

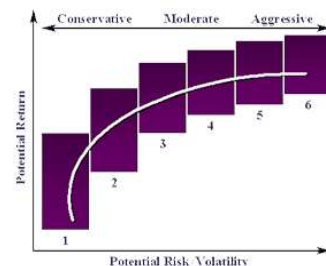


MARKET REVIEW



Although the Australian Share market only returned 5.7% for the 12 months to the end of April 2014 it still outperformed cash rates which only returned on average 2.6% for the past 12 months, and Property Securities which also only returned 2.6% for the past 12 months. The share market did however reach it's highest rate in April 2014 since the Global Financial Crisis. The share market has also generated a return of 22.4% for the 2 years to the end of April 2014. The sector with the best performance in the past 12 months has been international shares, with the MSCI Index returning 18.8% on a hedged basis and 30.7% on an un-hedged basis. The excess performance on an un-hedged basis has been due to the 10.3% drop in the Australian Dollar for the past 12 months, from US\$1.034 to US\$0.928. Despite this, we still recommend maintaining an equal weighting to hedged and un-hedged International shares so as to remove any impact the currency may have on them and reduce portfolio volatility. The Reserve Bank lowered the official cash rate to 2.50% in August 2013 and it has been held at this all-time low since then. It is anticipated that the next move in the cash rate will be up-ward, but not until much later this year or early next year.

Generally we are maintaining asset allocation at profile benchmarks and not making any major strategic changes at this time.



ALLOCATED PENSION CHANGES

At present, payments from Allocated Pensions are reduced by a deductible amount for the Centrelink income test assessment. This often results in nil assessable income for an Allocated Pension if the deductible amount is greater than the payment being received. As of 1 January 2015 any **new** Allocated Pensions will no longer receive this treatment, and will instead be deemed along with any other financial assets (bank accounts, shares, managed funds etc). This will not apply to existing Centrelink recipient's Allocated Pensions unless they are moved or re-commenced after 1 January 2015. New Centrelink Recipients after 1 January will be assessed under the new rules regardless of when they purchased their allocated pension. Despite these changes, Allocated Pensions will continue to be an effective retirement income stream:

- Payments continue to be tax free for those aged 60 and over;
- Earnings in the account & Capital Gains are Tax Free
- Estate planning is more effective with Allocated Pensions as you may nominate your beneficiaries or have the pension revert to a spouse.

For some clients that currently have their spouse as their nominated beneficiary, it may be prudent to change this to a reversionary before 1 January 2015 so that if they pass away after 1 January 2015 the pension reverts immediately to their surviving spouse and does not get caught under the new rules. This would not necessarily apply to all clients in this situation, and would need to be looked at on a case by case basis.

Welcome to the Winter 2014 edition of our Money Matters Newsletter. We have included articles covering investment market movements, as well as updates on Allocated Pension & Centrelink, Aged Care, Superannuation Contributions and the Federal Budget.

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AGED CARE CHANGES

Individuals who enter aged care after 1 July 2014 will be subject to a new set of aged care rules. Existing residents will only be subject to the new rules if they leave aged care and re-enter after a period of 28 days, or they change care facilities and choose to be subject to the new rules at the new facility.

Under the new rules there will no longer be a distinction between Low Level (Hostel) Care and High Level (Nursing) Care. All residents will be asked to pay a Refundable Accommodation Deposit (RAD) or an ongoing Daily Accommodation Payment (DAP) or a combination of both. These replace the current Accommodation Bond and Accommodation Charge. All facilities will be required to publish their RAD and the equivalent DAP on an ongoing basis on the www.myagedcare.gov.au website. The combination of RAD/DAP the resident pays will be up to the resident. In situations where a resident pays a RAD and a DAP the DAP can be deducted from the RAD on an ongoing basis. As the name suggests, the RAD is 100% refundable upon leaving the Aged Care service. Retention amounts will no longer be deducted from the RAD like they are from Accommodation Bonds.

The resident will still be asked to pay the Basic Daily Care fee (currently \$46.50 per day) but will also have to pay an ongoing Means Tested Fee (replacing the current Income Tested Fee). The Means Tested fee will be based on both your assessable income and assets but will include only up to \$144,500 of the value of your former home if it is retained. The Means Tested Fee also includes the amount of any RAD that has been paid. The Means Tested Fee will be subject to an annual cap of \$25,000 and a lifetime cap of \$60,000. Facilities that currently charge an Extra Service Fee will continue to do so for residents who want a higher standard of service.

Importantly, none of these changes impact how Centrelink assess the Age Pension. Like an Accommodation Bond, the RAD does not count against the income or assets test for Aged Pension purposes, and if you choose to pay any amount of DAP, and decide to retain and rent out the former home, the value of the home and the rent are not assessable for Age Pension purposes.



FROZEN FUNDS UPDATE

Many of the clients that we have moved from Navigator over to Wealthtrac and NetWealth will still have money invested in frozen funds at Navigator. At this stage there are still no plans by the fund managers to lift the freeze in the near future. Because of the frozen status of the funds, MLC will not allow them to be moved out of Navigator. However these funds do continue to pay out both income and capital on a periodic basis to your Navigator cash account (in fact some funds have already paid out 85% of the capital that was in them at the time the freeze was put in place). MLC require a minimum amount to be retained in the cash account, however any amount above this minimum can be withdrawn by the client (or rolled over in the case of superannuation accounts). When we conduct our annual review with you we will look at how much can be withdrawn from your Navigator account and how best to allocate those proceeds. We continue to remain in close contact with all fund managers where we have clients holding frozen funds.



SUPERANNUATION CONTRIBUTION THRESHOLDS



From 1 July 2014 the Concessional (Pre-tax; ie SGC & salary sacrifice) and Non-Concessional (post tax – personal contributions) Superannuation thresholds will increase as follows:

- The Superannuation Concessional Contribution Cap to increase from \$25,000 to \$30,000 for people under 50 (this includes your 9.5% Super Guarantee)
- The Concessional Contribution Cap to increase to \$35,000 for people aged over 50
- The Non-Concessional Contribution Cap to increase from \$150,000 to \$180,000. Individuals under 65 can bring forward the next three years to make a total Non-Concessional Contribution of up to \$540,000. Based on this you could effectively contribute \$720,000 in one calendar year by contributing \$150,000 before the 1st July and then \$540,000 after 1st July.

FEDERAL BUDGET 2014

The Government announced the Federal Budget on 13 May. The part of the Budget relevant to our clients are as follows:

- A 2% Budget Repair Levy to apply to taxable income above \$180,000 from 1 July 2014 to 30 June 2017
- As previously legislated the Medicare levy will increase from 1.5% to 2% from 1 July 2014
- Super Guarantee to go up to 9.5% on 1 July 2014 and freeze at that rate until 1 July 2018. It will then increase gradually to 12% by 1 July 2022.
- Excess non-concessional superannuation contributions can be withdrawn and will be taxed at the member's marginal tax rate.
- Age Pension qualification age to increase on a gradual basis to age 70 by 1 July 2035 for people born after 1 Jan 1966
- Pension to be indexed at CPI from 1 September 2017 instead of the Average Weekly Earnings
- Age Pension Income & Asset test thresholds to be frozen from 1 July 2017 to 1 July 2020.
- Deeming thresholds to reduce to \$30,000 (for singles) and \$50,000 (for couples) from 20 September 2017
- From 20 Sep 2014 the Seniors Supplement payable for CSHC holders will be cancelled. Currently this is \$876.20 pa for singles and \$1,320.80 pa for couples.
- The Clean Energy Supplement component of the Age Pension will no longer be indexed from 1 July 2014 (this is currently \$13.90 of the single Pension and \$21 of the couple pension)

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- From 1 Jan 2015 NewStart age eligibility will increase from 22 to 24
- From 1 Jan 2015 NewStart & Youth Allow claimants under 30 must meet job search requirements for 6 months before receiving payments
- From 1 July 2014 eligibility thresholds for non-pension payments will be frozen for three years
- The Mature Age Workers Tax Offset will be abolished from 1 July 2014
- The company tax rate will reduce from 30% to 28.5% from 1 July 2015
- From 1 July 2015 a \$7 fee will apply to all standard GP consultations. Concession card holders will only pay this for their first 10 consultations a year.

Note: These measures are just proposals at this stage and are not yet law.

WITHDRAWALS NOTICE

Presently we are experiencing up to 10 business days to receive the proceeds from partial withdrawals from all platforms. While this will hopefully improve, we ask you to keep this in mind should you be in need of a withdrawal of funds. If you require funds urgently, please advise us at the time of requesting the withdrawal as it may change the underlying investments we sell down for you.

Full account closures from platforms take around 4 weeks due to auditing requirements. This standard has not altered.

MOVEMENTS AT THE STATION



On June 14th Simone & Chris and their boys will depart for an extended trip to the USA. They will return to the office on August 1st. During this time, Chris Harrower (Harry) will be on deck to assist clients in any way, and of course, Simone & Chris are only an email or phone call away if they are required. After 2 years in the planning they are extremely excited and ask for your understanding should there be a short delay in responding to emails and phone calls during their absence. Of course Kathleen, Nicole and Shelley will also be on deck to assist you.

TAX TIME

Mr Lloyd Palmer, CPA, of Palmer and Associates is pleased to announce his opening at 8/241 Blackburn Rd Mount Waverley (opposite the end of Coleman Parade). Lloyd is familiar to many of our clients and is happy to offer taxation and Accounting services to Leishman Financial Services clients. For all your 2013/14 taxation needs call Palmer and Associates on 03 9830 8999 or email: lloyd@pacpa.com.au

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