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Spring Newsletter 2008

THURSDAY 4TH SEPTEMBER 2008

REDUCE DEBT & SAVE

THE PLATINUM PROGRAM

Your Personalized Budget Program with a difference!

- No contracts!
- Budget coaching
- Goal orientation
- Budget Presentation
- SOA Fee reductions
- Great for all ages!

Call us today for a no obligation chat to find out how

The Platinum Program **could save YOU money.**

Inside this issue:

WHAT WOULD HAPPEN IF YOUR INCOME STOPPED?

Insuring your house, furniture, contents and car is almost second nature to the majority of Australians. Yet all too often they fail to adequately protect what is probably their most important asset, their ability to produce an income. Income to provide the working capital that everything else relies upon.

If you lost your capacity to work due to illness or an accident, would you possess the means to continue to fund your daily life and meet any loan repayments? And if you were disabled for a lengthy period of time, what do you think would be the chances of meeting your long term financial goals?

The Risk is Real

There are over 2 million people of working age in Australia with a disability potentially impacting on their ability to work. *That's 10% of the population.* Every working Australian has a one in 3 chance of becoming disabled for more than three months before reaching retirement age. This is one risk that shouldn't be treated lightly.

It is a common myth that "Worker's Compensation will cover me".

Worker's Compensation will only cover you for accidents or injuries that occur during working hours or for an illness that is a direct result of your employment. And if your illness or injury is covered by worker's compensation be aware that the full benefit period is capped in weeks.

Your Options

Option 1—The standard remuneration position

100% of your income is received while you are well and able to work. When you're disabled and can't work other than sick leave you receive 0% of your income.

Option 2—The alternate remuneration position

Depending on your personal situation, you effectively receive around 98% of your income while you are well and able to work. When you're disabled, after your waiting period you get paid up to 75% of your normal income.

Advantages of Option 2

- The things you have worked so hard to accumulate are better protected should you suffer an illness or injury and are no longer able to work.
- Your dependants rest assured their living essentials have been secured should an illness or injury impact your ability to earn an income.
- If you do suffer an illness or injury you can spend more time recovering and less time worrying about your finances.
- The premiums are tax deductable

Disadvantages of Option 2

- You'll spend around 2% of your annual income on the premiums for Income Replacement Insurance when you are well, to get up to 75% of your income when you are not.

This is a small sacrifice for what is potentially an enormous benefit to you and your family.

It makes sense, so what's your next step?

Contact an appropriately qualified financial advisor who can assist you to understand your protection needs. Together you can create a plan to suit your individual circumstances.

Article Sourced from Zurich Financial Services Australia

Please phone Peta on (08) 8431 8222 to make a convenient time for your free consultation with Babette Woodhouse, Money Works Risk Advisor.

Babette will also be delighted to review any existing insurance policies you may have, as we may be able to save you money on your premiums.

TRANSITION TO RETIREMENT

What is it?
The transition to retirement rules allow individuals who have reached their preservation age to access their superannuation in the form of a non-commutable income stream.
The concept of an individual remaining in the workforce full-time, salary sacrificing a large component of employment income to super, and commencing a non-commutable pension was not an intended outcome of the transition to retirement rules. The policy intention behind the transition to retirement rules was to allow mature age workers to transition to retirement by reducing their work hours and to supplement reduced employment income with pension income. However, as there is no requirement for a reduction in work hours to commence a non-commutable pension, the above strategy can legitimately be utilised by clients who remain in full-time employment.

Tax benefits
Why would a client seek to commence a non-commutable income stream to enable employment income to be salary sacrificed into super? Primarily, for the tax benefits, i.e.:

- The pension portfolio will generate tax-free investment earnings, which would otherwise be taxed at up to 15 per cent in accumulation phase, and
- A tax-free amount may be available on the pension income for individuals aged between 55 and 59 (inclusive)
- Taxable pension income is eligible for a 15 per cent tax offset (prior to age 60), whereas salary and wages income is fully taxable, and
- The pension income will be tax free from age 60.

Most clients who are age 55 and over and in ongoing employment will benefit from using this strategy.
In a media release on 17 November 2005, the Commissioner of Taxation confirmed that the general anti-avoidance provisions in Part IVA of the Tax Act would not apply where a person was commencing a non-commutable pension and making salary sacrifice contributions to super.

Case study
David, aged 55, earns a salary of $70,000 per annum and has $450,000 in superannuation (all taxable component). He commences a non-commutable allocated pension (NCAP) on 1 July 2007. Dave salary sacrifices all surplus income into superannuation; with the result that his after-tax income does not change as a result of commencing the NCAP (i.e. the strategy is cash flow neutral).

Maximum pension
Assuming Dave receives the maximum pension of $45,000, his after-tax income will not change assuming he also salary sacrifices $55,584 into super.
In future years, due to changes in the allocated pension payable, the amount of the salary sacrifice will be adjusted to ensure that Dave maintains the same net after tax income he would otherwise have received without without the NCAP and salary sacrifice strategy.
Dave is estimated to have an additional $118,284 in super at age 65 as a result of the strategy.
This is solely due to the tax benefits that the strategy provides.

Optimising the pension amount
In Dave's case, the maximum pension provides the best outcome, because it allows a greater amount of salary to be converted into pension income, which attracts a 15% TAX OFFSET. However, in some cases a minimum pension can provide a better outcome. This may apply where the individual has a large accumulation balance, and a better outcome can be achieved by transferring a larger portion of superannuation assets into the tax free pension environment.
(See opposite page for graph)

Transition to retirement strategy – from age 60
Since 1 July 2007, there is added incentive for an employee who is at least 60 years of age to instigate a transition to retirement strategy, effectively swapping taxable income for tax-free income.

Case study
Mike is 60 years of age and also has a salary of $70,000. Like Dave, he has a superannuation balance of $450,000. He intends to work for another 10 years, until he turns 70.
Mike's entire pension income is tax free as he has reached 60 years of age. Assuming he receives the maximum pension of $45,000, his after-tax income will not change assuming he also salary sacrifices $61,523 into super.
Mike is estimated to have an additional $162,291 in super after 10 years (at age 70) as result of the strategy. This is solely due to the tax benefits that the strategy provides.
Once Mike reaches age 65, his account balance will be classified as unrestricted non-preserved, and there will be no maximum pension threshold. However, for the purpose of the case study, a maximum pension income of 10 percent per annum has been used.
(See opposite page for graph)

Self Employed Clients
Many Self Employed Clients will benefit from the strategy involving the substitution of business income which has been contributed to super as a tax deductible contribution with pension income

Article from Transition to Retirement Strategies under the simplified super system.

From 1 July 2007, the overall gain from this strategy is exactly the same as that for an employed client with the same level of income and superannuation balance because a self employed client is now entitled to a full tax deduction for their superannuation contributions.

….Most Clients who are age 55 and over and in ongoing employment will benefit from using this strategy…..

	Current Position	With NCAP and salary sacrifice
Gross salary	70,000	70,000
Salary sacrifice super contribution	0	(55,584)
Cash Salary	70,000	14,416
Allocated Pension	0	45,000
Taxable Income	70,000	59,416
Gross PAYG Tax	(15,600)	(12,425)
Mature Age Worker Tax Offset	0	500
15% pension tax offset	0	6,750
Medicare levy	(1,050)	(891)
Net Tax and Medicare levy	(16,650)	(6,066)
Net cash after tax	53,350	53,350

Above: David's Income

	Current Position	With NCAP and salary sacrifice
Gross salary	70,000	70,000
Salary Sacrifice	0	61,523
Cash Salary	70,000	8,477
Allocated Pension	0	45,000
Taxable Income	70,000	8,477
Gross PAYG tax	(15,600)	(372)
Mature age worker tax offset and low income tax offset	0	1,174
15% pension tax offset	0	0
Medicare levy	(1,050)	(127)
Net Tax and Medicare levy	(16,650)	(127)
Net cash after tax	53,350	53,350

Above: Mike's Income

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mortgagerelief

By Vicki Harris

Once again I feel the need to talk positively about the Housing Market because quite honestly someone has to.

Despite all the negatives we're hearing, there are still people buying homes, borrowing money from banks and creating debt. Amazingly, from my own experience, there are many young people who are taking advantage of the current situation and I think they are to be congratulated for their long term focus.

There is for example a particular young lady who is 21 years of age. She has a secure employment history, good credit rating and still living home with mum and dad, she has surplus income. She has just bought her first investment property forgoing the First Home Owners Grant as she intends to keep it tenanted. She has taken advantage of a 100% home loan product and is well on her way to creating wealth in the future as she hopes to buy another property in a couple of years time using the equity she has gained.

I understand that this situation is not for everyone. Many young people choose to travel or are still studying at this age, and many others also find themselves with no excess funds at the end of the week. For a growing percentage of forward thinking young people and investors, the high interest rate is not a deterrent and they are taking advantage of the slowing market seeing this time as an amazing opportunity

If you would like more information about the 100% home loan product or discuss your individual Home Loan needs please give me a call on **0408 820 443**

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Babette Woodhouse, Money Works Risk Advisor interviews a client on the benefits of having insurance.

I spoke to * "Jack" regarding his insurance claim after a life changing accident.

B. Did you truly believe that you would ever really need the recommended insurance?

J. No, however I trusted Chris' recommendations to suit my needs.

B. Did you truly believe that you would need to claim on this insurance?

J. Definitely Not! You hear about things happening to people all the time, but you never think it will be you!

B. Did you think that if you did need to make a claim in the future, that it would be under the circumstances you actually claimed under?

J. No—Who would have thought? It was just an average day.

B. After the accident, how long until you or a loved one thought about whether a claim on your insurance would be applicable?

J. My partner thought about whether I had any insurance that may be able to be claimed for medical bills etc after about 1 week of the accident as I was told that rehabilitation would be required for at least 6 months.

B What steps did you or your loved one then take?

J. My partner called Money Works to find out what insurance I had.

B. How did you find the response from Money Works?

J. Money Works responded promptly. My partner was given information on the claims process straight away.

B. How did you find the response from the insurance company?

J. The insurer had the claim forms out within 3 days with all requirements listed.

B. How did you find the paperwork required to lodge a claim?

J. The paperwork for the claim was easy to understand an in point form. Most of the requirements were reports from the medical staff at the hospital.

B. Did the insurance payment meet your expectations?

J. The insurance payment came in much quicker than we had expected and was more than what I had originally applied for due to yearly increases.

B Do you have any suggestions for either Money Works Financial Planning or the Insurance Company that may have made this experience better?

J. No, everyone involved was very helpful and understanding.

Clients name has been changed for privacy purposes. Clients experiences with claims and insurance payouts may vary.
For more information on insurances contact Risk Advisor Babette Woodhouse on ***(08) 8431 8222***

FINANCIAL LIFESTYLE SOLUTIONS

Tax Returns—Electronically lodged!

Tax is now up and running, and available to all new and existing clients. Existing clients will receive a 5% discount and also a further 5% discount for any new clients referred to Money Works Financial Planning.
Tax returns will be done in alliance with UHY Haines Norton Chartered Accountants.
Phone our office to book a time for your individual tax return today!