



EQUITY FINANCIAL SERVICES  
AUSTRALIA PTY LTD

HORIZONS

Autumn 2010

# Life after the GFC

The Global Financial Crisis (GFC) is slowly receding into history but its effects are still lingering in the world's economies and financial markets – and in our minds.

Philosopher George Santayana is often credited with the adage: "Those who cannot remember the past are condemned to repeat it."

Some of the events we have witnessed may hold particular lessons for us in making our future financial plans. Here are a few examples:

- **Sub-prime mortgages:** Despite the early signs of trouble in the US housing market appearing in mid-2007, the local ASX 200 share market index rose to a record of 6,828 points on November 1 that year.
- **Guarantee of bank deposits** in Australia, which followed the initial failure of US stimulus packages to gain support and the collapse in share prices in October 2008.
- **Government takeovers** of Northern Rock in the UK (to prevent a feared run on bank deposits) and of Fannie Mae and Freddie Mac in the US (to save their two largest mortgage companies).



## The outlook for 2010 and beyond

In some areas, the chaos of 2008 was turned around in 2009. At the same time, jumpy nerves still exist for some investors, politicians and money managers alike.

A key issue for 2010 and beyond will be how the Australian economy survives without the dramatic economic measures that were brought in to avert a recession. Interest rates have started to rise again, and the effects of the federal government's stimulus packages may start to wear off.

Some good news is that our unemployment rate appears to have levelled out somewhat, but this will be closely monitored over the coming year as a sign of how the economy is travelling. Almost 50 per cent<sup>1</sup> growth in share markets since their bottom in March 2009, have some analysts fearing that they could be expanding faster than the real economy.

Economists and analysts differ in their opinions about the type of recovery we will experience. Will there be strong growth, a long period of low growth, or are we facing further instability with the possibility of a double-dip recession or a bursting of the property bubble? In a period of so much uncertainty it is more important than ever to seek out competent professional advice regarding your investment strategies to achieve your wealth accumulation goals.

<sup>1</sup> As at April 2010.



### Sources:

[www.asx.com.au](http://www.asx.com.au)  
[www.finance.yahoo.com.au](http://www.finance.yahoo.com.au)  
Historical Prices: S&P/ASX 200 (AXJO)  
[www.quotationspage.com](http://www.quotationspage.com)  
Quotation #2042

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# Top super opportunities

Make the most of your super before 30 June

There are great opportunities for you to increase personal wealth through superannuation (super).

## 1) Contributions

### Tax deductions for concessional contributions:

- Employer contributions (such as SGC and salary sacrifice contributions) are 100 per cent tax deductible to age 75.\*
- Personal deductible contributions (eg self employed, unemployed or retirees) are 100 per cent tax deductible to age 75.\*

\* Note work test applies if you are over age 65.

### Concessional contribution cap

A cap of \$25,000 (indexed) applies to concessional contributions. However, transitional rules can apply if you are age 50 or over in any part of the tax year up to 30 June 2012, you can contribute \$50,000.

### Non-concessional contribution cap

Non-concessional contributions are after-tax contributions and a cap of \$150,000 (indexed) applies. However, if you are under age 65 at any time in the financial year, you are eligible to contribute up to \$450,000 over three years.

## 2) Tax planning opportunities

There are even more incentives for you to make tax effective contributions such as salary sacrifice or make deductible personal contributions into super. In the long term, making tax effective contributions has many benefits as it not only helps to increase your super savings but could also reduce the amount of tax you pay.

If you are aged under 50, utilise the benefit of being able to salary sacrifice up to the \$25,000 cap.

### Transitional rules if you are over age 50

The higher \$50,000 cap is a limited window of opportunity and will only apply up to 30 June 2012. You should consider

speaking to a financial adviser about taking advantage of this window of opportunity while it is available.

## 3) Access the Government Co-contribution

The Government Co-contribution is one of the most straightforward and effective ways for you to increase your super savings. To claim your maximum Co-contribution amount of \$1,000 you will need to make a personal after-tax contribution of at least \$1,000 to your super before 30 June 2010, and the government will kick in some extra cash towards your retirement. Anyone who earns between \$31,920 pa and \$61,920 pa is eligible.

Self-employed contributors may be eligible to receive a full tax deduction for their contributions to super until age 75 and may also be eligible for the Government Co-contribution until age 71.

### One of the best things about the Government Co-contribution is its simplicity.

You don't need to make a claim for it. All you have to do is make the personal contribution up to 30 June and the ATO does the rest. It's that easy!

## 4) Realise investments in capital loss position in accumulation

With world financial markets and Australian markets plummeting in 2008 you may have super assets sitting on unrealised capital losses. If you are considering restructuring your investment portfolio within super it may be beneficial to complete prior to 30 June as the super fund may be able to provide you a cash credit when taxation is allocated back to members, minimising capital losses. Speak with a financial adviser to find out if you can benefit from this.

## 5) Spouse contributions

A spouse contribution is where a person makes a contribution on behalf of their

spouse. Spouse contributions are counted towards the non-concessional cap and included in the calculation of the tax-free component in a super fund.



The person making the contribution may be entitled to a tax offset. The offset is payable in full where the spouse receiving the contribution has assessable income plus reportable fringe benefits totalling less than \$10,800.

The offset is then 18 per cent on the first \$3,000 of contributions (ie a maximum offset of \$540). The offset reduces \$1 for every \$1 by which the total of assessable income plus reportable fringe benefits exceeds \$10,800, with the offset totally phasing out at \$13,800.

### Splitting contributions between spouses

With tax-free benefits at age 60, splitting contributions with your spouse will no longer be as attractive. However, there are still some tax advantages if you intend to take lump sum benefits before age 60.

You can still split non-concessional personal and spouse contributions made during the 2009/2010 financial year if you leave the fund or commence a pension before 30 June 2010. An opportunity may exist if one member of a couple is age 60 or over and retired.

## 6) Consider deferring your retirement until age 60

Not only are pension payments and any lump sum withdrawals tax-free from age 60, but investments in super pension phase are held in a tax-free environment.

### If all benefits are tax-free at age 60 – why should I bother converting my superannuation to a pension when I retire?

- Although the tax on benefits may be the same, the tax rates on earnings of investments supporting those benefits is nil in a pension account and 15 per cent in a super account.
- Account based pension rules are very flexible, with lower minimum pension

payments and no restrictions on taking lump sums from the account.

Speak with a financial adviser about your options.

### 7) Leave your money in super

Your benefits can stay in your super account indefinitely after you turn age 65.

You will be able to accumulate your super investments in a low-tax environment

without having to draw down on them once you reach a certain age.

### Make the most of these opportunities

The best way for you to understand how these opportunities can benefit you is to speak to your financial adviser, who can help you maximise your super savings today.

# This is your time

## – things to consider during your 50s

### Imagine it ...

You have no mortgage to pay. The kids are no longer depending on you all day, every day. You don't have the worry of progressing your career or working too many hours.

For many people, the decade between ages 50 to 60 represents a time of significant change. Some changes may be welcome, while others may be more difficult to manage.

Either way, it is as important as ever to plan your way through this time of greater freedom and opportunity but also of uncertainty. The following are financial planning issues common to people in this age group.

### What sort of lifestyle?

Sometimes life has been so busy there has been limited time for choice – school and university fees, mortgage payments and work pressures have been enough to worry about. Between age 50 and 60, it can be a challenge to choose what you (and your partner) really want for the next 20 or 30 years.

One significant decision will be where and how you live. Do you plan to stay put, downsize, move to the city to be near the actions or move to the beach or bush for peace and quiet?

### How much do you need in retirement?

This will depend on how you want to live. For instance, Westpac/ASFA calculations\* show that a couple in Melbourne, Victoria needs approximately \$30,000 a year to live modestly and \$50,000 to live comfortably, assuming they own their home. Setting a budget for your life in retirement is a vital step in setting a retirement wealth target.

Do you have enough invested to live comfortably throughout your entire retirement, which could be as long as 20 or 30 years?

### Are your investments suitable?

If you haven't done it before, now may be the time to ensure that your investments are working as hard as possible for you. Is your superannuation invested appropriately? If you have managed funds, shares or investment property, are they the best assets for your changing situation?

### Do you have sufficient insurance in place?

If you have life and income insurance policies, do you have the right level of cover for your current circumstances? There is no point paying premiums for cover you don't need – but take care in cancelling cover that you may not be able to get back.

### Are you taking full advantage of superannuation?

Superannuation is generally a very tax-effective way to accumulate money for retirement and provide capital and income in retirement. Taking advantage of investing in super could make a big difference to reaching your retirement target.

### Have you planned beyond your lifetime?

People aged in their 50s will often have growing families as their children have children. Some will have more than one family after divorce, separation and second marriages. Taking time to think about how you want your assets to be distributed after your death can save a lot of heartache for those left behind.

Don't forget that the payouts from life insurance policies and superannuation don't necessarily form part of your estate and may need to be distributed separately from your Will. These can be treated separately and you need to make some decisions – seeking advice might be worthwhile.

### Where do I go from here?

With all these things to consider, the first step in updating your financial plan may be the hardest – but it is also the most rewarding. To make it a bit easier, seek professional advice and also make sure your family are aware of your retirement plans and your estate planning goals.

**Source:** \*Westpac ASFA Retirement Standard; <https://info.westpac.com.au/riscalculator/>

# Thinking of shares again?

You don't need to be a financial genius to know that the Australian and overseas share market has been through a volatile time over the past few years.

From its peak of 6,800 in late 2007, the S&P/ASX 200 fell to a low of just under 3,200 in March 2009. Since then, though, it has been sitting around 4,500 more recently.

Given this recovery, it is understandable that many people are asking: Is it time to move cash back into the market? Or am I too late? Will the market fall again?

There is no "one size fits all" answer to these questions but your response will depend greatly on your own circumstances and your beliefs about the long term performance of the market. However, when deciding on your next move you should take into account the manner in which you are, or could be, exposed to both positive and negative future share market performance.

## How to get involved

Many Australians have become accustomed to the share market since they may have picked up parcels of shares in the recent decades courtesy of public floats (eg Commonwealth Bank or Telstra).

Perhaps more significantly, most super funds invest in local or overseas share markets and the returns on our super are thus affected. For others, buying and selling direct shares may be a small hobby, or a more substantial activity on behalf of their self managed super fund.

Whatever your situation, if you are feeling more positive about the local and/or overseas share market, then it is first crucial to consider how you would invest.



For your superannuation fund, you might want to investigate your investment options that could give you a broad range of market-based investments including local and/or overseas shares.

Or if you have stock piled cash or have surplus cash flow that you wish to use wisely, a managed fund or tailored portfolio may be what you need.

Whichever way you go, remember the golden rule: **research, research, research!**

## Do what is right for you

Remember that there isn't a universally good or bad time to invest in the share market. In other words, if two people have different timeframes or risk tolerance, then what might be good for one is not necessarily good for the other.

Share markets should always be considered a long-term investment. Think about the circumstances that might force you into cashing in your investment earlier than expected. This could include having to meet a pension payment or merely to pay your monthly credit card bill if it gets out of hand. How likely are these types of things going to happen in the next few months rather than five or more years down the track?

And think about how you will react if the share market does take a breather from its recent revival. Would you want to pull out if the market dropped by, say, five per cent the very day after you invested? This gives you a good idea of how tolerant you might be to the volatile returns that the share market can deliver.

If you think you might be ready to consider share market investment again, it might be a good time to speak your financial adviser.

**Sources:** [www.yahoo.com.au](http://www.yahoo.com.au)  
Finance – XJO – Historical Prices

ASX Detailed search – prices, announcements and charts S&P/ASX 200



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