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Investing through platforms

We are currently experiencing a platform boom, with over $170 billion invested in Australia alone[1]. So what are platforms and why are they so popular?

In simple terms, a platform is an administration service for your investments.

Many people invest in a number of managed funds, resulting in a deluge of paperwork. To simplify the management of multiple managed funds in your portfolio, you can use an Investor Directed Portfolio Service (IDPS) or a wrap account. As administrative structures, both IDPS and wrap accounts fall under the term 'platforms'.

Investing through a platform allows you to savour a smorgasbord of investment options, without being inundated with the multiple administrative tasks associated with each investment.

In this issue ...

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- Introducing simpler super
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How do they work?

Like an investment supermarket, a platform can provide you with access to an extensive list of managed funds normally at wholesale prices under a single administration facility.

The key added benefit of platforms, however, is that they allow you to construct and manage your own portfolio without the substantial administrative, record keeping and reporting burden usually associated when investing in managed funds directly. As long as your money remains invested through the platform, you can switch investments or change your strategy at any time – by instructing your adviser, or even online or over the phone.

Because of these added services and functionalities, you may incur an administraton fee for using the platform.

Why invest through a platform?

Some additional advantages of platforms include the following.

- **Diversity and choice:** platforms allow you to spread the risk, investing in a range of asset classes through a variety of managed funds – with some platforms also offering direct shares and margin lending (gearing). Depending on the complexity of the platform, this could give you access from 20 to over 80 fund managers, each providing a range of products.

- **Your investments are in the one place:** without compromising on diversity, platforms can combine your investments under a single administration facility. You receive consolidated reports (simplifying your tax reporting), regular updates, and often 24 hour online access to your portfolio. In addition, the use of a consistent reporting style enables you to compare 'apples with apples' when analysing how various investments are performing.
- **Access to specialist and/or wholesale funds** which would otherwise be outside your reach. For example, many wholesale funds have lower management fees but higher entry levels, such as a minimum investment of $500,000. This puts the fund out

[1]Assirt Research as quoted in 'Are you on the right platform?', *The Age,* 5 June 2004

Introducing simpler super

> "Superannuation just got a whole lot more simpler and much, much more attractive[2]"
>
> – Peter Costello, Treasurer of the Commonwealth of Australia

The Commonwealth Government has simplified the rules relating to superannuation. Most of the key reforms came into effect on 1 July 2007. In this new super regime practically everyone wins and there are now greater opportunities for you to increase your retirement savings.

This Simpler Super article will provide you with an overview of the changes and how they may affect you. This doesn't negate the need to speak to your financial adviser. Your financial adviser can help you use the opportunities that are the result of these changes to increase your retirement wealth.

The main changes from 1 July 2007

✓ **You can keep your benefits in superannuation for as long as you like**

You no longer have to withdraw your benefits once you reach a certain age. This change applies from 10 May 2006.

What does this mean for me?

It means you can choose when you draw down on your superannuation once you turn age 65. You can even choose to leave your benefits in superannuation for life.

✓ **Super benefits paid as a lump sum or pension are TAX-FREE after you reach age 60**

Tax-free means you now won't have to declare any of these benefits in your income tax return to the Australian Taxation Office (ATO).

I am age 60 and retired – what does this mean for me?

- if all your investments are in superannuation or in pensions, you won't need to lodge an income tax return;
- as your superannuation and pension benefits are no longer counted as part of your assessable income, if you have non-superannuation investments, your investment earnings may be assessed at lower marginal tax rates and you may be entitled to tax offsets for senior Australians; and
- your superannuation and pension benefits won't be counted towards a Commonwealth Seniors Health Card.

✓ **Reasonable Benefit Limits (RBLs) will be abolished**

If you retire after 1 July 2007, all your superannuation savings can now be taken tax-free, as long as you are aged over 60 years.

Investing through platforms (continued)

of the reach of most individual investors, but not if accessed via a platform.

- **Flexible fees:** some platforms provide flexible fee structures and certain fees may even be tax deductible within particular platforms.

From a financial adviser's perspective, platforms streamline the demands of monitoring and reviewing clients' investment portfolios. Rather than being encumbered by multiple administrative processes (e.g. filling in forms and creating reports), the administrative burden is carried by the platform and advisers are able to focus on the provision of quality financial service and advice.

Selecting the right fund

If you're thinking about investing through a platform, it's important to consider your unique circumstances. In terms of the fees/benefits trade-off, are you better using a platform or investing directly in the individual funds?

Seek professional advice

Your needs are unique and constantly evolving. And with a wide range of platforms available in the marketplace, it's best to seek professional advice before making a final decision.

Your financial adviser can provide you with detailed information about how an investment platform may help you achieve your financial goals.

What does this mean for me?

This means no more worrying about paying tax at the rate of up to 46.5% on excessive lump sums or worrying about past benefits you might have taken and how they may have affected your RBL.

✓ **Contributions to superannuation will be capped**

On 1 July, the age-based contributions limits were replaced with two caps (per person) on contributions made into super each financial year:

- a $50,000 cap until 30 June 2012, if you are aged 50 or more a higher cap of $100,000 applies; and
- a $150,000 cap on non-deductible contributions (personal and spouse contributions). If you are under age 65, you can bring forward the next two years' caps and contribute $450,000 at once.

Contributions in excess of these caps will be effectively taxed at the highest marginal rate plus Medicare levy.

✓ **Improvements for the self-employed**

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

✓ **Simple new rules for Allocated Pensions**

No maximum pension payment limits (other than for Transition to Retirement allocated pensions) will apply and the new minimum pension payment (a simple age-based percentage of the account balance is much lower than the current minimum.

The new rules will apply to existing Standard Allocated Pensions.

There will also be new rules for the payment of pensions to children, which means you may need to review your current death benefit arrangements if you have nominated a child to receive your pension.

✓ **Tax File Numbers (TFNs) – have you provided your TFN to your super fund?**

You will be heavily taxed if your super fund doesn't have your TFN. Any employer contributions will attract additional tax of 31.5% on the entire contribution once they exceed $1,000. In addition, if you don't provide your TFN, your super fund may not be able to accept personal or spouse contributions.

Make the most of the changes. Seek professional advice

The changes to super and tax legislation are designed to make it easier to invest in and access your super, but it's not always easy to know which strategies apply to your personal situation. The best way to understand how these changes will benefit you is to speak to a financial adviser.

Don't put it off any longer!

Call your Patron financial adviser to discuss the Simpler Super changes today!

[2]Address to the Investment and Financial Services Association, 13 June 2006

Under-insurance exposed

Under-insurance is often seen to be symptomatic of the mindset of the Australian population. The 'It won't happen to me' attitude has led many Australians to consider insurance as unimportant.

Recent research shows that the majority of Australians aren't adequately covered by insurance. Are you one of them?

While most people would rather focus on the good things in life, it's an unfortunate fact that unexpected bumps in the road can leave us in financial difficulty.

With up to three quarters of Australians classified as under insured[3], it's not unusual for families or businesses to experience financial hardship following an unexpected death, injury or illness. This is why having an adequate level of insurance is crucial.

What is under-insurance?

Under-insurance refers to the gap between the amount of insurance cover held and the amount of insurance required to fully offset any economic loss that would be suffered in the event of an unexpected occurrence such as an accident or illness.

In the context of home and contents insurance, it means you have less cover than the value of your belongings. When it comes to life, trauma or disability insurance, it means not having enough to meet the financial needs of your dependants in the event of your sudden death or inability to earn an income due to an accident, illness, disablement or trauma.

Common misconceptions

Under-insurance is often seen to be symptomatic of the mindset of the Australian population[4]. The 'It won't happen to me' attitude has led many Australians to consider insurance as unimportant.

Another commonly stated reason for not holding adequate insurance is that 'I'm too young'. The misconception that life insurance is only a consideration for the elderly belies some frightening facts. For example, Australian Bureau of Statistics (ABS) figures show that around 4,400 parents with dependent children die each year, and The Cancer Council of Australia has discovered that two thirds of cancer sufferers are diagnosed well before reaching their mid-70s.

Insurance is sometimes seen as an unaffordable luxury or something only wealthy people need to consider. However, as soon as you have any ongoing financial obligations, such as a loan or a mortgage, or any financial dependants, you should look to obtain an adequate level of financial protection.

But doesn't my superannuation (super) fund cover me?

It's true that many super funds provide their members with some form of insurance. However, you may be surprised at the amount of cover that's being provided which is often a very small proportion of what you actually need to meet any ongoing financial obligations.

Additionally, with the introduction of super choice, it's a good idea to look at the insurance components

when comparing funds. Insurance cover might not be at the top of everyone's list of considerations when choosing super funds, but it should certainly rate among the top few.

When choosing a super fund, it's important to read the fine print to determine whether the level of cover included in your super fund is adequate for you.

So how much is enough?

It's important to remember that an insurance policy is not a blank cheque. You're only covered for the losses specified in the contract, which is why you need to make sure that you have the correct amount of insurance in place.

For example, research has shown that as a basic rule, you need 5 to 10 times the amount of your income in life cover[5]; however it's essential to thoroughly assess your liabilities and the needs of dependants to determine your personal requirements.

Insurance is not static and your need for cover will change as you move through different stages in life. You should review your insurance needs on a regular basis to take into consideration changes to your personal situation, ensuring your level of insurance cover remains adequate.

Your financial adviser can assist you in determining and reviewing your level of cover to ensure that your insured amount is right for you.

[3]Investment and Financial Services Association (IFSA) "Be prepared: Insurance issues to consider" 2005
[4]AXA Australia "Estimates of the extent of under insurance in Australia, 3rd edition" Report date: June 2005
[5]MLC research, as quoted in "Red alert on under-insurance" *Sydney Morning Herald*, 27 August 2005

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