

# Money Matters

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Winter Edition 2012

Welcome to the Winter 2012 edition of our Money Matters Newsletter. We have included articles covering investment market movements, a tax update, Centrelink update, Investment management and the review process. Information and advice contained herein is of a GENERAL nature only. Any person seeking personal advice should make a time to meet with one of our Financial Planners.

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With 30 June fast approaching, remember to get in early in the new year to see Mal at our office for individual taxation return preparation. Mal acts as an Agent for the Nugents Group of Accountants.

## FEDERAL BUDGET 2012

Federal Treasurer Wayne Swan delivered his 2012/13 budget statement on May 8<sup>th</sup>. The main features of the 2012 Budget were as follows:

- A reduction in the allowable concessional contribution amount to superannuation from \$50,000 to \$25,000 for people aged 50 and over as of 1 July 2012. This means that anyone aged over 50 will need to review their salary sacrifice arrangements from 1 July to ensure they do not breach the new threshold. Clients should remember that the new \$25,000 threshold also includes their 9% super guarantee, which means someone earning say \$100,000 per year can now only salary sacrifice to super \$16,000 per year, in addition to their 9% Super Guarantee, where as previously they could have salary sacrificed \$41,000 per year additional.
- A reduction from 13 weeks to 6 weeks in the amount of time a non-Age Pension Centrelink recipient can go overseas before their benefits are reduced.
- Confirmation that the 25% reduction in the allowable minimum Allocated Pension drawdown rate will continue for 2012/13 (ie: people aged 65 to 74 can continue to drawdown 3.75% instead of the standard rate of 5%).
- The Superannuation contributions tax to increase from 15% to 30% for people who have annual income of \$300,000 or more as of 1 July 2012. While this is a doubling of the contributions tax rate for people earning \$300,000 plus it is still less than the 46.5% rate that would be paid if the money was paid directly and not into superannuation.
- The removal of the 30% Private Health Insurance premium rebate for families earning over \$150,000 and singles earning over \$84,000. To combat this we recommend that clients who may lose their rebate pre-pay their 2012/13 premiums prior to 1/7/12.

## TAXATION UPDATE

As of 1 July 2012 the tax free threshold will increase from \$6,000 to \$18,200. This will provide a tax saving to all tax payers, significantly for those earning less than \$50,000 per year. Clients aged 55 to 59 who receive payments from an Allocated Pension may find that as a result of this their Allocated Pension payments are no longer taxable. These tax reductions have been put in place due to the Carbon tax that will apply to many goods and services as of 1 July 2012.

Pensioners and Self-Funded Retirees should also have received a one off lump sum payment of \$250 for singles and \$380 for couples to assist with the introduction of the Carbon tax.

The flood levy that applies to people earning \$50,000 or more will also be ending as of 30 June 2012. However the plan to enable taxpayers to claim a standard deduction when completing their tax returns has been dropped, as has the proposed 50% discount on the first \$500 of interest income.

## MARKET REVIEW



The Australian share market looked like it was well on the way to a good recovery in 2012 with the All Ordinaries index rising 8.6% to the end of April. However in May 2012 the uncertainties over the economic conditions in Greece and the rest of Europe caused a downfall in the share market, with the All Ordinaries Index dropping 7.5% by 31 May. For the 12 months to 31 May the All Ordinaries Index was down 13.7%. The US share market experienced a similar downfall with the Dow Jones index falling 6.2% in May 2012, though for the 12 months to 31 May the Dow Jones was only down 1.4%. At the same time the Australian Dollar fell 6.7% against the US dollar. All of this was despite a lowering of interest rates by the RBA on 1 May by 50 basis points (from 4.25% to 3.75%). A resolution of the political and economic situation in Greece, will stop the continuing downfall in our market and our dollar. Early June has seen a further reduction in interest rates by the RBA, and a recovery from some of the heavy falls suffered in May. While the immediate future is not foreseeable, Australian shares remain undervalued compared to global markets and once the catalyst for a strong turn around has been realized, it is anticipated that Australian shares will take off in the right direction. In the meantime it is important to make sure you maintain an investment allocation that meets your relevant investor profile. If you are no longer sure that your investor profile is suitable to you, please make a time to see your financial adviser to discuss this matter.

*“Investing without sound advice is like flying blind”.*



## INVESTMENT CHANGES



Most clients will have recently received paperwork regarding recommended changes to some investments. We have recommended moving out of Global Resources Funds into Global Infrastructure Funds. Due to the market volatility of the past 12 months the Global Resources sector has seen poor returns and we do not anticipate that they will recover any time soon. The Global Infrastructure sector is much less volatile and has the benefit of investing in solid assets such as airports, toll roads, railways, communications and utilities such as gas and electricity.

With the volatility of the Australian dollar, and a potential strengthening in the US dollar, we have also recommended an alteration to our practice of only recommending Global Share Investments that are hedged against the Australian dollar. For the time being we are recommending a 50% move out of Hedged Global Shares to Un-Hedged Global shares to help reduce the impact of a falling Australian dollar on Global share investments. Essentially this is a risk management strategy to neutralize the impact of the movement in currency. We will review this recommendation if we see the Australian dollar begin to move up again against the US dollar.

## UPDATING CENTRLEINK

Clients who receive an Age Pension entitlement will be aware that every few months they will receive a Statement from Centrelink detailing their income and assets. If we are your nominee for Centrelink we will also receive a copy of this Statement. As your nominee we will keep Centrelink updated on those income streams and financial assets that we manage for you (ie: annuities, allocated pensions and managed funds). However we are reliant upon you to update us on those items that we do not manage for you (such as bank accounts, shares, super pensions). We therefore ask that you contact us and update us on any significant changes in these items when you receive your copy of your Centrelink statement.

## INCREASING THE SUPER GUARANTEE RATE (SGC)

The government has increased the rate of Superannuation Guarantee from 9% to an eventual rate of 12% to gradually take effect from 1 July 2013. The rate will increase as follows:

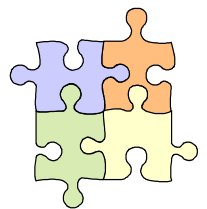
2012/13	9.00%	2016/17	10.50%
2013/14	9.25%	2017/18	11.00%
2014/15	9.50%	2018/19	11.50%
2015/16	10.00%	2019/20	12.00%

While people will have to ensure they do not breach their allowable contribution cap of \$25,000, it is expected that this threshold will be increased between now and 2019.



## HOW WE MANAGE YOUR MONEY

As you can imagine with several hundred clients it would be impossible for us to directly review everyone's individual account on a monthly basis. This is why we have our client investor profiles and the corresponding model portfolios for those profiles. We have twelve model portfolios (six accumulation models and six pension models). We review these models and the funds that are in them on at least a monthly basis. This way your account is being reviewed on a monthly basis via the review of the model portfolio you are invested in. The asset allocation in these models is based on long term investment strategies in line with your investor profile, with money allocated to cash & fixed interest to help keep the account stable while the money allocated to shares (both Australian and international) will fluctuate in value but has a long-term growth outlook. Even though we may occasionally change the investments in our models, we do not change the asset allocation. If a client is concerned about their asset allocation then the best thing to do would be to change their investor profile. If you wish to do this, please make a time to see your adviser to discuss this matter in greater detail.



## SUPERANNUATION FUND RETURNS

There is a common mis-conception, perpetuated by the media, that "all superannuation accounts are directly linked to the share market and therefore all share market returns, or losses, impact all superannuation funds." While share market returns do have an impact on superannuation accounts, that impact is only as significant as the amount of exposure your superannuation account has to the share market, in line with your investor profile. For the 12 months to 31 May 2012 the share market returned -13.7%. A Balanced/Defensive superannuation account with 50% in cash & fixed interest and 50% in shares will have returned around 1% over the same time frame, outperforming the share market by 14.7%. A Conservative superannuation account with 70% in cash & fixed interest and 30% in shares will have returned around 4% for the same time frame, outperforming the share market by 17.7%. Even a Diversified/Prudent superannuation account with 30% in cash & fixed interest and 70% in shares, will have returned around -2% over the same time frame, still outperforming the share market by 11.7%.

Only a superannuation account with 100% allocated to shares would have a -13.7% return. As this is not effective investment diversification such a portfolio would never be recommended by Leishman Financial Services, and the above returns show what can be achieved with effective investment diversification. As well as this investors should also take into consideration the tax effectiveness of superannuation as an investment vehicle as well as its benefits as a retirement savings facility.

\*the above returns are based on the average of the 12 month returns on Russell and Vanguard's Conservative, Balanced and Growth managed funds.

## CONTACT

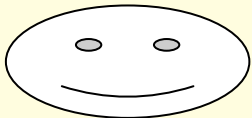
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## ANNUAL REVIEWS

The annual review process is part of the financial planning process. It is an essential service provided to you without additional fees, that allows us to work with you toward obtaining your financial goals and lifestyle objectives. We write to you via newsletters like this, at least twice a year, to remind you to make an appointment for your annual review. While we have a reminder system in place, it is only active for those clients who have been in since we moved to our new office in July 2010. Therefore, if you have not been in to see us at the new office, it is almost 2 years since your last formal review.

The media and industry fund discussion on the value of financial planning never takes into account the importance of and value of the annual review process. Financial planning is far more than just reviewing superannuation, in fact many of our clients were born in an era that they were not able to access superannuation, and thus we use other investment vehicles to provide retirement income streams for them. Life insurance, Income insurance, savings plans, Age Pension, these are all areas covered in our initial and ongoing service and advice package.

Speaking to a group of advisers recently, Simone Vanden-Driesen was asked to define what she does as a Financial Planner, her response was:

“I design financial and investment strategies to help my clients achieve their lifestyle goals in the most tax effective and Age Pension effective manner.”

So that is what we do for you. If you feel that your lifestyle goals could be achieved in a more efficient manner, perhaps it is time for your annual review.

## DO YOU HAVE GRANDCHILDREN?

So you saved all your working life for your retirement. You got there and were living comfortably, having a modest holiday each year, spending time with friends, golfing, lawn bowls and then illness struck. Not you, but your son, daughter or their partner. Who do they turn to for help with mortgage payments, education costs, and general household costs? MUM & DAD. It's always Mum & Dad. And, because you care, you help, at the cost of your retirement plan.

The worst part is, with a few dollars a week from their employer funded superannuation, they could have had illness and injury insurance and life insurance to cover them in this event.

Don't leave it to chance. Don't let your retirement be compromised. Send your children in to see us now, so as we may review their risk insurance and help protect their financial future as well as your own. Remember, the cost of the first meeting is on us, and is obligation free.

