



VOLUME 1, 2008

Easing the June 30 blues...

June 30. It's enough to strike fear into the hearts of many, and while it comes around at the same time every year, much like Christmas it always seems to creep up on us and have us rushing around in a mad panic.

So, what can you do to be organised early, and make the most of the available opportunities to have a happy new financial year? June 30 is usually too late to put end of financial year strategies in place and with all the sweeping changes to the superannuation and taxation system over the last 18 months, making sure you implement strategies now may help you in this and subsequent financial years and with your overall wealth creation.

Superannuation

Salary sacrificing: With the changes to the tax brackets from July 2007 and again from July 2008, there may be an opportunity to review your arrangements before the end of the tax year, and possibly salary sacrifice to super. To salary sacrifice you reduce (sacrifice) an amount of your gross salary in return for your employer contributing the sacrificed amount to super. You reduce your taxable income and increase your wealth creation via superannuation.

Superannuation Guarantee (SG) Earnings Base: From 1 July 2008 the earnings base on which Super Guarantee contributions

are calculated by your employer will be standardised. Check with your employer if your earnings base for SG may change and if this may create an opportunity to review the amount you contribute to superannuation.



Spouse Rebate: If your spouse is eligible you may make contributions to super on their behalf and receive a rebate of up to \$540 where assessable income plus reportable fringe benefits are less than \$10,800. The rebate reduces to Nil for assessable income plus reportable fringe benefits of \$13,800 or more. The contribution counts toward your spouse's non-concessional contribution cap.

Co-contribution: If you or your spouse is eligible for the government's co-contribution scheme (e.g. earn less than \$58,980 p.a.) consider making a personal contribution to super.

Long term wealth creation outside super

Agribusiness: While the aim of all investments is to build and protect your wealth, some investments have the added bonus of being tax effective as well. Agribusiness is one investment that may provide diversification from other asset classes in your portfolio, as well as being a tax-effective investment. It is a long term investment with limited or no liquidity before the end of the investment term. With careful selection of good quality agricultural investments you can grow your long term wealth creation portfolio outside superannuation. The 2007/08 financial year is the last year that you can receive an upfront tax deduction for non-timber projects. These may include viticulture, grain and fruit/nuts. Timber projects also provide opportunity for diversifying exposure in the agriculture sector.

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Easing the June 30 blues...

Business owners/self-employed

If you think your income next financial year will be less, consider deferring income due in June to July.

Pre-pay next year's expenses if you expect income to be lower next year.

From 1 July 2007, making a personal contribution to super is a lot more attractive; you'll be able to claim a full tax deduction for contributions made to super, up to the contribution limit of \$50,000 p.a. or \$100,000 p.a. for the first five years if you're aged 50 or older.

Mortgage and family years

Income protection: Protect your income and your capacity to pay your mortgage and debts if you are unable to work due to illness/accident and take out an income protection policy as it's fully tax deductible.

Prepaying interest: If you have a loan where the interest is tax deductible you may be able to prepay the next 12 months interest and claim the deduction in this tax year.

Insurance in super: Consider whether you can have your death and TPD cover via your super fund, and have the premium paid as part of your super contributions (and part of the contribution cap). This is cost and tax effective.

Pre-retirees and retirees

Transition to retirement allows people who are still in the workforce to access their super in the form of an income stream once they reach preservation age¹.

The Government has recently made changes to transition to retirement rules, and if you're still working but are looking to retire in the next few years, income streams have now become a lot more attractive.

Individuals aged over 55 and still working could consider starting a non-commutable income stream to supplement their income and at the same time, contribute back to super.

Pension income for those aged between 55 and 60 will remain taxable, but with tax offsets of 15% available to reduce any tax payable. For those over 60, the income will be completely tax free. In the past, pension income needed to be added onto other income, potentially resulting in more tax to be paid.

You may be able to receive a part pension for this financial year and in the process partially reduce this year's taxable income. In subsequent years you may receive the full benefit of this strategy in reduced taxable income and increased capacity to grow your wealth.

For more information on how we might be able to help you ease the June 30 blues, contact our office to make an appointment.

¹ Preservation age is the age at which you can be classified as retired and access your benefits. It ranges from 55 to 60, depending on your date of birth.



Weathering share market volatility

The Australian share market has enjoyed 'bull' market conditions, delivering double digit returns over five calendar years to December 2007¹. However, after nearly five years of great returns, the share market has had its ups and downs over the last few months.

Volatility in share markets is not a new phenomenon. Factors such as a change in interest rates, economic growth figures, oil and energy prices, political instability and the rise or fall of our dollar can all cause share prices to rise and fall dramatically.

Over the last few months, concern about the US sub-prime mortgage market, fears of a US recession, the rising value of our dollar, rising interest rates and other factors have all had an effect on the share market. However, it's important to remember that,

despite any short term volatility, a diversified investment portfolio is an important element of a sound long-term investment strategy.

Many people may be tempted to move their money out of the share market during times of volatility or weakness. However markets move in cycles, and peaks and troughs are an intrinsic part of investing. While the cycle is unpredictable, history has shown that recoveries can follow downturns, and vice versa. If you move out of the market, then you won't be there for any recovery.

Protect the jewel in the crown

The typical Australian has a 40 year working life, and will earn more than \$2.2 million over this period¹. Worryingly, it is lost or more during their working life².

Income protection (IP) insurance – also sometimes called salary continuance insurance – is a regular payment made to you should you become disabled or too sick to perform your normal occupation.

IP insurance is most appropriate for the self-employed, those who primarily earn commission on sales and for people with limited sick leave provisions under their employment.

Any benefit from an IP policy is assessable at your marginal rate of tax, and premiums are fully deductible.

If you are considering any type of risk insurance, you may have to decide whether or not the policy should be funded through superannuation. Most types of risk insurance can be funded through super, including income protection insurance.

From 28 March 2007, the Australian Taxation Office (ATO) determined that trustees of superannuation funds can claim a tax deduction for income protection premiums that provide a benefit up to age 65 (previously deductions on income protection premiums were limited to a two year benefit period). This means that holding an IP policy through super is more attractive than it was previously, but it is important to look at your entire financial decision before making a decision about where it should be held.

Let's examine three options for a person with an income protection policy and benefit period to age 65. We'll consider structuring the policy in three ways:



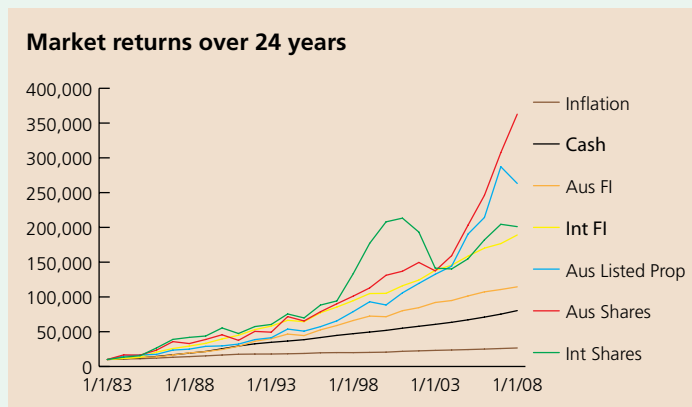
- holding the policy inside super with salary sacrifice;
- holding the policy inside super without salary sacrifice; and
- holding the policy outside super.

Richard is a 40 year old, self-employed accountant and non-smoker, earning \$100,000 p.a. He doesn't have any other deductions this financial year, and has private health insurance.

After assessing Richard's needs, it is determined that he should have an income protection policy with stepped premium, 30 day waiting period and benefits paid to age 65.

Markets move in cycles

The long-term performance of the share market has shown us that the market tends to recover. The below graph shows returns for the major asset classes over the last 24 years – International Shares, Australian Shares and Australian Listed Property. Despite several crashes, the market historically recovered. As you can see, investing in world markets, although volatile, can be rewarding over the long term.



Time in the markets, not 'timing the markets'

It's impossible to predict the 'big days' so staying invested means you capture the full benefits of the share market over the long term. Your returns might be down one month, but by withdrawing from the market during downturns you run the risk of magnifying losses and not participating in any potential future recoveries. Patience can have its rewards!

Diversification reduces risk

Because it's impossible to predict market movements, one way to manage risk is to maintain a diversified portfolio. A diversified portfolio spreads your investments across a number of different asset types. Diversifying your portfolio appropriately can help prevent the value of your portfolio from being dependent on the performance of a single asset type. For example since it is unlikely that all asset classes will fall in value at the same time, a fall in the value of one investment may be offset by gains in the value of another. The following table shows some of the ways you can diversify your investments:

own – your ability to earn

estimated that one in three Australians will be off work due to illness or injury for a continuous period of three months

	Insurance in super (salary sacrifice)	Insurance in super (no salary sacrifice)	Insurance outside super
Gross salary	\$100,000	\$100,000	\$100,000
Salary sacrifice	\$2,000	Nil	Nil
Super guarantee contribution salary	\$98,000	\$100,000	\$100,000
9% super guarantee contribution	\$8,820	\$9,000	\$9,000
IP policy premium	(\$2,000)	(\$2,000)	Nil
Contributions tax (15%)	(\$1,323)	(\$1,050)	(\$1,350)
Net contribution to super (A)	\$7,497	\$5,950	\$7,650
Net salary	\$98,000	\$100,000	\$100,000
IP insurance	Nil	Nil	\$2,000
Tax paid	(\$27,050)	(\$27,050)	(\$27,050)
Medicare levy	(\$1,470)	(\$1,500)	(\$1,470)
Total cash in hand (B)	\$69,480	\$70,650	\$69,480
Net benefit (A+B)	\$76,977	\$76,600	\$77,130

Note: All calculations are based on 2006/07 taxation rates, and 'Insurance in super' is via a self-managed super fund.

1 Australian Bureau of Statistics – 6302.0 – Average weekly earnings, Australia, November 2006

2 Institute of Actuaries (2000)

From the previous options, we are able to see that there are differences in the amount of money available to be invested via super, and the amount of money that Richard has 'cash in hand'. In this example, Richard is better off holding his IP insurance policy outside of super.

There can often be a perception that life insurance companies don't pay out on claims, or make it difficult for the policy owner to receive a benefit. In the majority of circumstances, benefits are paid out, with around 98% of life claims and 90% of income protection claims being paid out. It is also estimated that in the past 12 months, in excess of \$2 billion of claim benefits have been paid out³.



³ The Risk Store

Type of diversification	How?
Across asset classes	Include a range of asset classes in your portfolio. For example, your investment portfolio may contain shares, property, fixed interest and some bullion.
Within an asset class	Within Australian shares for example, you may buy shares in companies that operate in different industries such as mining, retail, banking and biotechnology.
Across countries	Reduce your exposure to a single country or region. You may wish to have investments in Australia, the US, Europe, Asia and other regions.

Start early, save often

You don't need a lot of money to begin investing. By making small regular contributions over time, you might be surprised by how quickly your investments accumulate; the sooner you start the better. Setting up a regular savings plan is a convenient way of investing and can help take the guesswork out of trying to find the 'right' time to make an investment. Investing the same dollar amount at regular intervals can help smooth out ups and downs.

There's no doubt that building wealth requires time, patience, and above all, expertise. In times of market volatility, it can be difficult to remain calm and weather the storm. Throughout any market cycle, those people who hold their nerve, who remain focused on their long term goals and resist making snap decisions, are likely to weather the storm best. As your wealth advisers, we have access to high quality investment and economic research, making us well-placed to build, manage and protect your wealth and ride out any periods of volatility.

Source: Morningstar/IFSA: Getting the edge with managed funds: Four lessons from the market, December 2007

¹ Van Eyk iRate 2008

One year on: *Simpler Super*

This time last year we were counting down to June 30 and the raft of changes to superannuation legislation that were coming into effect on 1 July 2007. One year on, and *Simpler Super* seems to have been well received by most Australians; with the end of the financial year fast approaching, we thought it was a timely reminder of how the new rules might affect you.

Contribution caps

The new super rules included caps on the amount of contributions you can make to super. Any contributions in excess of the caps are subject to extra tax, so it's important that you keep records of all your contributions (both concessional and non-concessional) to avoid inadvertently exceeding the cap.

Concessional contributions

Concessional contributions are generally made by your employer (for example, the 9% superannuation guarantee contribution), or are contributions made by you for which you claim a personal tax deduction.

The concessional cap for this financial year (2007/08) is \$50,000 per person.

Transitional arrangements are in place until 30 June 2012 for those aged over 50. So, if you are aged 50 or more during the transitional period, your concessional cap is \$100,000 for that financial year. This cap will not be indexed over the transitional period.

Non-concessional contributions

Non-concessional contributions generally include contributions made by you or on your behalf (i.e. by your spouse), for which you cannot claim a personal tax deduction.

The non-concessional contributions cap this financial year (2007/08) is \$150,000 per person. If you are under age 65, you are able to 'bring forward' two years of non-concessional contributions, which would allow you to contribute \$450,000 over a three year period. The 'bring forward' rule is triggered automatically as soon as you exceed the \$150,000 annual cap.

With caps on the amount you can contribute to super, it's important to plan your retirement early – especially with non-



concessional contributions where there is no longer the opportunity to 'dump' an unlimited amount into super just prior to retirement.

As you approach age 65, planning will enable you to maximise contributions to super, which is especially important if you have a large pool of assets outside of super.

Excess contributions

You will be liable to pay excess contributions tax if you exceed either of these contribution caps. The tax rate payable will depend on which cap is exceeded.

For concessional contributions, tax is payable at 31.5%. For non-concessional contributions, tax is payable at 46.5%

If you exceed both caps in one financial year, you could end up paying a tax rate of up to 93%, so it's critical that you keep records of contributions to avoid exceeding the caps.

Super co-contributions

As in previous years, the Government co-contribution is available for lower income earners to boost their retirement savings. If you earn less than \$58,980 p.a., make non-concessional contributions to super and meet other eligibility criteria, the Government will make an additional contribution on your behalf at the rate of \$1.50 for every \$1 you put in, up to a maximum of \$1,500. If you earn between \$28,980, and \$58,980, the Government will contribute an adjusted amount.

If your own salary is above the threshold, consider boosting the super of someone in the family who works part time such as your spouse or child, but remember to track any contributions to avoid exceeding the contributions caps.

25 years ago

The 1980s are well known (and often ridiculed) for the popular culture of the time such as the over-the-top fashion, big hair styles and the commercialisation of music and film.

Let's take a look at some of the events that shaped 1983...

- The Personal Computer was the first non-human to be announced as Person of the Year by Time Magazine.
- Malcolm Fraser is granted a double dissolution of both houses of parliament for elections that year. Bob Hawke becomes leader of the Australian Labor Party, and is later elected as Prime Minister of Australia.
- Michael Jackson thrills the audience of Motown 25: Yesterday, Today, Forever, dancing and singing Billie Jean, and performing the moonwalk for the first time.
- Margaret Thatcher, Prime Minister of the UK wins a landslide election.

- The High Court blocks construction of the Franklin Dam in Tasmania.
- The Ash Wednesday bushfires in Victoria and South Australia claim the lives of 76 people.
- The first Nintendo Entertainment System goes on sale in Japan.
- Dick Smith completes his solo circumnavigation of the globe in a helicopter.
- Six men walk underwater across Sydney Harbour – taking 48 hours to cover 82.9 kilometres.
- Australia wins the America's Cup.
- Microsoft Word is first released.
- The Australian Dollar is floated.
- Flashdance and Return of the Jedi are box-office hits, and the final episode of M*A*S*H was watched by a record 105.9 million viewers in the US.
- McDonald's introduces the McNugget.



News bites



Rising education costs

Think the kids are costing you more and more as time goes on? You could be right. The latest figures from the Australian Bureau of Statistics show that the education segment of the Consumer Price Index was more than double the inflation rate the last year.

The Australian Scholarship Group (ASG) encourages working out how much a child's education is likely to cost as early as possible and starting a disciplined savings program.

According to ASG, in 2008 parents can expect to pay between \$2,662 and \$6,952 a year for a child's pre-school education; between \$5,317 and \$12,561 a year for primary school education; and between \$5,618 and \$21,112 a year for secondary school education, depending on whether they choose government or private schooling.

Source: Money Management, Education costs double inflation rate, 10 January 2008

Aussies leading the way

Australians lead the world in terms of investment in managed funds, according to a recent study. The AFG Global Funds Management Index showed that at the end of June 2007, Australians had an average of \$63,794 per person invested in managed funds, compared with \$43,458 in the US, \$37,451 in France and \$24,567 in Sweden¹. The managed funds industry is booming, with almost 9,500 funds operating in early 2007². The Australian Bureau of Statistics reported that as at December 2006, Australians had a total of almost \$1,100 billion invested in them; an increase of 15% on the previous year.



Source:

1. Money Management, Australians continue to embrace managed funds, 31 January 2008;
2. Making Money: The keys to financial success, Penguin Group, 2007

Helping hand towards the 'great Australian dream'

November 2007 saw a new government take power for the first time in 11 years, and the election campaign saw a number of announcements and promises made. While none of these have been legislated yet, probably one of the most interesting, and one likely to get the green light, was Labor's plan to introduce a 'First Home Saver Account' (FHSA) to try and tackle the housing affordability issue currently facing many Australians.

Labor has proposed the FHSA will be available to people over 18 who meet the eligibility criteria for the First Home Owner's Grant. The FHSA will resemble a superannuation style account, although it will operate independently of any super account a person may have. Under the proposal, up to \$10,000 p.a. may be contributed to the account, with a maximum of \$5,000 being contributed from pre-tax income. This would operate like a superannuation salary sacrifice arrangement with 15% tax deducted from these contributions. The remaining \$5,000 could be contributed by the individual from after-tax income, or from a third party i.e. parents or grandparents.



Earnings in the account would be taxed, like super, at 15%. The maximum level of deposits or contributions that can be made into a FHSA is \$50,000, and the minimum timeframe for operation of the account is four qualifying years, with a minimum initial deposit of \$1,000. Withdrawals from the FHSA will only be permitted after the four year qualifying period, and only where the amount is used towards the purchase of a first home.

The First Home Saver Account is designed to introduce a disciplined approach to savings with a specific goal in mind. It aims to take the guesswork out of when and how to start saving a deposit, and maximising it to reduce the need for mortgage insurance and the impact of potential interest rate increases. While this is still only a proposal and has not yet been legislated, the introduction of a home saver account along these lines could help Australians on the path to the 'great Australian dream' of owning their own home.

Source: ASGARD Capital Management, Election brief: What does it mean? 28 November 2007



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