Your money Your future

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2007 the year for super changes

Retirement planning is ongoing for the planner & the client. Find out how you can increase your superannuation savings and reduce your tax with a revolutionary new strategy. The Government's new rules on superannuation, with the right financial advice, could help build your savings faster and more effectively.
Between now and 30th June 2007, superannuation reform is set to dominate the minds of many Australian investors and small business owners.

Headlining the changes is the elimination of the lump sum tax on retirement benefits for those aged 60 or over from 1 July 2007. Also superannuation pension payments for those aged 60 or over will be tax-free from 1 July 2007.
But if you've had enough of work, then rolling your retirement savings into an allocated pension could prove a worthy interim measure. This gives your nest egg more time to grow within the superannuation environment.

Ultimately the impending super changes could affect your retirement planning significantly. Now is an excellent time to contact Charles Ellul to re-evaluate your circumstances.

Looking at life another way?

Discussing life goals with a financial adviser can have unexpected benefits.

Take the case of Toby and Michele, a young couple with kids living in Adelaide. Toby and Michele were thinking about buying a holiday house on the Fleurieu Peninsula. Toby's high-pressure job had him working long hours, which meant less time at home with his family. A holiday house seemed like a good idea.

But when Toby and Michele canvassed the idea with their financial adviser, they set in motion a rather unexpected chain of events.

At first glance their adviser commented that, in conjunction with their current financial commitments, a holiday house wasn't financially practical. But after delivering the bad news, their adviser put forward a number of thought-provoking propositions. Could they live on less in retirement? Would they consider selling their home in Adelaide? What did they think about alternative education options for their kids? These questions prompted Toby and Michele to wonder if there might be something else they could do.

What happened next was unexpected. Toby decided to take a part-time position at his company so Michele could enter the work force. Although reducing their overall income slightly, the arrangement improved Toby and Michele's life balance markedly. Toby was able to spend more time with the kids, Michele was happy to return to work, and even more interestingly, their desire for a holiday home dissipated.

Talking with your financial adviser can sometimes prompt you to see things another way.

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AXA Financial Planning

Your life insurance is too valuable to take lightly

Are finances tight just now? Thinking about saving some money by cancelling your life insurance?

Before you go ahead stop and think about what you're actually giving up.

What benefits does my life insurance provide?

Life insurance provides a lump sum to help your loved ones cope financially in the event of your death. They might use the money to pay off the mortgage or other debts, to reimburse funeral costs, pay for child care or home help, or as an income source.

If I let my policy lapse, what will happen?

If you don't pay your premiums and your policy lapses, if it's for less than a month you will generally be able to reinstate your policy with no questions asked.

But if your policy lapses for a month or more you will probably find that your insurer will want you to take further medical tests to see whether or not you are in good health.

Based on new information about your health, you may be asked to pay a higher premium or even worse, you may not be able to get your insurance cover back. If the medical examination found you had suffered serious injuries or illnesses during the period you were covered, then the insurer may not be prepared to accept the risks this time.

I'm already covered for life insurance through my super – so why do I need another life insurance policy?

A number of super funds automatically provide you with some level of insurance. But many people find the level of cover offered is not enough to meet their needs.

In fact, recent research commissioned by AXA has measured the amount of under-insurance in Australia at $468,000 per person (including insurance for life, income, trauma recovery and total and permanent disability).*

I just can't afford the annual premium at the moment – is there any way I can manage the cost?

If you are currently paying yearly, you could consider moving to quarterly or monthly payments.

Or, you could review your insurance cover as you may find circumstances have changed to the point where you don't need your current level of cover. By reducing your cover you can also reduce your premium.

Where can I obtain more information?

The best place to go for more information is your financial adviser.

* DEXX&R data expertise & research, "Estimates of the extent of under-insurance in Australia" July 2004

A great time to be 'stuck in the middle'

Right now, the step between your 'working life' and your 'retirement life' has become a great time to boost your superannuation savings. This is thanks to the Federal Government's 'transition to retirement' initiative.

In a nutshell, if you're over 55 and your employer allows it, you can salary sacrifice a portion of your employment income and simultaneously draw down on your superannuation. This is done by using a non-commutable allocated pension (NCAP).

Importantly, there is no requirement for you to reduce your working hours. This means it's possible to salary sacrifice a substantial portion of your income into superannuation, while still receiving a regular payment from your superannuation fund.

Because of the tax benefits, an NCAP strategy can boost your superannuation savings without impacting on your take-home income.

The 2006 NCAP Budget 'booster'

Thanks mostly to the 2006 Federal Budget announcement that superannuation withdrawals will be tax-free after the age of 60, the case for using an NCAP strategy will become even more compelling from 1 July 2007.

Sally's NCAP advantage

Sally is 55 years old and works fulltime in the hospitality industry. She earns $80,000 pa and during her working life she has accumulated $300,000 in superannuation. Her superannuation is invested in a growth fund that returns an estimated 7.4 per cent before tax and after fees.

Sally's adviser explains it is possible for her to receive exactly the same take-home income using an NCAP and to still boost her superannuation savings. Figure 1 shows how an NCAP would work in the first year, assuming Sally receives the maximum NCAP payment of $26,090.

Even better, Sally's adviser explains that over the projected 10-year period, an NCAP strategy can boost her superannuation savings by $70,000. This is likely to increase even further once the Federal Budget proposals are implemented.

For more information on NCAPs, speak to your financial adviser.

Figure 1: Sally's NCAP benefit

	before NCAP	with NCAP
Gross earnings	$80,000	$80,000
Deductible super contribution/ salary sacrifice		($33,263)
NCAP		$26,090
Total tax payable	($21,050)	($13,877)
Take-home pay	$58,950	$58,950

Assumptions: age = 55; salary = $80,000 pa; accumulated super = $300,000, rolled over to NCAP on 1 July 2006; maximum pension payment = $26,090 in year 1; salary sacrifice = $33,263 in year 1; No change in take-home pay before/after strategy; no change in risk profile = estimated return of 7.4% pa before tax & after fees; no change in Super Guarantee contributions, ie 9% of $80,000.