
Financial planning reference material



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Please note members should not rely solely on this information and should consider their own personal objectives, financial situation and needs before acting on this information. Prior to making any investment decision you should obtain and consider the relevant Product Disclosure Statement (PDS) pertaining to your membership and seek professional investment advice.

2011 Federal Budget Proposals

The following changes were amongst those proposed in the 2011 Federal Budget, but have yet to be legislated.

Superannuation

Excess contributions tax relief

From the 2011/12 financial year onwards, there will be a once only opportunity to withdraw excess instalment contributions up to \$10,000 (not indexed). Rather than being charged the excess contributions tax of 46.5%, the refunded excess concessional contributions will be assessable personally to the client and taxed at their marginal tax rate. Any subsequent breaches, and those totalling more than \$10,000, will incur the normal 46.5% excess contributions tax.

There is no relief expected for the non-concessional caps.

Higher concessional contributions cap for those 50 and older

From 1 July 2012, as has been suggested for some time, the Budget confirmed that those aged 50 and over, with a superannuation balance less than \$500,000, will receive a concessional contributions cap of \$25,000 higher than the standard concessional cap.

Account based pension minimum income payment reductions

From 1 July 2012 the minimum pension payments will return to the normal level.

Government co-contribution income threshold indexation frozen until 2012/13

The Government will extend the freeze on indexation of the co-contribution income thresholds until 2012/13. Therefore, the lower and upper co-contribution income thresholds will remain at \$31,920 and \$61,960 respectively until 30 June 2013.

Superannuation contribution information disclosure

From 1 July 2012, the Government has reconfirmed its election commitment to ensure employees receive information through their pay slips on the amount of superannuation contributions paid into their superannuation account. In addition, the Government plans to require superannuation funds to notify employees and employers on a quarterly basis if regular contributions cease.

Centrelink

Disability support pension changes

From 1 July 2012 there will be two modifications to the disability support pension (DSP).

The first change is that all DSP recipients can work up to 30 hours per week for up to two years and remain eligible for a part pension.

The second change is that all (new and existing) DSP recipients under the age of 35 who are assessed as having the capacity to work at least eight hours per week will be required to attend Centrelink quarterly interviews, which includes a work 'participation plan'.

Newstart and Youth Allowance changes

From 1 July 2012, Newstart Allowance will be closed to new applicants under 22 years of age (currently 21). These will be migrated to the Youth Allowance.

Effective from 1 January 2013, Newstart Allowance for single parents will benefit from a reduced taper rate. The rate of reduction will drop to 40c for each dollar earned per fortnight above \$62. It's presently 50 cents for every dollar between \$62 to \$250 per fortnight and 60c for every dollar above \$250.

The Youth Allowance income free area will increase from \$62 per fortnight to \$143 per fortnight. The Working Credit bank limit will increase from \$1,000 to \$3,500.

2011 Federal Budget Proposals

Family Tax Benefit (FTB) Part A

From 1 July 2011, there will be more flexibility around how families receive their benefit. They will be able to take an advance up to 7.5% subject to a maximum of \$1,000 of their annual amount and/or up to \$160 advanced payments every six months.

From 1 January 2012, the Government will increase the maximum rate of FTB Part A paid in respect of a child aged 16 – 19 who attends full-time school or study. This will increase the rate up to \$4,208 a year for 16 and 17 year olds and up to \$3,741 a year for 18 and 19 year olds.

Also from 1 January 2012, FTB Part A paid to families with dependant full time students, up to the age of 24, will lose it for those over 21.

Additional changes – Non-indexation for three years

From 1 July 2011, FTB Part A and B benefits will be non-indexed for three years, at the current rates of \$726.35 per annum per child for Part A and \$354.05 per annum for Part B until 1 July 2014.

Additional changes – Non-indexation of the upper thresholds and limits for a further two years

- ▶ Part B primary earner income limit will remain at \$150,000.
- ▶ Income limit for receiving the dependency tax offsets will remain at \$150,000.
- ▶ The Baby Bonus eligibility limit will remain at \$75,000 of family income in the six months following the birth or adoption of a child (equivalent to \$150,000 a year).
- ▶ Paid Parental Leave primary carer income limit remains at \$150,000 in the financial year before the birth or adoption of a child.
- ▶ Higher income free threshold of Part A will remain at \$94,316 of family income, with an additional \$3,796 provided for each child after the first.

Child Care Rebate (CCR) changes

From 1 July 2011 those in receipt of the CCR will be able to receive the rebate on a pro-rata weekly or fortnightly basis, rather than six-monthly or annually. Also, they can request the funds to be added to their bank account rather than to the Care Centre.

Paternity Leave delayed

Two weeks paid leave at the national minimum wage has been introduced for eligible working fathers and specified others. It was to commence for children born on or after 1 July 2012. This date has been deferred to 1 January 2013.

Taxation

Phasing out dependant spouse tax offset

From 1 July 2011 those with a dependant spouse born on or after 1 July 1971 (under age 40) will have their offset phased out. Those with an invalid or permanently disabled spouse, whose spouse is a carer, who are eligible for the zone, overseas forces and overseas civilian tax offsets, and those with children who are eligible for Family Tax Benefit Part B will not be affected by this change.

Low income tax offset (LITO) changes

From 1 July 2011, the LITO amount available through a person's regular pay increases from 50% to 70% of their total entitlement, with the remaining 30% received in their annual tax return. There are no changes to the amount of LITO (\$1,500) or the thresholds (\$30,000 and \$67,500).

Deceased Estates and Main Residence Exemption

Trustees of a deceased estate are presently required to dispose of the main residence of the deceased within two years of death in order to access the capital gains tax (CGT) main residence exemption. Discretion to extend this two year period may be provided by the Commissioner of Taxation.

Investment risk and return

Any recommended portfolio or investment strategy needs to be designed around the risk and return philosophy of financial planning. This requires an understanding of your attitude to risk and return as well as the risk / return level of the various investments available.

Risk of investment relates to the variability of income and capital returns. The combined result from income and capital movements i.e. the extent to which actual investment results may vary from expected returns is classed as the 'risk' of the investment.

Risks to income include:

- ▶ Risk of partial or complete loss of income
- ▶ Failure of income to increase as expected
- ▶ Uncertainty about income.

Risks to capital include:

- ▶ Risk of partial or complete loss
- ▶ Failure of capital to grow
- ▶ Uncertainty about capital value and doubts about marketability of the investment.

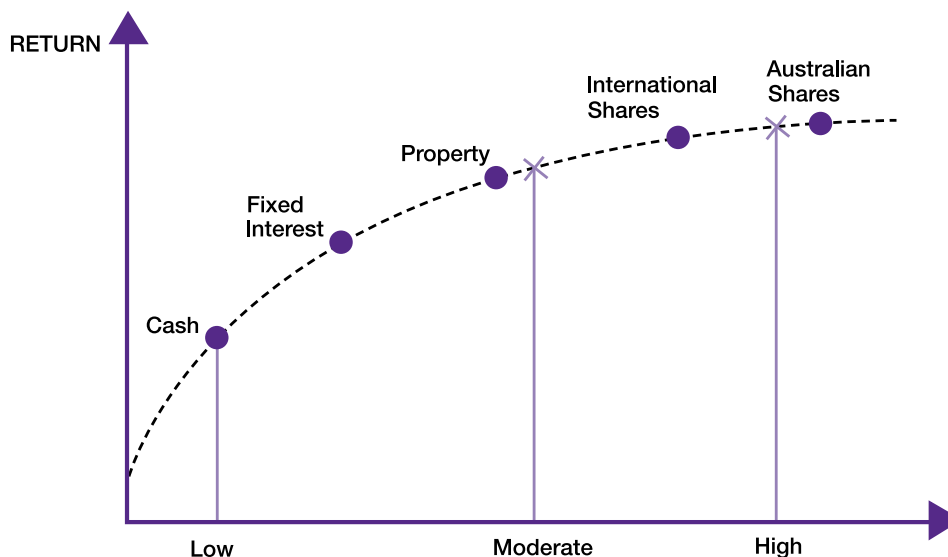
The relationship between risk and the expected return from an investment is fundamental to making appropriate investment decisions. Investments with high levels of risk usually promise high rates of return, while investments with low risk levels offer low levels of return.

Risk / return trade-off

The concept of investment return is widely understood. For example, a 10% per annum return on a capital sum of \$100,000 would result in \$10,000 increase in value for the year. However, what exactly is 'risk'?

Risk is for the most part unavoidable – in life generally as much as in investing! When discussing investments, the term 'risk' is often expressed as 'volatility' or variations in returns. In investment terms, the concept of 'volatility' needs to be understood. It is the measurement of fluctuation in the market values of various asset classes as they rise and fall over time. The greater the volatility the more rises and falls are recorded by an individual asset class. The reward for accepting greater volatility is the likelihood of higher investment returns over the mid term to longer term. The disadvantage can mean lower returns in the shorter term. It must also be remembered that it can mean an increase or decrease in capital. All investments involve some risk. In general terms, the higher the risk, the higher the potential return or loss. Conversely, the lower the risk the lower the potential return or loss. The long-term risk/return trade off between different asset classes is illustrated in the following graph:

Risk return trade-off



Investment risk and return

Major sources of investment risk

Major sources of investment risk include the following:

Business risk – The risk that returns from a company may be lower than expected due to inefficient management, bad trading policies and changes affecting that industry.

Financial risk – The risk of partial or complete loss of invested capital in the event of the failure of a company or scheme due to unsound financial structure.

Market risk/volatility – The risk of capital loss or instability of invested capital, as well as variations in the return from that capital. This is caused by market cycles and movements and means the value of capital can vary, both positively or negatively. These variations can be daily or less frequent, significant or minor, sudden and unexpected or slow and predicted.

Market timing risk – Economists often use economic cycles (i.e. the pattern of the economy) to try to predict when a market will rise or fall. However, this is extremely difficult as economic cycles are never exactly the same and do not occur with the same timing.

Economic risk – Risk relating to changes in inflation rates, interest rates, etc.

Political risk – Changes in Government and Government policies.

Interest rate risk/re-investment risk – Some investors attempt to avoid volatility by investing in fixed rate investments. The risk they face is that when the investment matures, interest rates on fixed deposits may have fallen significantly.

Re-investing at these lower fixed rates will result in a dramatic reduction in returns.

Credit risk – When money is placed with banks and companies through term deposits and debentures they use it in their businesses and pay an interest rate for doing so. The risk here is the ability of those institutions to pay the interest and/or repay the capital on the due date.

Mismatch risk – This means that although a chosen investment may be considered a good investment for certain investors, it may be a poor one if it does not suit the needs and circumstances of the investor.

Inflation risk – Whether inflation is high or low, the cost of goods has always increased over time. If the chosen investment does not at least grow at the same rate, then the real purchasing power of the money is being eroded.

Liquidity risk – Considerable problems can occur if money is required for unforeseen expenses and the investments cannot be turned into cash quickly or without cost.

Legislative risk – Long-term investment strategies can be selected based on current tax laws and regulations. If these change later, the impact on returns could be adversely affected.

Risk of not diversifying – Diversifying investments means spreading capital across various areas. Generally speaking these areas are the actual assets or markets in which the capital is invested. If your investment capital is reliant on one asset, or one class of asset, you are exposed to the risk of not diversifying. Spreading your investment capital amongst various assets and asset classes means that not all the capital is affected if one area does badly.

Opportunities and risks of the main asset classes

There are really four main asset classes in which to invest. In ascending order of potential risk they are Cash, Fixed Interest, Property and Shares. Cash and Fixed Interest provide mainly interest income, although there is some potential for growth (or loss) in the Fixed Interest market. The money in these classes is on loan to financial institutions.

Property and Shares provide rent and dividend income with far more potential growth (or loss), plus some tax benefits. The money purchases ownership of the asset. On a risk/return scale, Cash would be ranked as low return / low risk and Shares would be ranked as high potential return / high potential risk.

Cash

Cash can provide certainty of income, guarantee of capital and is usually secure and handy. However, when you also consider inflation, fees and tax, the returns can be quite low and there is no opportunity for capital growth. Interest rates will fluctuate depending on Government policy, inflation and global pressures. Cash provides no tax benefits and is usually good for short-term goals and emergency funds, but over the long term its purchasing power can diminish. Consequently, keeping large amounts of money in cash is not usually recommended. Credit, re-investment, inflation, mismatch and lack of diversity are all potential risks of investing in cash.

Investment risk and return

Fixed interest

Fixed interest is a term broadly used to describe investments like bonds, debentures and term deposits. The main characteristic of fixed interest investments is that at the time of investment, the interest rate and the term of the investment are known. Large-scale investors, like your super scheme, usually invest in Government and semi-government bonds and corporate debentures. Government and semi-government agencies, other corporations and banks use this money to fund projects of up to 25 years.

In essence, the money is being lent to an institution that, in return, agrees to regularly repay interest and the principal at the end of the term. Fixed interest investments such as bonds or debentures can be bought and sold and will vary in price depending upon their 'interest rate' in comparison to market interest rates at the time. Fixed interest investments are generally less volatile than property and share investments but there is a possibility of growth (or loss) when they are bought or sold prior to the expiry of the original term. The returns are usually higher than cash and are often as secure (depending on the financial standing of the institution). Credit, mismatch, inflation, re-investment and lack of diversity are all potential risks of investing in fixed interest.

Property

Property has long been a popular investment in Australia. Besides residential property there are industrial, commercial and retail properties in which to invest. Again, there are limitations for the individual investor as large amounts are usually needed and it all goes into one property.

There are substantial costs involved in buying and selling properties and a fair time horizon is required before funds can be accessed due to the lead-time of buying or selling. Rent collection, repairs, refurbishment and dealing with tenants are all time consuming activities.

Property is situated above cash and fixed interest but below shares on the investment risk scale. Consideration has to be given to what property, where, what tenants and how much of an investor's money is in one property. Generally speaking, income will come from rent and there will be potential growth in value over time. Overall, property is suited as a long-term investment and can be influenced by inflation and employment levels as well as economic growth and confidence. Mismatch, market, liquidity and lack of diversity are all potential risks of investing in property.

Shares

Purchasing shares (or equities as they are also known) means owning part of (or a share in) a company. It means having a share in the corporation's future business. Historically, over the longer term (5 years plus) shares are known for keeping ahead of inflation and generally deliver the highest returns of all investment types. Conversely, as you would expect, they carry the greatest amount of risk and their values can be very volatile with short-term fluctuations in price. Income will come from dividends (a share of the profits) and there will be potential growth as the company grows financially. Consideration has to be given to which industries, which countries and which companies to invest in.

If the shares are in Australian companies there may be tax advantages through dividend imputation. This comes as a result of the company issuing dividends to their shareholders from company profits (after tax). In turn, Australian shareholders receive a credit against their own tax liability for the company tax already paid. International shares provide dividend income and often higher potential growth. Of course shares can range from the 'blue-chip' to speculative resources.

Diversification of assets

A major method of limiting investment risk is to spread the investment capital over a range of different investment asset classes. It follows the 'Don't put all your eggs in the one basket' investment philosophy where the individual baskets can include:

- ▶ Cash and fixed interest investments
- ▶ Share-market investments (local and overseas)
- ▶ Property investments.

The proportional amount invested into each 'basket' (i.e. the range of diversification of these funds) will depend on the individual investor's needs and objectives, investment time frame and attitude towards accepting risk.

Diversification also includes investing into both the local market and overseas markets. The portfolio's investment return, therefore, reflects the aggregate performance of the individual asset classes into which the funds are invested. Diversification provides a protection from risk in that it smooths the volatility of returns in the individual asset classes.

The taxation system

Income Tax

Income tax is payable for each financial year by individuals, companies and other entities such as trusts and superannuation funds. Individuals who are Australian residents, and some trustees, are also liable to pay the Medicare levy each year.

Taxable income is calculated by subtracting deductions from assessable income. Assessable income consists of income according to ordinary concepts, such as salary or wages, rent, dividends, imputation credits. Capital gains are also included in taxable income. Deductions include losses or outgoings incurred in gaining or producing assessable income, or necessarily incurred in carrying on a business for that purpose. Deductions are also allowed under specific provisions of law, such as depreciation and gift provisions.

Tax offsets reduce the tax payable amount and are applied by being subtracted from gross tax. Examples of tax offsets are the superannuation and contribution rebates, imputation credits and low-income rebate.

Personal Tax Rates

The gross tax of an individual is calculated by applying progressively greater marginal rates to successive slices of taxable income. The current taxation rates for individuals for the 2011/12 financial year are as follows:

Taxable Income	Marginal Tax Rate	Tax Payable
\$0 - \$6,000	Nil	Nil
\$6,001 - \$37,000	15%	Nil + 15% of excess over \$6,000
\$37,001 - \$80,000	30%	\$4,650 + 30% of excess over \$37,000
\$80,001 - \$180,000	37%	\$17,550 + 37% of excess over \$80,000
\$180,001 +	45%	\$54,550 + 45% of excess over \$180,000

Company Tax Rate

Companies are currently taxed at a flat rate of 30%.

Superannuation Fund (Earnings) Tax Rate

Income within a superannuation fund is subject to a maximum tax rate of 15%.

Account Based Pension (Earnings) Tax Rate

At present the income and capital gains within an Account Based Pension are not subject to tax.

Capital Gains Tax (CGT)

Capital gains tax applies to capital gains realised on assets acquired after 19 September 1985. Assets acquired on or prior to that date will generally not be subject to income tax unless they were acquired with the intention of reselling at a profit or as part of a profit-making undertaking or scheme.

As part of the Government's 'Tax Reform' process, legislation was passed on 10 December 1999 implementing changes to the CGT regime (with transitional measures). The changes are effective from 11.45am AEST on 21 September 1999 (referred to as the start date from hereon).

From this date, two methods of CGT treatment came into existence:

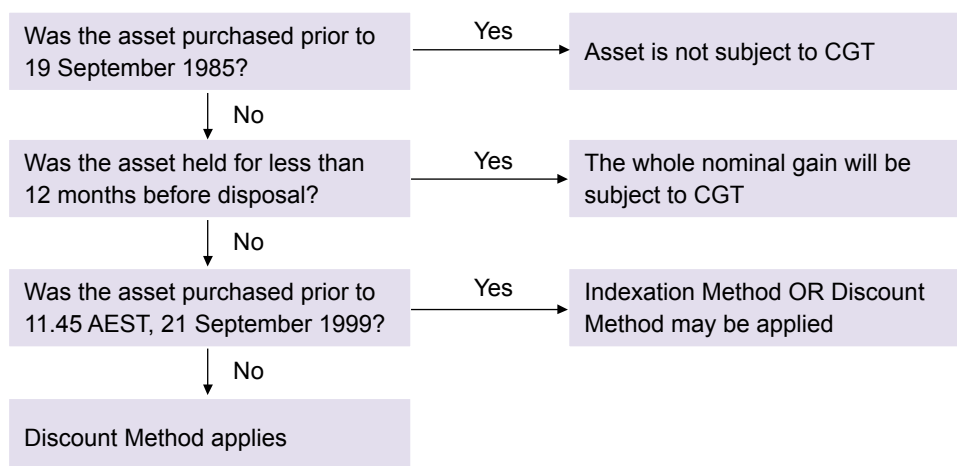
- ▶ **Frozen Indexation Method**
Sale price less indexed cost base (indexation frozen at 30 September 1999)
- ▶ **Discount Method**
Individuals – 50% of the nominal gain (sale price less original price)
Superannuation Fund – two-thirds of the nominal gain.

The changes removed the averaging provisions for individuals and the removal of indexation for CGT assets acquired after the start date. In place of indexation and as a concession, the legislation provides individuals and complying superannuation entities with a 'CGT discount', provided the CGT asset is owned for at least 12 months at the time of disposal. The CGT discount will allow individuals to exclude from their assessable incomes one-half of certain capital gains made on CGT assets. Complying superannuation entities will be able to exclude one-third of those capital gains. Companies receive no CGT discount.

The taxation of capital gains on the disposal of CGT assets held for less than 12 months will remain unchanged (i.e. after the offset of capital losses, the net capital gain will be included in assessable income in full).

The taxation system

The following flowchart shows where these methods will be applicable:



Transitional measures apply to CGT assets acquired on or before the start date and disposed of after the start date. For these CGT assets, indexation is frozen at 30 September 1999. However, an individual or a complying superannuation entity can choose either to:

- ▶ index the cost base up to 30 September 1999 and include the whole net gain in assessable income; or
- ▶ ignore indexation and reduce the gain by the CGT discount.

Capital losses are applied against capital gains before applying the CGT discount. Capital losses may be applied against capital gains in the order chosen by the taxpayer. To minimise tax, a taxpayer should offset their capital losses against capital gains from the disposal of CGT assets held for less than 12 months and then against capital gains from CGT assets held for 12 months or more.

Tax Offsets (Rebates)

Once deductions are taken off your income to work out your taxable income, the amount of tax payable on your taxable income is then calculated. The amount of this tax is then reduced by your tax offsets.

If your tax offsets are greater than the tax on your taxable income, they can only reduce the amount of tax you pay in the financial year to zero. There are some exceptions:

- ▶ The **30% private health insurance rebate**, where any excess is refunded to you
- ▶ The **education tax offset**, where any excess is carried forward and used to reduce a future tax liability
- ▶ The **franking tax offset**, where any imputation/franking credits that remain after the tax payable has been extinguished are refunded to you. This only applies to imputation/franking credits attached to dividends paid after 1 July 2000.

Tax offsets, in general, do not reduce your Medicare levy. Where you have excess refundable tax offsets available, these can be applied to reduce your tax, including Medicare levy.

Generally, tax offsets can be grouped into four main categories as shown below, including some of the more common ones.

The taxation system

1. Dependant tax offsets

Dependent Spouse

If you have a dependent spouse (which includes de facto spouses but not spouses who are permanently separated nor same sex couples), the tax offset that may be available is based on:

2010/11	Maximum Offset	Shade-out Adjusted Taxable Income*	Rate of Reduction
No children	\$2,286	\$282 - \$9,426	\$0.25 per \$1
Children	\$2,232	\$282 - \$9,210	\$0.25 per \$1

* Includes adjusted fringe benefits, reportable super contributions and net investment losses.

2. Tax offsets which depend on the source and level of income

Low Income

The Low Income Tax Offset for the 2011/12 financial year is based on the following:

Maximum Offset	Shade-out Taxable Income	Rate of Reduction
\$1,500	\$30,000 - \$67,500	\$0.04 per \$1

Beneficiary

The beneficiary tax offset is available to taxpayers who receive certain Centrelink payments and allowances, and Commonwealth education allowances. The formula used to calculate the beneficiary tax offset will ensure that you pay no tax for the year if you:

- ▶ Receive any of the qualifying payments and allowances, and
- ▶ Have no other assessable income.

For the 2011/12 financial year if your qualifying payments or allowances totalled \$37,000 or less, the beneficiary tax offset is calculated by multiplying the amount of payment or allowance over the tax-free threshold (\$6,000) by the lowest marginal tax rate of 15%. An additional 15% offset applies for amounts over \$37,000.

Senior Australians

This offset is available to people of pension age, who have been Australian residents for ten years. The offset is also available for DVA veterans receiving the Service Pension or War Widow(er) Pensioners receiving the Income Support Supplement and are of service pension age.

The Senior Australians Tax Offset (SATO) and thresholds for the 2011/12 financial year are as follows:

	Maximum Offset	Shade-out Rebate Income	Rate of Reduction
Single	\$2,230	\$30,685 - \$48,525	\$0.125 per \$1
Couple – each	\$1,602	\$26,680 - \$39,496	\$0.125 per \$1
Couple (illness separated)	\$2,040	\$29,600 - \$45,920	\$0.125 per \$1

* Includes adjusted fringe benefits, reportable super contributions and net investment losses.

It is possible to transfer any unused portion of the offset to a partner eligible for Senior Australian Tax Offset or the Pensioner Tax Offset.

Mature Age Workers

The mature age worker tax offset (MAWTO) aims to encourage and reward mature age workers (aged 55 and over) who stay in the workforce. The MAWTO thresholds for the 2011/12 financial year are as follows:

Assessable income*	Maximum Offset
\$1 - \$10,000	5c per dollar
\$10,001 - \$53,000	\$500
\$53,001 - \$63,000	\$500 reduced by \$0.05 per \$1 over \$53,000
\$63,001 +	Nil

* Includes income from working, reportable fringe benefits and reportable employer super contributions.

The taxation system

Pensioner Tax Offset

This tax offset is available to people in receipt of a Centrelink or DVA taxable pension who are not eligible for the Senior Australian Tax Offset.

The Pensioner Tax Offset and thresholds for the 2010/11 financial year are as follows:

Adjusted Taxable income*	Maximum Offset	Shade-out Adjusted Taxable Income	Rate of Reduction
Single	\$2,732	\$24,214 - \$46,070	\$0.125 per \$1
Couple – each	\$1,905	\$18,700 - \$33,940	\$0.125 per \$1
Couple (illness separated)	\$2,577	\$23,180 - \$43,796	\$0.125 per \$1

If you were entitled to both the beneficiary tax offset and the pensioner tax offset, you will receive the one that gives the higher tax offset.

It is possible to transfer any unused portion of the offset to a partner eligible for Senior Australian Tax Offset or the Pensioner Tax Offset.

Superannuation Pension or Annuity

A 15% rebate on the taxable portion of a pension or annuity is generally available for people over preservation age (currently age 55). The rebate is calculated as 15% of total pension payments less tax exempt amount.

This effectively reduces the tax you would otherwise pay on the income from the pension or annuity.

Once you are age 60, the entire pension income will become tax free.

3. Tax offsets for certain expenditure

Private Health Insurance Rebate

A 30% rebate is available to any Australian (under age 65) who has private health insurance **including hospital cover** with a registered health fund. You may also attach ancillary cover to your policy. This rebate may be claimed in taxation returns or via a reduced premium.

Spouse Superannuation Contributions

Spouse contribution provisions enable a taxpayer to make superannuation contributions on behalf of their spouse, regardless of whether the spouse has been gainfully employed (if the spouse is aged between 65 - 69, they must meet a work test). In some cases, a rebate may be claimed for contributions made on behalf of a low income or non-working spouse. The rebate will be 18% of the contribution made, up to a maximum contribution of \$3,000. To obtain the full rebate (currently \$540), the spouse's **assessable income** and total reportable fringe benefits must be less than \$10,800. The rebate reduces proportionately for income above \$10,800 before cutting out at \$13,800.

Medical Expenses

The medical expenses tax offset may be available if you have out of pocket medical expenses over a specified limit in an income year. For the 2010/11 income year, the tax offset is 20% of net medical expenses over the \$2,000 threshold amount. There is no upper limit to the amount you can claim.

4. Zone or overseas forces

To be eligible for the zone tax offset, you must have lived or worked in a remote or isolated area (not including an offshore oil or gas rig) for 183 days or more (about 6 months), during the income year for which you are claiming.

Medicare Levy

With limited exceptions, an individual who is a resident of Australia at any time during the income year is liable to pay a Medicare levy based on the amount of their taxable income for the year.

The current rate of the Medicare levy is 1.5% of the taxpayers taxable income including any net capital gain. There is no ceiling on the amount of levy payable.

Generally, tax offsets cannot be used to reduce the Medicare levy, however the Private Health Insurance offset, Education tax offset and excess imputation credits can be used to offset the Medicare levy.

The taxation system

Not all groups pay the full levy. The amount paid varies for lower income groups according to circumstances, and some residents are exempt from the levy.

Individual Taxable Income	Family Taxable Income	Medicare levy
2010/11		
Entitled to Senior Australians Tax Offset (SATO)		
\$0 - \$30,685	\$0 - \$44,500	Nil
\$30,686 - \$36,100	\$44,501* - \$52,353^	10% of taxable income between thresholds
\$36,101 +	\$52,354^ +	1.5%
Entitled to Pensioner Tax Offset		
\$0 - \$30,439	\$0 - \$31,789	Nil
\$30,440 - \$35,810	\$31,790* - \$37,398^	10% of taxable income between thresholds
\$35,811 +	\$37,399^ +	1.5%
All other taxpayers		
\$0 - \$18,839	\$0 - \$31,789	Nil
\$18,840 - \$22,163	\$31,790* - \$37,398^	10% of taxable income between thresholds
\$22,164 +	\$37,399^ +	1.5%

* Lower limit increases by \$2,919 per dependent child

^ Upper limit increases by \$3,434 per dependent child

Medicare Levy Surcharge

For 2011/12, a taxpayer will be liable for an additional 1% Medicare Levy if their taxable income is above \$80,000 (single) or \$160,000 (couple) and they do not have adequate private patient hospital insurance cover. The \$160,000 family income threshold is increased by \$1,500 for the second and each subsequent dependent child.

The levy surcharge is payable on the taxpayers entire taxable income, not merely the portion of taxable income which exceeds the relevant threshold for determining liability to the surcharge.

Flood Levy

For the 2011/12 financial year only, the temporary flood and cyclone reconstruction levy (known as the flood levy) applies to residents and non-resident individual taxpayers as follows:

Taxable income	Flood levy on this income
\$0 to \$50,000	Nil
\$50,001 to \$100,000	0.5% for each \$1 over \$50,000
Over \$100,000	\$250 plus 1% for each \$1 over \$100,000

Termination payments

Cash termination payments

Leave payments

Net annual leave and long service leave payments cannot be rolled over. The tax rates on these payments cannot be altered or reduced in any way.

The following is the taxation treatment for leave payments received as part of a normal retirement or resignation:

Description	Tax treatment
Annual leave	
Leave accrued to 17 August 1993	100% included in assessable income and taxed at a maximum rate of 30%*
Leave accrued from 18 August 1993	100% included in assessable income and taxed at person's marginal tax rate*
Long service leave	
Leave accrued to 15 August 1978	5% included in assessable income and taxed at person's marginal tax rate*
Leave accrued 16 August 1978 to 17 August 1993	100% included in assessable income and taxed at a maximum rate of 30%*
Leave accrued from 18 August 1993	100% included in assessable income and taxed at person's marginal tax rate*

* Plus Medicare levy.

The following is the taxation treatment for leave payments received as part of a genuine redundancy, invalidity or approved early retirement:

Description	Tax treatment
Annual leave	100% included in assessable income and taxed at a maximum rate of 30%*
Long service leave	
Leave accrued to 15 August 1978	5% included in assessable income and taxed at person's marginal tax rate*
Leave accrued from 16 August 1978	100% included in assessable income and taxed at a maximum rate of 30%*

* Plus Medicare levy.

Tax-free redundancy

The amount of a genuine redundancy payment, which a person is entitled to receive tax-free, is calculated as the first \$8,435 plus \$4,218 (for the 2011/12 financial year) for each completed year of service. This tax-free redundancy payment is not an employment termination payment and cannot be rolled over.

Termination payments

Employment termination payments

Under the changes to superannuation, an employment termination payment is a lump sum payment made in consequence of the termination of employment and received no later than 12 months after the termination.

Employment termination payments are further classified into one of the following:

- ▶ Life benefit termination payment (LBTP) – an employment termination payment paid to the individual who terminates employment.
- ▶ Death benefit termination payment (DBTP) – an employment termination payment made as a result of the death of an employee.
- ▶ Transitional termination payment (TTP) – a life benefit termination payment made between 1 July 2007 and 30 June 2012 under a contractual entitlement that existed at 9 May 2006.
- ▶ Directed termination payment (DTP) – a transitional termination payment that the individual directs to be paid to a superannuation fund (i.e. rolled over).
- ▶ Genuine redundancy payment (GRP) – replacing the previous concept of bona fide redundancy payment.

Examples of employment termination payments include:

- ▶ Amounts for unused rostered days off
- ▶ Amounts in lieu of notice
- ▶ A gratuity or 'golden handshake'
- ▶ An employee's invalidity payment (for permanent disability, other than compensation for personal injury), and
- ▶ Genuine redundancy payment in excess of tax free amount.

Employment termination payments are not able to be rolled over into superannuation unless they fall under transitional arrangements (see below).

An employment termination payment will comprise a tax-free component (if any) and a taxable component. The tax-free portion is always tax free and is non-assessable and non-exempt income.

Taxation treatment – non-transitional employment termination payment (lump sum only):

Age	Tax treatment of taxable portion
Under preservation age [^] on the last day of the income year in which the payment is made.	First \$165,000 – 30%* Excess over \$165,000 [#] – highest marginal tax rate*
Over preservation age [^] on the last day of the income year in which the payment is made.	First \$165,000 – 15%* Excess over \$165,000 [#] – highest marginal tax rate*

[^] Preservation age is the age at which retirees can access their super benefits generally when they retire. Please refer to the 'Superannuation' section for more detail.

* Plus Medicare levy.

[#] Employment terminations payment cap for the 2011/12 financial year. This is a yearly limit and is indexed (in \$5,000 increments) in line with AWOTE on 1 July each year. Amounts received under this cap are not counted towards the low rate cap on superannuation member benefits.

Termination payments

Transitional termination payments

Transitional arrangements apply if you were entitled, as at 9 May 2006, to a payment made on the termination of employment under:

- ▶ A written contract
- ▶ An Australian or foreign law (or an instrument under such a law)
- ▶ A workplace agreement under the Workplace Relations Act 1996.

These documents must do this by referring to the amount of the payment or a method or formula to work it out. It may allow you to choose how the payment is made, for example, as a payment made in kind, such as shares.

You will need to confirm with your employers to see whether transitional rules apply in your circumstances.

Taxation treatment – transitional employment termination payment (cashed in):

Age	Tax treatment of taxable portion	
Under preservation age [^] on the last day of the income year in which the payment is made.	First \$1 million ⁺	30%*
	Excess over \$1 million ⁺	highest marginal tax rate*
Over preservation age [^] on the last day of the income year in which the payment is made.	First \$165,000 [#]	15%*
	\$165,000 to \$1 million ⁺	30%*
	Excess over \$1 million ⁺	highest marginal tax rate*

[^] Preservation age is the age at which individuals can access their super benefits generally when they retire. Please refer to the 'Superannuation' section for more detail.

* Plus Medicare levy.

⁺ Upper cap for the 2011/12 financial year. This is not indexed.

[#] Lower cap for the 2011/12 financial year applying to all transitional termination payments received during the transitional period. This is indexed (in \$5,000 increments) in line with AWOTE on 1 July each year.

Taxation treatment – transitional employment termination payment (rolled over i.e. 'directed termination payment'):

Age	Tax treatment of taxable portion
Any age	15% contributions tax

The \$1 million upper cap is reduced by the taxable component of all other transitional employment termination payments received by the client (including those taken in cash).

Where a client receives both a termination payment to which transitional provisions apply and one to which they do not, the payments will be treated separately (i.e. separate caps apply).

Transitional arrangements in relation to termination payments will cease to apply on 1 July 2012.

Superannuation

As the Government's preferred means of encouraging retirement savings, superannuation receives valuable tax advantages over other forms of investment. These tax advantages occur at four levels:

- ▶ Contributions made to superannuation may attract a tax deduction, Co-contribution or a tax rebate.
- ▶ Earnings (income and capital gains) are generally subject to tax at a maximum rate of 15%. Additionally, capital gains on assets held for at least 12 months have the tax rate reduced to 10%.
- ▶ Further concessions may be available when used to commence an income stream.
- ▶ Benefits received after age 60 are entirely tax free.

Generally speaking, these concessions enable greater capital accumulation over time in superannuation compared to other investment alternatives as well as greater tax benefits upon retirement.

WARNING

Special rules apply to the Retirement Scheme and Defined Benefit Scheme. Key issues include, but are not limited to:

1. Benefit points
2. Deferred benefits
3. Life pensions
4. How concessional contribution caps are managed.

Concessional contributions (CC)

Concessional contributions are superannuation contributions made from pre-tax income for which a tax deduction can be claimed. CCs include employer contributions (including contributions made under a salary sacrifice arrangement) and personal contributions claimed as a tax deduction by a self-employed person. The age-based limits on deductions for these contributions no longer apply.

These contributions are taxed at 15% upon entry into the super fund.

Concessional contributions cap

CCs made to super are subject to an annual cap of \$25,000. You will be taxed on CCs over the \$25,000 cap at a rate of 31.5%. This is on top of the 15% tax paid by the fund. You can ask your super fund to release money to pay this excess contributions tax.

Between 1 July 2009 and 30 June 2012, a transitional CC cap will apply. During this time, the annual cap will be \$50,000 for people aged 50 or over at any time in the financial year.

Superannuation Guarantee (SG)

The SG requirements mean employers have to make contributions to superannuation on behalf of their employees up to age 70. The amount to be contributed is 9% of eligible employees' ordinary time earnings (OTE).

Salary sacrifice contributions

Salary sacrificing provides you with an excellent opportunity to make additional tax-effective contributions, over and above the amount contributed by your employer. You are able to contribute from your pre-tax salary and the sacrificed component is not assessable income for taxation purposes.

Deductions for personal super contributions

The self-employed (and other eligible individuals) will be entitled to a full deduction (note the deduction is only available in the income year in which the contribution is made) for personal superannuation contributions provided certain conditions are met. In order to satisfy the conditions for deductibility, an individual's contribution must be for the purpose of providing superannuation benefits for themselves. Contributions to superannuation made by the self-employed will be treated in the same way as contributions made by employers for the benefit of employees (i.e. concessional contribution).

A person can deduct personal contributions, even if they receive some income as an employee. Personal contributions will be deductible if less than 10 per cent of a person's assessable income and reportable fringe benefits are attributable to employment as an employee. The self-employed person (or other eligible individual) must be under the age of 75 in order to receive a tax deduction.

Superannuation

Non-concessional contributions (NCC)

Non-concessional contributions are contributions made from a person's after-tax income. The terms 'non-concessional contributions', 'post-tax contributions' and 'after-tax contributions' are often used interchangeably.

NCCs can be made up to age 75. However, a work test will continue to apply to determine eligibility to make contributions for those aged 65 to 74. Voluntary contributions by people other than the member or their employer (e.g. spouse contributions), will not be able to be accepted for those clients aged 70 to 75 inclusive.

These contributions are classified as preserved benefits subject to normal conditions of release.

Non-concessional contributions cap

A NCC cap of \$150,000 applies per individual each financial year. Further, larger contributions of up to \$450,000 averaged over three years (or, more accurately, allow up to two years of future entitlements to be brought forward) also apply.

Excess NCCs are taxed at the top marginal rate plus Medicare levy but can remain in the fund. The liability for this tax is levied on the individual who needs to nominate a super fund to release monies to pay the liability. To limit breaches of the cap, superannuation funds are prohibited from accepting contributions in excess of the maximum allowable non-concessional contributions in a year.

Spouse contributions

You are able to make after-tax contributions into superannuation on behalf of a spouse who is under age 65, regardless of whether they are working. If a spouse is aged 65-69 they must satisfy the work test.

Eligible spouse contributions are preserved benefits and subject to normal conditions of release. However, if the spouse has never been gainfully employed, the primary conditions of release are attaining age 65, financial hardship or compassionate grounds. For someone who has at anytime been gainfully employed, whether before or during the membership of the fund, all of the other conditions of release will apply.

A tax offset of 18% is available to the contributor for the first \$3,000 (maximum rebate \$540) contributed per annum on behalf of the spouse. The maximum rebate is only available if the spouse's assessable income is below \$10,800 in the year the contribution is made (phased out at \$13,800).

As spouse superannuation contributions are made on an after-tax basis, they do not attract contributions tax on the way into the fund and may later be withdrawn from the fund tax-free. Earnings on the contributions are treated as ordinary superannuation benefits and so upon withdrawal prior to age 60, they may attract benefit payments tax.

Co-contribution for low income earners

The Government pays superannuation co-contributions to eligible low to middle income earners. The aim is to increase the number of low to middle income earners making personal superannuation contributions and increase the levels of contributions being made by existing contributors.

To be eligible for the co-contribution, a person will need to:

- ▶ Be a low to middle income earner, with total income (assessable income and reportable fringe benefits) being less than \$61,920 in the financial year (threshold for 2011/12)
- ▶ Have 10% or more of total income attributable to carrying on a business and/or eligible employment
- ▶ Be aged less than 71 on 30 June of the year in which the personal contributions were made
- ▶ Not be eligible for release of benefits upon permanent departure from Australia
- ▶ Lodge their income tax return.

The maximum co-contribution for 2011/12 is \$1,000, based on a \$1.00 Government co-contribution for each \$1 personal contribution up to the maximum of \$1,000 paid to any complying superannuation fund or Retirement Savings Account.

- ▶ The maximum co-contribution of \$1,000 is reduced by 3.333 cents for each dollar by which the person's total income exceeds the threshold for receiving the full co-contribution.

The definition of income includes salary sacrificed contributions for the following measures:

- ▶ Government co-contribution
- ▶ Spouse super contribution tax offset
- ▶ Deduction for personal super contribution.

Superannuation

Tax File Numbers (TFN)

Super fund members are required to quote their tax file numbers (TFN) to their super fund if they wish to make a NCC. Super funds are required to return NCCs made within 30 days if no TFN is provided.

Further, CCs made to accounts without a TFN will have those contributions taxed at an additional 31.5% (on top of the 15% contributions tax).

Preservation and conditions of release

Since 1 July 1999, any contributions into superannuation must remain preserved until a condition of release has been satisfied (with the exception of undeducted contributions made before 1 July 1999, and vested resignation or retrenchment benefits not subject to preservation at 1 July 1999).

The preservation age on retirement is 55, increasing to 60 depending on date of birth as per the table below:

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 30 June 1961	56
1 July 1961 30 June 1962	57
1 July 1962 30 June 1963	58
1 July 1963 30 June 1964	59
1 July 1964 or after	60

In order to be able to withdraw your benefits from superannuation, you must first satisfy a condition of release relevant to the preservation status of your benefit as follows:

Benefits	Contribution method	Conditions of release
Preserved	This is the amount of your benefit that cannot be cashed, unless the member meets a condition of release. It is the balance of the account less the Restricted non-preserved and Unrestricted non-preserved amounts. Generally all contributions made from 1 July 1999 must be preserved.	<ul style="list-style-type: none">▶ on permanent retirement from the workforce at or after the 'preservation age'▶ on leaving employment on or after age 60▶ on reaching age 65, regardless of retirement▶ on total and permanent incapacity▶ on terminal illness▶ whilst still employed and having reached preservation age, taking a transition to retirement income stream▶ on the grounds of severe financial hardship or compassionate grounds▶ if having entered Australia on an eligible temporary resident visa, the member then permanently leaves Australia▶ when the ATO gives the Fund a release authority to pay excess contributions tax to the ATO▶ you terminate employment with your employer and your preserved benefit is less than \$200▶ on death.
Restricted non-preserved	This is the amount (if any) that you would have been able to withdraw if you had left the Fund on 1 July 1999.	Any of the above OR Member leaves current employment.
Unrestricted non-preserved	This is the amount of benefit that can be withdrawn at any time. It will only exist if you have met a condition of release or have rolled over an unrestricted non-preserved benefit from another scheme.	None.

Superannuation

Acceptance of contributions

Age	When can I make personal contributions?	When can a spouse contribute on my behalf?	When can my employer contribute on my behalf?	Can my benefit remain in the fund?
Prior to age 65	Any time.	Your spouse can make contributions on your behalf regardless of whether you or your spouse is working.	<ul style="list-style-type: none"> ▶ Same as for personal contributions i.e. your employer can contribute if you can contribute and ▶ mandated employer contributions including any Superannuation Guarantee contributions or award contributions. 	Yes.
Age 65 - 69 inclusive	Where you are gainfully employed at least 40 hours in 30 consecutive days during the financial year.	Your spouse can contribute on your behalf if you are gainfully employed for at least 40 hours in 30 consecutive days during the financial year.	<ul style="list-style-type: none"> ▶ Again, same as for personal contributions plus ▶ mandated employer contributions including any Superannuation Guarantee contributions or award contributions. 	
Age 70 - 74 inclusive	Where you are gainfully employed at least 40 hours in 30 consecutive days during the financial year.	Your spouse cannot contribute.	<ul style="list-style-type: none"> ▶ Again, same as for personal contributions plus ▶ your employer may make industrial award/certified agreement contributions (no SG after age 70). 	
Age 75 or over	Unable to contribute.	Your spouse cannot contribute.	Your employer may make industrial award/certified agreement contributions.	

Superannuation

Superannuation withdrawal

If you decide to take your superannuation benefits as a lump sum, it will comprise up to two components.

1. Tax-free component

The tax-free component is the total value of:

- ▶ The crystallised segment comprising undeducted contributions, the crystallised pre-July 1983, concessional, post-June 1994 invalidity and CGT exempt components as if the superannuation benefit was paid out on 30 June 2007.
- ▶ NCCs made from 1 July 2007.

2. Taxable component

The taxable component is the balance of your benefit less the tax-free component.

All withdrawals will be deemed to include a tax-free and taxable component in the same proportion as the total interest at the time of payment. There is no longer an option to withdraw from a particular component.

Taxable treatment

Lump sum benefits paid from a taxed superannuation fund to clients aged 60 and over will be tax-free. The following table summarises the tax treatment of benefits paid from a taxed superannuation fund to clients under age 60.

Component	Tax payable if you are under preservation age [^]	Tax payable if you are preservation age [^] to 59
Tax free	Tax free	Tax free
Taxable	Marginal tax rate up to 20%*	First \$165,000 [#] – 0% Over \$165,000 [#] – 15%*

[^] Preservation age is the age at which retirees can access their super benefits generally when they retire. Please refer to the 'Superannuation' section for more detail.

* Plus Medicare levy. Flood levy may also apply in 2011/12.

[#] Low rate cap for the 2011/12 financial year. This is indexed in line with AWOTE on 1 July each year.

Retirement income streams

Account-based pensions

An account-based pension provides an income stream from non-preserved superannuation money or directed termination payments. The investor selects the underlying investments and nominates the amount of income to be paid, above approved limits. The benefits include.

- ▶ **Flexibility** - The investor nominates the level of income that they will receive each year, subject to a minimum level (see table below) that is set down by the Government. There is no longer a restriction on the maximum pension income that can be received. Lump sum withdrawals may be made at any time and will be taxed according to the components for clients under age 60.

Age of pensioner	Percentage factor	Percentage factor for 2011/12
Under 65	4	3
65 – 74	5	3.75
75 – 79	6	4.5
80 – 84	7	5.25
85 – 89	9	6.75
90 – 94	11	8.25
95 or more	14	10.5

- ▶ **Proportional drawdown** – For new pensions commenced from 1 July 2007, the tax-free and taxable portion of each income payment (and commutation amount) will be based on the fixed percentage of these components at the commencement of the pension.
- ▶ **Investment control** – The investor selects the underlying investment options and the timing of the payments. The account is held in the investor's name and upon death, the pension may revert to a nominated recipient or the remaining balance paid to the investor's beneficiaries.
- ▶ **Taxation** – Lump sum tax is deferred on superannuation money that is rolled into an account-based pension. Earnings in the fund are tax free, making them an ideal structure to hold an investment portfolio.
- ▶ **Tax free income** – Pension income is tax free for those aged 60 and over. For clients under age 60, income received may include a tax free portion if a tax free component was used to purchase the pension.
- ▶ **Tax offset** – A 15 per cent tax rebate may apply to taxable pension payments received from the fund.
- ▶ **Estate planning** – In the event of death, a reversionary pension can be paid to a spouse or dependant (if available and if nominated at pension commencement), or a lump sum taken by the beneficiaries at the discretion of the trustee (where a binding nomination is not available or not in force). Alternatively, it can be paid to your estate. Importantly, there is no loss of capital upon death.

The income stream from an account-based pension will continue to be paid while the investor has assets available in their fund. Accordingly, there is no guarantee of a payment for any fixed period of time. The period will be determined by the initial account balance, the level of income drawn and the earnings of the underlying investments.

Transition to retirement (TTR) pensions

People who have reached their preservation age (55 for those born before 1 July 1960) can access superannuation benefits as a non-commutable income stream. There are no work or income tests or monetary limits applying to benefits that can be accessed using this condition of release.

This measure, known as 'transition to retirement', was designed to appeal to those looking to reduce their working hours without having to retire and being able to supplement their lower employment income with income sourced from superannuation.

Non-commutable income streams are simply existing income stream types, including account-based pensions, term allocated pensions and annuities that cannot be commuted in cash, except in limited circumstances. Further, they will be restricted to a maximum pension income of 10% of the account balance upon commencement and then every 1 July thereafter.

While there are restrictions on cash commutations, benefits in a non-commutable income stream can be rolled over to another non-commutable income stream or back to the super accumulation phase if, for example, the person returns to full-time work.

A non-commutable income stream purchased under transition to retirement regulations will revert to a normal income stream (i.e. able to make lump sum withdrawals) when the person declares retirement or leaves employment after reaching age 60.

Retirement income streams

Employer Financed Benefit (EFB) pension

Certain members of the Retirement Scheme who were previously members of the Local Government Pension Fund or NSW Retirement Fund would have retained the option of taking all or part of the Employer Financed Benefit (EFB) component as a lifetime pension. Under current legislation, the EFB pension is 100% exempt from Centrelink's Assets test.

The EFB pension option is only available to eligible members retiring at or after age 60 years unless they retire due to total and permanent invalidity or they die. Therefore, should a member retire at age 58 years, they are not eligible for the EFB pension option.

The EFB pension is a lifetime pension which is automatically indexed each year in accordance with the Consumer Price Index (inflation), and is payable until the member's death. Like most other superannuation pensions, pension income is fully rebatable and therefore generally attracts a tax rebate equal to 15% of the taxable portion of the pension payment.

Pension payment is calculated by using the member's accumulated benefit points (or maximum benefit points, whichever is the lower) multiplied by their final average salary and a factor. The factor is dependent on the member's age at pension commencement, the type of termination (such as normal retirement or invalidity) and whether a reversionary pension is payable.

Prior to commencing the pension, former NSW Retirement Fund members are required to nominate whether they wish for their benefit to be 'reversionary', that is, whether they wish for it to continue to their surviving spouse upon their death. Once a decision has been made, it is final and the amount of pension payable is dependent on this nomination. The amount the surviving spouse would be entitled to is approximately five-eighths (or 62.5%) of the pension entitlement previously received by the member.

Pensions paid to former members of the Pension Fund are always reversionary and nominations are not required.

EFB child pension option

Additionally, any member of the Retirement Scheme who was previously a member of the Pension Fund would have retained the children's and orphan's pension option which is payable upon the death of the member.

Under this arrangement, if the pensioner dies leaving a dependant child, a pension is paid to the spouse of the deceased pensioner, or to the guardian of the child, for the child's benefit.

A dependant child is defined as one who is, in the opinion of the Trustee, wholly or substantially dependent on the deceased pensioner before their death and is:

- ▶ A child who has not attained age 16.
- ▶ A child who has attained 16 but not 25 years and, in the opinion of the Trustee, is receiving full time education at a school, college or university and not ordinarily employed or engaged in working for remuneration.

A pension ceases to be payable when the child ceases to be a dependant under the definition above.

Unit trusts / managed funds

A unit trust or managed fund is an investment vehicle which allows individuals to pool their funds and invest as a group, gaining access to a wide range of markets and investments to which they may not otherwise have had access.

Types of trusts

A number of different types of trusts are available including:

Cash management trusts

Cash management trusts invest in highly liquid, secure investments such as short-term securities issued by Federal and State governments, banks and corporate borrowers. They can operate much like a bank account. Generally, they have no entry or exit fees and offer instant redemption, cheque books, phone and internet facilities. Although cash management trusts are not seen as an investment as such, they do require a prospectus.

Australian fixed interest trusts

Australian fixed interest trusts can be categorised as fixed interest trusts and bond trusts. Australian fixed interest trusts invest in Australian fixed deposits and other high income-earning securities. Bond trusts invest in bonds, fixed deposits and other interest-bearing securities that may be short, intermediate or long-dated securities. As the value of the underlying securities of bond trusts can vary enormously at times, these funds should not be seen as a totally secure form of investment.

Broadly, fixed interest trusts have a bias towards delivering a regular income and should thus be less volatile than bond trusts. As bond trusts are usually somewhat riskier than fixed interest funds with an income bias, they aim to provide investors with a combination of modest capital growth and a relatively high level of income.

Mortgage trusts

Mortgage trusts invest in mortgages over residential or commercial properties and should be considered a medium-term, fixed-interest investment. A percentage of the trusts' assets are held in cash to facilitate the redemption of units.

Most investors in mortgage trusts regard them as relatively safe investments, and therefore do not attempt to diversify across managers, or assess the risk/return for each trust. Investors should remember that ultimately, it is the property underlying the mortgages in the trust that represents the security to investors, but it is not a property investment.

Australian equity trusts

Australian equity trusts invest in shares listed on the Australian stock exchange. Investment choices range from blue-chip stocks, precious metals, natural resources such as oil and mining, to sectors such as technology and small companies.

Broadly, Australian equity trusts may be categorised into those that focus on delivering high levels of dividend imputation to investors and those that aim to maximise capital growth.

Australian share trusts may have significant tax advantages that arise from imputation credits, associated with any franked dividends received from shares held in the portfolio.

International trusts

Unit trusts also provide investors with international exposure to many of the asset classes. International trusts include:

- ▶ International fixed interest trusts
- ▶ International equity trusts
- ▶ International property trusts.

International investment provides a valuable source of diversification and introduces currency to the investment process. All international unit trusts are exposed to currency risk. Managers may or may not choose to hedge, i.e. manage this currency exposure.

Unit trusts / managed funds

Property trusts

Australian property trusts invest in many different types of properties including:

- ▶ Retail properties
- ▶ Commercial and industrial properties
- ▶ Tourism and leisure industry properties
- ▶ Central business district (CBD) properties
- ▶ Fringe CBD and rural properties.

Distributions from these trusts may have tax-free or tax-deferred income components.

A listed trust is listed on the Australian stock exchange (as opposed to an unlisted trust which is not listed).

Property securities trusts invest primarily in listed property trusts. The advantage of this is that investors access the benefits of investing in property (i.e. capital growth and income) whilst their investment remains liquid. Property securities trusts, by investing in a number of different property trusts, spread investors' exposure across several property trusts and therefore potentially reduce risk.

Diversified trusts

Diversified trusts, also known as multi-sector funds, are a combination of many of the other trusts and usually have a diversified portfolio of securities. Investing money across the various asset sectors reduces the risk of suffering a large loss when one sector experiences a set back.

The fund manager determines the percentage of the funds to be allocated to each asset class and can change the allocation within the constraints of the fund's objective. The fund manager undertakes periodic re-weighting inside the trust structure.

There are various types of diversified trusts, including the following.

- ▶ **Capital Guaranteed** – These are for very conservative investors because they guarantee the return of the investor's capital. Life insurance companies generally offer these products. They trade-off high returns for capital security.
 - ▶ **Capital Secure** – Also referred to as capital stable or conservative trusts, these trusts were created by fund managers to offer marginally higher returns to risk-averse investors. However, capital secure funds do not offer capital guarantees and they can experience negative returns from time to time. Capital secure funds hold a significant amount of their assets in fixed interest securities and have limited exposure to equities and other growth assets.
 - ▶ **Balanced** – Balanced trusts aim to achieve higher returns than capital secure trusts over time by 'balancing' investments between defensive and growth assets. Typically around 50% of the portfolio is invested in growth assets and 50% in fixed interest related securities.
 - ▶ **Growth** – Growth trusts are designed to meet long-term investment objectives. Growth trusts are more volatile than capital secure and balanced trusts because of their higher exposure to growth assets such as Australian and international equities.
-

Dollar cost averaging

Market timing sounds ideal in theory. The problem is that few investors, and even few professional fund managers, can accurately predict movements in the sharemarket. More often than not, market timers sell when the market is low and are out of the market when the inevitable rally occurs. Some people get it right some of the time, but the key point is that for longer-term investors, market timing can expose investors to the very risks they are trying to avoid.

Statistics show that investors who remain focused on the long-term upward trend in the sharemarket will do better. History tells us that:

- ▶ The underlying trends in sharemarkets are positive.
- ▶ Markets tend to regain any short-term lost performance.
- ▶ Periods immediately prior to and following a market correction are generally characterised by robust performance, magnifying the risks and costs of incorrect market timing.

The greatest risk in attempting to time the market is not the risk of being in the market during a declining market, but the risk of being out of the market at the trough of a decline when sentiment is at its most negative and potential returns are at their most robust. Consequently, investors with a disciplined investment approach and a focus on long-term wealth creation tend to enjoy better long-term returns than investors who attempt to time the market.

One way you can ensure that you have a disciplined investment approach and that you never miss an opportunity, is to employ a savings principle known as dollar cost averaging.

Dollar cost averaging is a strategy that entails making an investment in the same security at regular intervals (weeks or months) over a period of time (months or years). In practical terms it takes the guesswork and emotion out of trying to time your entry into the market and allows you to build your investments over time.

It should be noted that dollar cost averaging works best in a falling or a volatile market over a long period of time. Dollar cost averaging will not guarantee a profit (particularly if the investor has to sell at a bad time) and bigger gains are possible by investing a lump sum. However, dollar cost averaging is a highly effective way to avoid the risk of investing at a bad time.

Gearing

Gearing simply means borrowing money to invest. Gearing may be used with existing savings to accelerate the process of wealth creation by allowing an investor to make a larger investment than would otherwise be possible. The borrowed money can be invested in a number of ways, including direct shares, property and managed investments. Negative gearing occurs when the interest payable on borrowed funds exceeds the net income received from the investment. The investor must have surplus income over and above their day-to-day living expenses to meet the shortfall. Gearing can be an effective strategy if the after-tax capital gain return of the geared investment exceeds the after-tax costs of funding the investment.

The risks associated with negative gearing make it unsuitable for some investors. It is essential to carefully consider these risks and to seek investment and taxation advice before proceeding with this strategy. The specific risks associated with negative gearing include:

- ▶ **Timing mismatch** – It is important not to rely solely on investment income to meet interest payments, as investment income may be irregular and the interest payment may be due before the income is received from the investment. In particular, negative gearing reduces your cash flow because the investment income does not cover interest costs, which may result in a reduction in both cashflow and the ability to service the interest costs.
- ▶ **Fluctuations in interest rates** – If the income from investments does not change, but interest rates on borrowed funds increase, then you will incur additional costs that will need to be covered from other sources.
- ▶ **Reduction in capital value** – Although there are potential wealth creation benefits to be gained from gearing, these benefits are achieved at the expense of higher risk. The following table illustrates that although gearing has the potential to increase capital gains in a rising market, it can also compound a capital loss in a falling market.

	Geared	Non-geared
Investor's equity	\$40,000	\$40,000
Amount borrowed	\$60,000	\$0
Total investment	\$100,000	\$40,000
Market rises 10%		
Value of portfolio	\$110,000	\$44,000
Loan outstanding	\$60,000	\$0
Investor's equity	\$50,000	\$44,000
Gain in investor's equity	25%	10%
Market falls 10%		
Value of portfolio	\$90,000	\$36,000
Loan outstanding	\$60,000	\$0
Investor's equity	\$30,000	\$36,000
Loss in investor's equity	(25%)	(10%)

Gearing options

Home equity

The simplest and perhaps most cost effective way to gear is to borrow against the equity in property you already own (e.g. your home) at prevailing mortgage rates. The main benefits of this type of funding include the absence of margin calls and no requirement to contribute funds to the investment. The lending institution will generally only require the regular payment of interest to fulfil your obligations.

Gearing

Gearing is best suited to people who have a risk-tolerant attitude to investment, a high level of disposable income and are prepared to hold their investments for at least five to seven years. The potential benefits of negative gearing include:

- ▶ **Potential for increased capital gains and diversification** – Gearing increases the size of an investor's portfolio by allowing them to purchase additional investments with borrowed funds. Capital gains that are in excess of the after-tax cost of funding the geared investment are added to the portfolio's overall return. By increasing the number of securities in an investor's portfolio, the volatility of the overall investment portfolio may be reduced due to greater diversification.
- ▶ **Taxation** – Under current legislation, interest payments on money borrowed to invest in income producing investments, together with ongoing expenses, can normally be claimed against your taxable income. Investors on high marginal tax rates will receive a higher tax deduction and investors on lower marginal tax rates can potentially make greater use of imputation credits and will incur a lower capital gains tax liability when they sell their investment.

Pre-payment of interest on borrowing

It may be possible to pre-pay the interest on your loan. This would serve two purposes:

- ▶ Potentially lower the rate of interest on your loan.
- ▶ By pre-paying up to 12 months of interest, you may be able to bring forward the tax deduction on your borrowings to which you are entitled.

Centrelink

The following is a summary only of some of the more commonly received social security benefits. Full details are contained in publications issued by Centrelink.

For further information, you should telephone Centrelink or visit your nearest Centrelink Customer Service Centre.

Age Pension

You qualify for the Age Pension if you:

- ▶ Are over a certain age
- ▶ Meet residence requirements.

Eligibility for the Age Pension can be affected if you are receiving other pensions.

Men qualify for Age Pension at age 65 years or over. For women, it depends on your date of birth. The minimum age for women to get the Age Pension began to increase from 1 July 1995 and will continue to increase until it reaches 67 by 2023, making it the same for everyone.

Date of birth	Qualification age
1 January 1946 to 30 June 1947	64
1 July 1947 to 31 December 1948	64.5
1 January 1949 to 30 June 1952	65

Note: Women born prior to 1 January 1946 have already reached their qualifying ages of 60 to 63.5.

From 1 July 2017, the qualifying age for the Age Pension for men and women will increase to 67 years of age by July 2023 as follows:

From	New age pension age	Affects people born
1 July 2017	65 years 6 months	1 July 1952 - 31 Dec 1953
1 July 2019	66	1 Jan 1954 - 30 Jun 1955
1 July 2021	66 years 6 months	1 July 1955 - 31 Dec 1956
1 July 2023	67	1 Jan 1957 - onwards

Service Pension or Income Support Supplement (for War Widows or Widowers Pension granted after 20 March 1995) from the Department of Veterans' Affairs cannot be paid at the same time as the Age Pension.

If you have lived and worked overseas, you must take steps to get a pension from that country or provide reason why a claim would be unsuccessful. Claiming overseas pension entitlements generally means you have more income. This is one reason why you are obliged to claim your pension entitlements from another country.

Disability Support Pension (DSP)

To qualify for a Disability Support Pension, a person must:

- ▶ Be aged at least 16, but less than Age Pension age on the day the claim is made; and
- ▶ Meet residence requirements: and either
 - ▷ Be permanently blind, or
 - ▷ Have a disability, illness or injury which attracts an impairment rating of at least 20 points on the impairment tables* and are either:
 - Participating in the Supported Wage System; or
 - Unable to work full-time (or be retrained for full-time work) for at least two years because of a disability, illness or injury (full-time work means work for at least 15 hours a week at award wages).

* These impairment tables are contained in the Social Security Law. They are computer based tables that rate a person's impairment according to the severity of medical conditions and how they affect their ability to work. Impairment tables are completed by Centrelink staff using information provided in medical reports and details provided by customers.

If you are claiming DSP, you will need to provide a report from your doctor on your impairment and work capacity. You may also be required to attend a medical examination. Your income and assets and those of your partner must be below certain limits. Payment of a Disability Support Pension may be affected if you get Workers' Compensation or Third Party damages.

The Income Maintenance Period applies to DSP claimants.

If you are permanently blind, you may qualify for DSP, regardless of income or assets. However, your partner has to meet income and assets test rules to qualify for a partnered-rate pension.

Centrelink

Newstart Allowance

You qualify for Newstart Allowance if you:

- ▶ Are aged 21 or over and under Age Pension age
- ▶ Are unemployed
- ▶ Have income and assets under a certain amount
- ▶ Are prepared to enter into, comply with or vary an existing Activity Agreement
- ▶ Satisfy the Activity Test and Mutual Obligations
- ▶ Meet residence requirements.

Carer payment

To qualify for a Carer payment, you must be:

- ▶ Providing full-time care to a person
- ▶ Caring for the person in their own home (but you are not required to live with them)
- ▶ Not getting another social security pension or benefit, or a Veterans' Affairs Service Pension or Partner Service Pension
- ▶ Meet residence requirements.

In addition, the person/s needing care must:

- ▶ Be at least 16 years old and because of a severe physical, intellectual or psychiatric disability, qualify the carer under the Adult Disability Assessment Tool, or
- ▶ Be a child with a profound disability under the age of 16 years, or
- ▶ Be two or more children with a disability under 16 years who, together, require a level of care that is at least equivalent to the level of care required by a child with a profound disability, or
- ▶ Be a person with a disability and their child (who is less than six years old, or less than 16 years old and attracting Carer Allowance), and
- ▶ Need this care permanently or for an extended period of at least six months (less if they have a terminal illness), and
- ▶ Be getting a full or part social security pension or benefit, or a Veterans' Affairs Service Pension or Partner Service Pension, or
- ▶ Be ineligible for a social security pension or benefit, or a Veterans' Affairs Service Pension or Partner Service Pension solely because they have not lived in Australia long enough to qualify, or
- ▶ Not be getting a social security pension or benefit, or a Veterans' Affairs Service Pension or Partner Service Pension and satisfy specific income and assets tests, and
- ▶ Meet residence requirements.

Carer Allowance (adult)

You may get Carer Allowance if you personally provide full-time care on a daily basis for up to two adults who need significant additional care because of a disability, severe medical condition or because they are frail aged. You must live in the same home as the person you are caring for. Both the carer and the person you are looking after must also meet certain residence requirements.

Medical eligibility for Carer Allowance (adult) where the person being cared for is at least 16 years old is measured by the Adult Disability Assessment Tool (ADAT). This tool measures the functional ability of the person receiving care.

Centrelink

Lump sum compensation payment

If a lump sum settlement is made wholly or partly in respect of lost earnings or lost capacity to earn, 50 per cent of the gross lump sum payment is deemed to be the compensation part.

For compensation awarded by a court or tribunal after a full and contested hearing, Centrelink will use the courts' categorisation of the lost earnings and lost capacity to earn to determine the compensation part of the lump sum.

Preclusion period

The number of weeks in the lump sum preclusion period is calculated by dividing the compensation part of the lump sum by the single pension income cut-off amount (divisor) applying at the time that the compensation is received. The resulting amount is then rounded down to a whole number of weeks.

Start date of preclusion period

The preclusion period generally begins on the day after the last day periodic compensation payments were paid or if no periodic compensation payments were received, the day the lost earnings capacity began.

If the preclusion period extends into the future, the compensation recipient will not be paid most social security payments. The compensation recipient may still be able to obtain some assistance during a preclusion period if they apply and qualify for the payment. Assistance available during a preclusion period may include Health Care Card, Commonwealth Seniors Health Card, Carer Allowance, Mobility Allowance and Disaster Relief Payment.

The compensation recipient's partner is not precluded and may be able to be paid social security payments if they apply for and qualify for a payment. The partner's payments will be worked out taking into account the assets and income of the couple. Assets can include the lump sum payment unless it is invested in an exempt asset. The person or their partner may also be able to apply and qualify for the Family Tax Benefit.

Pension thresholds

Assets and income tests

Centrelink applies two tests to determine eligibility for the age pension - the assets and income tests. The test that results in the lowest payment is the one applied. From July 2011, the rates and thresholds are:

Assets test	Homeowner		Non-homeowner	
	To receive a full pension	Pension cut-out	To receive a full pension	Pension cut-out*
Single	\$186,750	\$673,000	\$321,750	\$808,000
Couple	\$265,000	\$998,000	\$400,000	\$1,133,000

* May be higher if rent assistance is paid with your pension.

Pensioners receiving payments at 19 September 2009 may be paid under 'transitional arrangements' or saved status. They will continue to receive these existing entitlements until they are better off under the new pension rules. The transitional asset thresholds are:

Assets test	Homeowner		Non-homeowner	
	To receive a full pension	Pension cut-out	To receive a full pension	Pension cut-out*
Single	\$186,750	\$620,750	\$321,750	\$755,750
Couple	\$265,000	\$966,000	\$400,000	\$1,101,000

The pension is reduced by \$1.50 pf for every \$1,000 of assets over the full pension threshold (single or couple combined).

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Income test	To receive a full pension	Pension cut-out*
Single	\$150 pf	\$1,608.60 pf
Couple (combined)	\$264 pf	\$2,462.80 pf

* May be higher if rent assistance is paid with your pension.

The pension is reduced by 50 cents (single) and 25 cents (couples), for every \$1.00 of income over the full pension threshold. The transitional income thresholds are:

Income test	To receive a full pension	Pension cut-out*
Single	\$150 pf	\$1,777.25 pf
Couple (combined)	\$264 pf	\$2,892.50 pf

For transitional cases the pension is reduced by 40 cents (single) and 20 cents (couples), for every \$1.00 of income over the full pension threshold.

Under the Work Bonus, the first \$250 of employment income earned each fortnight is disregarded and not counted under the Income Test (refer to Work Bonus section).

Allowance thresholds

Asset and income tests

The asset and income test works differently for allowees than it does for pensioners. The asset test threshold shown below is the allowance cut-out point. From July 2011, the rates and thresholds are:

Assets test	Homeowner	Non-homeowner
Single	\$186,750	\$321,750
Couple	\$265,000	\$400,000

Income test	To receive a full allowance		Allowance cut-out*	
	Per fortnight	Per year	Per fortnight	Per year
Single Over 21	\$62	\$1,612	\$884.84	\$23,005.89
Single Over 60 after 9 months	\$62	\$1,612	\$949.67	\$24,691.42
Couple (each)	\$62	\$1,612	\$807.84	\$21,003.84

* May be higher if you are eligible for Pharmaceutical Allowance or Rent Assistance.

NOTE: If your partner's income exceeds the cut-out point (\$807.84 per fortnight), your fortnightly allowance will be reduced by 60 cents in the dollar.

The table below shows the reduction applying to Newstart Allowance as well as Parenting Payment Partnered, Youth Allowance (other), Mature Age Allowance, Widow Allowance, Sickness Allowance and Partner Allowance.

Assessable income	
Per fortnight	Reduction
\$62 - \$250	50c per dollar
\$250 +	60c per dollar

Allowance waiting periods

Most people who apply for Centrelink allowance benefits will be subject to a one-week preclusion period before any benefits are paid. The one-week waiting period is in addition to the Liquid Assets Waiting Period and the Income Maintenance Period.

The Liquid Assets Waiting Period (LAWP)

The Liquid Assets Waiting Period (LAWP) is a period a person must wait before being paid an allowance if they have funds above a threshold. The LAWP is between one and thirteen weeks and will vary according to the level of liquid assets.

Centrelink

The LAWP is based on the amount of liquid assets you hold at the time of applying for the benefit. These include:

- ▶ Amounts of money held in places such as banks, building societies or credit unions, including term deposits
- ▶ Some payments made in consequence of termination of employment
- ▶ Cash on hand
- ▶ Other investments, such as shares and managed funds.

Note: Centrelink does not treat superannuation and employment termination payments that have been rolled over as liquid assets.

The threshold for single people with no dependants is \$3,000 and for couples is \$6,000. The liquid assets over that threshold amount will be converted to a number of weeks during which those funds could be expected to support the claimant/s). This is calculated by dividing the remaining available funds by a divisor.

The relevant divisor is \$500 for single people with no dependants and \$1,000 for others. Application of the divisor will result in the number of weeks of the LAWP to be served, and this figure will be reduced to whole weeks for ease of administration.

Income Maintenance Period (IMP)

The Income Maintenance Period (IMP) will take into account all leave payments that have been accumulated (but not taken) through a period of employment or as a condition of service which are paid to the applicant. This includes maternity leave, long service leave, sick leave, annual leave and redundancy payments. Unused sick leave and employment termination payments that are paid as an ETP and rolled over into a superannuation or rollover fund do not count towards an IMP.

The IMP also applies to DSP claimants.

The IMP regards leave payments as income over a period equal to that for which the leave was paid. The level of income assessed will be calculated according to the rate paid by the employer (for example if a person is paid \$4,000 for eight weeks leave then income will assessed at \$500 per week).

This will mean that most applicants will be reduced to a nil rate for the period of the IMP. In some cases, for example permanent part-time workers on low incomes, the IMP may result in a reduced rate for the period of the leave.

The IMP will commence from the date the leave payment is paid and extends for the duration of the leave. Generally, the commencement date will be the date that employment is terminated, or leave commences. The IMP is served concurrently with other waiting periods, with the longer waiting period determining when a Centrelink payment will commence.

Exemption of super from means testing

Superannuation assets are exempt from Centrelink's income and assets tests until Age Pension age. Thereafter, it is treated as a financial investment.

Deeming

The income you receive from assets defined by Centrelink as financial investments is assessed under one simple set of rules called 'deeming'. Deeming means that your financial investments are assumed to be earning a certain amount of income, regardless of the income they are actually earning. The current deeming rates are as follows:

Single	1st \$44,600 of financial assets deemed as earning 3% income p.a. Balance over \$44,600 deemed as earning 4.5% income p.a.
Couple	1st \$74,400 of financial assets deemed as earning 3% income p.a. Balance over \$74,400 deemed as earning 4.5% income p.a.

Financial investments typically include bank accounts, managed investments, accommodation bonds, shares and investment bonds.

Gifting

In each financial year, assets to the value of \$10,000 for individuals or couples can be disposed of without affecting the pensioner's social security payment. This is limited to a maximum of \$30,000 in any rolling five-year period. Gifts include money and assets that are transferred to relatives, family or other trusts, and charities, and assets sold for considerably less than their current market value.

Centrelink

Gifted amounts over the allowable limits will be treated as an assessable asset and included in the assets test calculation. Income that would have been earned from the asset will continue to be assessed under the deeming rules. The asset and income values calculated remain in force for five years. Please note that gifting rules do not apply to the sale or reduction of assets to meet normal expenses such as home improvements or a holiday.

Funeral bonds

Funeral bonds are investments used for accumulating funds to help pay your funeral costs. Funds are only payable on your death. Your policy cannot be surrendered or accessed until this time. Money can be invested as a lump sum in a funeral bond or through regular savings instalments. Additional deposits may be possible. Other features include:

- ▶ Money can only be paid out on your death. You cannot obtain access earlier.
- ▶ Up to two funeral bonds of up to \$11,000 in total, excluding investment returns, are not assessed under either the income or assets tests for social security purposes. They can only be used to pay funeral costs and cannot be accessed before death. If more than \$11,000 is invested, the full amount is assessed under both the income and assets tests.
- ▶ A funeral bond investment is not an exempt asset if the investor has another funeral bond, in their own name or jointly owned with their spouse, or they have prepaid their funeral expenses.
- ▶ Interest (bonuses) is paid annually and is added to your investment tax-free.
- ▶ Benefits paid out upon death are also exempt from taxation. Any money not used for funeral expenses and returned to your estate by the fund may be liable for income tax. This is the responsibility of your Executor.
- ▶ Bonds may be owned jointly but generally only one funeral may be paid for with the bond. On the death of the first owner, the survivor can elect to access the funds to pay for funeral expenses or to leave the investment to mature on their own death. If the bond can only return the actual amount required to pay your funeral expenses, your estate may lose some capital and/or earnings if your account balance is higher.

Concession cards

Commonwealth Seniors Health Card (CSHC)

To be eligible for the card you must:

- ▶ Be an Australian resident living in Australia
- ▶ Have reached Age Pension age but do not qualify for the Age Pension
- ▶ Have adjusted taxable income below the following amounts:

Single	\$50,000 p.a.
Couple	\$80,000 p.a. (combined)

Adjusted taxable income includes:

- ▶ Total net investment losses - the sum of net losses from rental property and financial investments.
- ▶ Reportable superannuation contributions - includes reportable employer superannuation contributions (e.g. salary sacrifice) and personal deductible contributions.

As a CSHC holder, you will also receive a Seniors Concession Allowance which is an ongoing payment of \$125, paid every three months.

Pensioner Concession Card (PCC)

The PCC is issued to all pensioners. Cardholders are entitled to concessions for health, household and travel expenses. Holders can access discounts for hearing aids, prescriptions, council rates, electricity, telephone and water bills, motor registration and drivers' licenses. Individuals qualifying for a part pension automatically become entitled to receive a PCC.

Health Care Card

This entitles the cardholder to Commonwealth health concessions such as low-cost pharmaceuticals and access to a more limited range of state and local government health, household, educational, recreational and transport concessions. The card is automatically issued to recipients of most allowances.

Centrelink

The health care card is also issued to low income earners, subject to the following income test (as at 1 July 2011):

Average weekly income for 8 weeks previous to applying:	Weekly income
Single	\$470
Couple (combined)	\$816
Single, or couple combined, one child	\$816
For each additional child	\$34

Once eligible, these income limits may be exceeded by up to 25%.

Pension Bonus Scheme

The Pension Bonus Scheme is designed to encourage people to continue working (either full-time or part-time) after they would normally retire and claim an Age Pension. The bonus is a one-off, tax-free, lump-sum payment made when a person stops working and claims and receives an Age Pension. The amount of the bonus is linked to the amount of basic pension paid, and to the number of years worked after being a member of the Scheme.

To be eligible, you must:

- ▶ Register with Centrelink
- ▶ Pass the work test by completing at least 960 hours of gainful work (e.g. 20 hours a week for 48 weeks) each year
- ▶ Defer the pension for at least one full year.

The bonus amount is based on:

- ▶ How long you have been an accruing member of the Scheme
- ▶ Your marital status during the deferment period
- ▶ How much of the basic Age Pension you can be paid when you claim Age Pension
- ▶ A multiple of 9.4% of the basic Age Pension for each bonus period.

The following table shows the **maximum** amounts payable based on rates applying at July 2011:

No. of bonus years	Bonus multiple	Single	Couple (each)
1	9.4%	\$1,689.50	\$1,277.50
2	18.8%	\$6,758.10	\$5,109.90
3	28.2%	\$15,205.80	\$11,497.30
4	37.6%	\$27,032.60	\$20,439.70
5	47.0%	\$42,238.40	\$31,937.40

The Pension Bonus Scheme has been closed to new entrants since 20 September 2009. This Scheme was replaced by the Work Bonus.

Work Bonus

The Work Bonus is an incentive for pensioners of Age Pension age to remain in the workforce. Changes introduced on 1 July 2011 further improve the Work Bonus.

- ▶ The first \$250 of employment income earned each fortnight is disregarded and not counted as income.
 - ▶ Any unused amount (if you earn between zero and \$250 in a single fortnight) is now added to your Work Bonus balance, which can accumulate to \$6,500.
 - ▶ Your Work Bonus balance started at zero in July 2011.
 - ▶ Your Work Bonus balance is used to offset any future employment income you earn in a single fortnight above \$250.
-

Risk insurance

Life and Total and Permanent Disablement (TPD)

Life insurance provides protection for your family, asset base and financial plan by paying a lump sum in the event of your death. TPD insurance provides a lump sum in the event that you become totally and permanently disabled. A disability may be either temporary or permanent, and the definition will vary from insurer to insurer. In general, it is defined as the inability, through sickness or accident, to perform your usual occupation, and to be permanent, the person insured would be considered as never being able to work again.

At a minimum, you should insure for a lump sum sufficient to discharge any outstanding debts. The insurance cover should also be sufficient to provide a reasonable lump sum, which can be invested to help meet any ongoing regular income needs of your survivors.

Policy ownership

The key issue in relation to life insurance proceeds is who owns the policy. If you are the owner of a life policy covering your own life, in the event of your death, the proceeds can be paid to either the nominated beneficiaries, or may form part of your estate.

In the event that proceeds form part of your estate, they may be disposed of by your Will. The advantage of this option is that the proceeds of the policy may be used to establish a testamentary trust.

Alternately your partner may own the policy over your life, in which case proceeds will be paid directly to them in the event of your death. You will need to discuss this issue in more detail with your financial planner.

Life / TPD insurance within superannuation funds

Personal life and TPD insurance cover taken out through an ordinary policy means that the premium is paid from after-tax dollars. Alternatively, if coverage is taken out through a superannuation fund, the premiums are often paid from pre-tax or concessional tax dollars. This can reduce the cost of cover significantly, particularly if you are on the highest marginal tax rate of 46.5% (includes Medicare levy).

Payment of death benefits may have tax implications for the deceased's estate and the beneficiary according to whether the beneficiary is:

- ▶ A dependant
- ▶ A non-dependant
- ▶ A minor.

You should therefore discuss your intentions with your estate planning specialist. You can then ensure your estate plan fully reflects your intentions as well as make an informed decision on whether to make binding or non-binding nominations.

Trauma / critical illness

Trauma (or critical illness) insurance provides a lump sum payment on the occurrence of a specified health condition, or in the event of your death. Conditions vary from insurer to insurer, although these will typically include:

Heart attack	Cancer	Stroke
Coma	Blindness	Multiple Sclerosis
Paraplegia and Quadriplegia	Coronary Artery Bypass Surgery	

This cover should ideally provide a lump sum for possible lifestyle changes, treatment and investment purposes.

Income protection / salary continuance

Income protection / salary continuance insurance helps replace your regular salary or earnings if you are unable to work for a period of time due to illness or accident. It is designed to help secure your lifestyle by ensuring your cash flow needs and loan repayments are met should a disability occur. It is available either through a superannuation fund or outside of superannuation.

Generally, you select the percentage of current gross salary or earnings that you wish to insure, up to a maximum of 75 per cent. You also select the waiting period that is to apply before the insurer commences your regular income stream, which can range from 14 days to 24 months. Finally, you select the length of time over which the benefit is to be paid, for example two years, five years, or to age 65. The premium that you pay will be affected by these variables.

Risk insurance

Premiums for income protection policies held outside of superannuation are tax-deductible and benefit payments will form part of your assessable income.

Income protection within superannuation funds

Trustees of superannuation funds may pay benefits other than superannuation to members in certain situations. One situation is when a member is unable to work through sickness or injury and has a salary continuance or income replacement policy within the superannuation fund.

The premium for the insurance policy is usually funded by part of the superannuation contribution paid to the superannuation fund.

Private health insurance

The Government's Medicare system covers your accommodation and medical expenses in a public hospital. However, under Medicare, you cannot choose your doctor, and in cases where your condition is not life threatening, the waiting period may be lengthy.

Private health insurance can provide you with choice of doctor and hospital. Furthermore, the time delays that can occur in the public system can be avoided. Private health insurance will also allow you to cover costs such as dental, physiotherapy, pharmacy and optical. The Federal Government has also introduced a 30 per cent health insurance rebate, to encourage participation in private health funds by making cover more affordable. This rebate may be claimed in taxation returns or through a reduced premium.

Lifetime Health Cover

Lifetime Health Cover is another Government initiative designed to encourage people to take out private health cover. If you joined a private health fund before 15 July 2000, you may qualify for the lowest base rate premium.

People taking out and maintaining hospital cover prior to or at age 30 will pay the base premium for the rest of their membership life. People joining over age 30 pay a 2% loading for every year they delay (e.g. a person joining at age 40 pays 20% more than someone who joins at age 30). A maximum loading of 70% will apply (at age 65 or older).

If a person was aged 65 or over as at 1 July 1999, they can take out hospital cover at any time in the future and be credited with the minimum joining age (i.e. base premium rate).

Traditional insurance

Whole of Life policies

Whole of Life policies provide continuing death cover for a specified amount and have fixed premiums. The benefit payment from a Whole of Life policy is the sum insured plus accumulated bonuses. This benefit is paid on death or maturity, whichever occurs first.

The protection and savings components of the premium are not readily identifiable and the policy (contract) is therefore considered to be a 'bundled contract'. Part of the premium provides for the death cover and the life insurance company invests the balance.

Whole of Life policies usually have a surrender or cash value after two or three years. Once a surrender value is established, the policy owner can borrow against the policy. Investment returns are by way of a bonus and are usually declared annually in arrears.

A non-forfeiture clause is usually included, which means that if the policy owner is unable to make a premium payment and the policy has a termination value, the life cover can still stay in place. The life company will automatically pay premiums on the policy owner's behalf by drawing funds from the cash (termination) value of the policy. Interest is usually charged on the overdue premium. The policy will continue as long as the overdue premiums plus interest do not exceed the cash value.

Endowment policies

Endowment insurance policies provide death cover for a specified period (such as until age 65 years) of a specified amount and also provide for a payment at the end of the period. As with whole of life policies, the endowment policies accrue bonuses, have a surrender value and usually contain a non-forfeiture clause.

Risk insurance

Endowment policies carry higher premiums than either term insurance or whole of life policies because payment is guaranteed. If the insured person dies before the endowment policy matures, then his or her family, or whoever is named in the Will as beneficiary, stands to inherit from the policy. The policies are so-called because 'endowment' means the provision of a permanent source of income, or a gift.

Pure endowment

Pure Endowment policies are different from Endowment policies in that you only get the sum insured if you survive to a certain age or specified date. There is no death cover on this policy. If you die prior to the maturity date, the premiums and interest may be refunded or you may also get nothing at all, depending on the policy.

Insurance bonds

Another way to have your money managed for you is to buy an insurance-type product. Insurance bonds re-invest all income earned on the underlying investments, and all earnings are taxed at the insurance company's nominal tax rate of 30 per cent. Most insurance companies will be able to reduce this rate to some extent, using imputation credits, depending on the underlying investments. Insurance bonds are offered under a Customer Information Brochure, which contains details to assist the investor to make an informed decision.

Investors who redeem their insurance bonds after a minimum term of 10 years generally have no further tax liability. Redemption of accrued growth made within 10 years are taxable at the individual investor's marginal tax rate, subject to a rebate of the 30 per cent tax rate already paid by the insurance company. Some transitional tax scales apply if a withdrawal is made during years nine and ten.

Estate planning issues

Estate planning is all about giving you proper control of your assets, making sure that the right amount of money and assets go to the right person(s) at the right time. It is about wealth succession. Estate planning is complex and requires the expertise offered by a solicitor and often an accountant in conjunction with the guidance of a financial planner.

Wills

It is important that you avoid the problems of dying intestate, i.e. dying without having made a Will. Areas of concern include:

- ▶ **Beneficiaries** – not only who you would like to receive all or part of your estate when you die, but also who will benefit if your first choice beneficiary (or second or third) predeceases you.
- ▶ **Executors** – you should choose an executor who is unlikely to predecease you and you should nominate an alternative executor. We feel it is important that the executor be someone in tune with your wishes. The technical side of managing a deceased estate is easily handled, provided your executor is aware of the services provided by professionals, solicitors, financial planners and accountants.
- ▶ **Trustee** – it is possible some funds may be held for some time in trust for beneficiaries who have not yet reached the age you nominate for them to receive the bequest. You should nominate a trustee for the funds and set guidelines regarding what sort of investments they can make.
- ▶ **Specific bequests and devices** – you may wish to consider leaving certain items to specific individuals. This may also have some Capital Gains Tax benefits, as it can obviate the need for the executor to sell an asset of the estate.
- ▶ **Asset register** – it is vital to maintain a register of estate information such as the location of your will, house deeds and investment certificates and documents. It should also include a list of all your separate investments and specific bequests, and be kept in an appropriately safe position where the executor can easily gain possession.

Your will should be reviewed regularly to ensure they are up to date and take full account of your current personal and financial situation. As a guide, it is vital that you consult your solicitor every three years for a review or more frequently should your circumstances change.

Power of Attorney

A Power of Attorney is a formal document by which one person appoints another to act as their legal representative. There are various forms of Powers of Attorney, for example general, specific or time limited.

A specific Power of Attorney would be granted if there was a specified duty that the Attorney performs. For example, a power granted to operate a nominated bank account or sell a named property. Alternatively, the power may be general, in which case the powers are exhaustive and varied. The Attorney can act in the place of the person granting the Power of Attorney in all matters and things that an Attorney may lawfully do and perform as an Attorney.

Although the Attorney has power to act on behalf of the person, the duties must be carried out in accordance with the instructions or as the person would act. This distinction is important to ensure that the Attorney's actions are not challenged in a court of law.

An ordinary Power of Attorney is revoked and should not be acted upon when the person granting the Power of Attorney becomes mentally incapable of looking after his or her own affairs.

Enduring Power of Attorney

An Enduring Power of Attorney is much the same as an ordinary Power of Attorney with one distinct difference - it is not automatically revoked by the subsequent legal incapacity of the person granting the Power of Attorney.

There are many reasons why an Enduring Power of Attorney is preferred. The most striking situations would arise where a person suffers injuries in an accident leaving that person with a mental incapacity or where a person suffers a stroke and can no longer either physically or mentally attend to the management of his or her own affairs. The other obvious situations occur when the elderly lose that mental and physical capacity they once had in the prime of their life. At that stage they need someone to attend to their affairs and be able to act fully and effectually in a legal manner.

Please note that after you have lost your mental capacity to act in legal matters it is too late then to appoint a person as your Enduring Power of Attorney. Therefore, appointment of an Enduring Power of Attorney immediately is the only way to ensure that your wishes can be continued.

If you have not appointed an Attorney and something unexpected happens, your family or appropriate person will have to apply to the relevant State Authority to have an Administrator appointed to manage your affairs.

Estate planning issues

Enduring Guardianship

An Enduring Guardian is someone you choose to make personal or lifestyle decisions on your behalf when you are not capable of doing this for yourself. If you are over 18 years, you can appoint one or more people to be your guardian. When you appoint an enduring guardian you must have the capacity to understand what you are doing.

You can choose which decisions you want your Enduring Guardian to make. These are called functions. You can give your guardian directions on how to carry out the functions and they can be as many or as few as you like. However, you cannot give your guardian the authority to override your objection to medical treatment. Only the Guardianship Tribunal can do this. In addition, an Enduring Guardian cannot make a Will for you, vote on your behalf, consent to marriage or manage your finances.

The person appointed as an Enduring Guardian must be at least 18 years old. Your chosen guardian should be someone you trust to make decisions in your best interests if you are not capable of making decisions for yourself. Your guardian must act within the principles of the Guardianship Act, in your best interests and within the law. You cannot give your guardian a function or a direction that would involve them in an unlawful act.

The appointed guardian cannot be a person providing treatment or care on a professional basis at the time of appointment. More than one person may be appointed whom you may direct to act jointly or separately.

You should discuss the appointment with your chosen guardian and make sure they are willing to take on this responsibility if you can no longer make decisions for yourself. It would be wise to discuss the functions in detail and ensure that your guardian clearly understands your wishes and any direction associated with any function. You may also wish to discuss the appointment with other significant people in your life.

Testamentary Trusts

The term 'trust' describes the situation where a trustee looks after the assets on behalf of the beneficiaries. The trustee may be one of the beneficiaries but is usually a professional adviser like an accountant, or solicitor or trustee company. Testamentary simply means that the trust has been established as a consequence of a Will.

The Testamentary Trust can be an effective tool to make distributions to beneficiaries in a manner and proportion to properly reflect your wishes. They have a number of other advantages, including:

- ▶ They attract no stamp duty
- ▶ No separate trust deed is required
- ▶ Upon death, any number of testamentary trusts can come into being
- ▶ The penalty rate of tax normally applied to income derived by beneficiaries under the age of 18 does not apply to assessable income of a trust estate that has resulted from a will. This means that income derived by minor beneficiaries is subject to ordinary tax treatment and can obtain the benefit of the tax-free threshold.

Estate planning issues

Binding Nominations

Superannuation laws have been amended to allow binding death benefit nominations to be accepted by some superannuation funds. Not all funds will offer this facility so it is always important to check the product and fund rules to establish how death benefits will be distributed.

A binding nomination allows the member to choose who should receive their superannuation benefits in the event of their death. The Trustee of the superannuation fund is bound by the member's nomination if it has satisfied all of the following requirements:

- ▶ The nomination must be in writing.
- ▶ The persons noted in the nomination must be either dependants or a legal personal representative of the member at the time of the member's death. It is permissible to note the class of person, rather than noting them by name, for example "my spouse".
- ▶ The proportion of the benefit payable to each person must be clear from the nomination.
- ▶ The nomination must be signed and dated by the member, in the presence of two witnesses over age 18, neither of whom is nominated to receive a benefit.
- ▶ The witnesses must sign and date a declaration stating that the member signed the notice in their presence; and
- ▶ The nomination must have been first signed, confirmed or updated within the previous 3 years (or a shorter period as determined by the governing rules in the trust deed). In each case, the time limit is taken from the date on which the nomination (or its confirmation or update) was signed by the member.

Financial planning reference material

For more information

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