

1. Take out an income protection policy as it's fully tax-deductible.
2. Review the structure of your insurance e.g. life insurance may be deductible if it's held within your super fund.
3. If your spouse earns less than \$13,800 per year, making a spouse contribution to super may mean you qualify for a tax rebate.
4. If you've had a pay rise recently, consider reducing your income below the next tax bracket e.g. by salary packaging a car or salary sacrificing to super.

### **The pre-retirement years**

1. If you're retiring next year, deferring any investment income or capital gains until after you've retired (when you may have a lower marginal tax rate) may be worthwhile. You could also consider prepaying any tax-deductible interest on investment loans to fall in the current financial year.
2. If you've reached preservation age, consider a transition to retirement strategy. This means commencing an income stream from your pension, and changing your salary sacrificing arrangements – see page 1 for more details.

## **Take on a mortgage?**

In 2004 the average home mortgage was worth about 4.2 years of a person's full-time wages – compared to 2.8 years of wages in 1994.<sup>3</sup>

## **Own a dog?**

Initial costs may vary between \$1,115 for a loveable mutt and \$1,935 for a pure breed. This includes buying the dog, micro-chipping, vet fees and set-up costs such as a kennel. Ongoing costs are about \$513 a year for food, doggy insurance, etc.<sup>4</sup>

## **Take an Aussie holiday**

Piling the kids in the car and setting off for the beach symbolises the typical holiday for many Australians. And while the introduction of cheap flights may have changed the way we get there, domestic holidays remain popular – households spend an average of \$16 a week, or \$832 a year on transport and accommodation in Australia.<sup>5</sup>

# Protecting your wealth with risk insurance

## Part 4: Income protection insurance

If your lifestyle is dependent on your ability to work, an extended absence through sickness or injury could be devastating to you and those dependent on you. Income protection insurance can replace the insured proportion of your earnings, thus giving you peace of mind that you're covered in an emergency.

### A more flexible insurance arrangement

Some policies offer extra benefits including inflation-linked claim payments, protection for your superannuation contributions or additional payments if you are severely ill or injured. Alternatively, more basic cover is available that provides quality protection but only in the core benefit areas.

Benefit payments usually do not start immediately – an excess or waiting period will apply. Also, benefit payments only continue while you are unable to work or until the expiry of your benefit payment period. Your adviser will be able to help you find the most suitable policy structure.

### How do you get income protection insurance?

Cover can be accessed through a range of companies on our recommended list but policies differ so, again, you need to speak to your adviser to find the one that's most suitable for you.

### Tax-effective insurance

Premiums for income protection policies have the benefit of being **fully tax deductible** – a great way to protect yourself and reduce tax. But hurry, to gain a deduction this financial year you must act before 30 June.

## A case for business expenses insurance

Mark is a self-employed electrician with eight full-time staff. When Mark suffered a knee injury in a soccer match and required corrective surgery, he knew he wouldn't be able to perform his usual job. However, Mark was keen to keep an eye on things, and I keep the business running smoothly. Luckily, Mark had an income protection policy, and I he'd specifically selected an 'hours-based' definition. This allowed him to work up to 10 hours per week – as long as he was unable to perform the usual income-producing tasks of an electrician. For Mark, this meant he could call into his business for an hour each day to allocate jobs, organise quotes and check invoices, without affecting his benefit payment. After the waiting period, Mark received the full benefits available under his policy while he recovered from his injury.

## What are the alternatives?

Is this insurance you **HAVE to have**? It's up to you of course, but consider some of the alternatives:

**Family assistance** – You could rely on family or friends to help you but they're likely to have their own financial obligations, and this may needlessly strain your relationship.

**Savings** – You could use savings in the short term to support yourself, but problems arise if your savings are not readily accessible or your incapacity is long term.

**Employer** – You may be a valuable employee but your employer is unlikely to be able to continue paying you **and** find, train and pay your replacement.

**Benefits** – Workers' compensation may help if your injury or sickness is work-related. Or social security may be available, if you meet the means-tested eligibility criteria. In both cases, the benefit levels are unlikely to meet your needs.



## Take a space trip?

US businessman Dennis Tito became the world's first space tourist on 28 April, 2001 by paying to travel to the International Space Station on board a Russian space rocket. Okay, so space travel may be a bit beyond your reach... in late 2005 a ticket for space travel cost \$US20 million (around \$A26 million!).<sup>6</sup>

<sup>2</sup> AMP.NATSEM Income and Wealth Report "All they need is love and around \$450,000" Oct 2002

<sup>3</sup> As above

<sup>4</sup> <http://seven.com.au/sunrise>

<sup>5</sup> Australian Bureau of Statistics, 8634.0 – Tourism Indicators.

<sup>6</sup> [www.theage.com.au](http://www.theage.com.au)

# 1990

Let's take a step back in time to the year the World Wide Web was officially created. Like many technological advances, a series of discoveries led to the Internet we know today, but the technology's eventual champion was Tim Berners-Lee. In 1990 Berners-Lee wrote a program entitled World Wide Web, which comprised of a hypertext browser and editor. Now, his World Wide Web is a term that's interchangeable with the Internet, and it's imprinted on just about every web address...www.

Of course 1990 wasn't just about entering cyberspace – many events in that year received much more attention, such as:



- The reunification of East and West Germany after the fall of the Berlin Wall in 1989
- Nelson Mandela's liberation
- The collapse of the Soviet Union
- George Bush Senior and Mikhail Gorbachev's treaty to end chemical weapon production (Gorbachev also won the Nobel Peace Prize in 1990)
- Margaret Thatcher's resignation
- The Gulf War
- The first female president of the Republic of Ireland – Mary Robinson

It was also the year that Channel Tunnel workers from the UK and France met beneath the sea bed to link the UK and Europe. But perhaps one of the most important events of 1990 (as far as some people were concerned!) was that the Royal New Zealand Navy discontinued its daily rum ration.

## A life's share

Choosing shares and managed funds can be difficult and the prospect of investing in international shares scares off some people. But when you consider your daily life, balancing your portfolio with international exposure might not be such a bad idea!

Do you use or own any of the following?

Product	Manufacturer	Country of origin
<b>Mobile phone</b>	Nokia	Finland
	Sony Ericsson	Sweden
	Motorola	USA
<b>Computers</b>	IBM	USA
	Toshiba	USA
	Hewlett Packard	USA
	Apple Macintosh	USA

Product	Manufacturer	Country of origin
<b>Software</b>	Microsoft	USA
	MYOB	Australia
	Adobe	USA
<b>Cars</b>	Honda	Japan
	Toyota	Japan
	Ford	USA
	BMW	Germany

*You're likely to have answered 'yes' to at least one of the above items. We use international products every day and investing in global shares (e.g. through a managed fund) is one way of getting back some of what you put in.*

### Diversify, diversify, diversify

It may be our catch-cry, but diversification is crucial to wealth management because it helps you spread investment risk. If you currently have an investment property and some Australian shares (or managed funds that invest in Aussie shares), then accessing global shares via a managed fund could be the next logical step. While international shares haven't performed as well as Australian shares recently, they still offer benefits such as access to a larger share of the global share market (Australia accounts for only 2.22 per cent<sup>7</sup> of the market) and access to specialised and/or highly profitable industries (e.g. computers – look at all those US manufacturers!).



### The market

Many fund managers and researchers are also looking to the global share market for potential growth. A recent survey by asset manager Russell found two-thirds of local fund managers were positive about international equities over the next 12 months and most thought international shares would outperform property trusts, Australian equities and bonds in 2006<sup>8</sup>.

<sup>7</sup> As at 3 February 2006, Standard & Poor's Broad Market Index

<sup>8</sup> Russell Investment Manager Outlook, December 2005

# News bites

## UK pensions change

Did you or a friend/family member leave a personal or company pension in the UK?



You should know that important UK legislative changes restricting your entitlements will be introduced in April 2006. If you choose to act now you may be able to maintain your current levels of control and flexibility. However, you should evaluate what benefits your UK pension gives you, if you're thinking of transferring your funds. For more information contact your adviser.

## Soccer World Cup

Australians have gone soccer mad in the lead up to the World Cup in Germany 2006, with around 100,000 Australians applying for just 8,500 tickets. This pales in comparison to the number of people worldwide who applied for the latest round of FIFA tickets – six million applications for just 250,000 tickets!



## Lethal bites

Australians are a tough lot. Not only do we have 100 kinds of poisonous snakes – but around a dozen are the most poisonous in the world, and around 3,000 Australians are bitten by snakes each year. Australia also hosts the box jellyfish, the most venomous marine creature on the planet, which has killed almost 70 Australians in the past 120 years. To say nothing of the 40 poisonous species of funnel web spiders, or the beautiful blue-ringed octopus, which has a deadly bite and no known cure. The good news is that researchers are continuously developing new antivenoms. The bad news? This practice is highly risky as it often involves 'milking' snakes and spiders to extract the venom for study.



## Tokyo heights

After 14 years of being the most expensive city on earth, Tokyo has been relegated to merely the second-most expensive. The latest worldwide cost of living survey published by *The Economist*, states that Oslo is the new number one, with Reykjavik third and Osaka and Paris equal fourth. The survey compares the price of goods and services from over 130 cities.

## Facts and figures

Computers have become the most relied upon technology in the world, and Australia has certainly joined the high-tech revolution, as you can see from the facts and stats below.

In 2004/05, 67% of Australian households had a computer, and 56% had home Internet access.

Travel, accommodation and tickets of any kind were the most popular products purchased over the Internet in Australia in 2004/05.

93% of consumers worldwide use search engines to find information (to search for key words in the billions of websites that make up the World Wide Web).



The four most popular search engines in Australia are Google, Yahoo, nineMSN search and Sensis.

Sources: [www.abs.gov.au/Ausstats](http://www.abs.gov.au/Ausstats)  
[www.ecommerce.treasury.gov.au](http://www.ecommerce.treasury.gov.au)  
[www.e-channel.com.au](http://www.e-channel.com.au)



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