

INVESTMENT SOLUTIONS

WINTER 2014

 **onePlan**
FINANCIAL PLANNING

INSIDE:

3 Market update

4 Dealing with
the two percenters

6 The front-foot
approach to aged care

7 Make your
money grow

Welcome

Investment Solutions *Winter 2014*

With the Federal Budget behind us but still fresh in our minds, we take a deep-dive into the proposed Temporary Budget Repair Levy (TBRL) - what it applies to and possible ways to reduce the impact of its implications.

In this edition we also take a look at the rules around aged care and how with a little pre-planning, you can avoid having to make difficult and quick decisions about aged care at a time your focus is on your own or your family's health.

Our regular Market Update provides a wrap up of global and local markets, providing a view of what's to come in the second half of 2014.

Finally, we take a look at what you need to do throughout the year to cultivate a great financial future with a year-round financial management plan.

Until next time – happy reading.



onePlan Financial Planning
Louise Scifleet AFP ADFS(FP)
02 6372 0716
invest@oneplanfp.com.au
www.oneplanfp.com.au





Market update

Financial markets have continued to deliver a mixed ride for investors. While equity markets have continued to move higher over the course of 2014, the extent of the rally has tapered.

Concerns about the strength of global growth have muted investor confidence resulting in some profit taking across markets. On the flip side, defensive investments, particularly bond markets, have shown solid investment performance through the first part of 2014. Bond markets are higher with both domestic and global bond yields falling since early in the year as concerns about the speed of global growth as well as the worsening situation in the Ukraine resulted in further defensive positions.

In the US the S&P500 Index has again reached a new all time high in recent periods. While corporate (earnings) multiples reflect a market that is no longer 'cheap' the fundamentals in our view still position the US market as a solid performer in 2014. Additionally, the US Fed Chair reaffirmed that cash rates would remain on hold for an extended period as the speed of the US recovery improves. While the jobless rate has moved back below 6.5% (to 6.3%), the participation rate has also declined, reflecting that not all parts of the US economy are expanding.

Geopolitically the situation in the Ukraine continues to heighten investor nervousness. While we remain of the view that any direct (East-West) military conflict is unlikely, the potential for further (and protracted) economic and other sanctions against Russia could cause further concern in regard to Europe's recovery. While the US and its European NATO allies have sought to increase the economic pressure on Russia, the defiant stance of Russian President Vladimir Putin and Russia's continued threats to upset the supply of gas to Western Europe means that any short term solution is unlikely.

In Asia, both China and Japan are pursuing reform agendas. Increased trepidation around the stability of the banking systems in emerging markets has impacted financial markets. While unregulated banking is a common form of finance, particularly in Asian countries, the unregulated nature has created the potential for additional solvency risks for many corporates as tapering increases the

overall cost of capital and reduces market liquidity.

In addition, increasing concerns about the strength of the Chinese economy continue to hamper investor sentiment as well as commodity markets. Additionally the potential negative impact that the 'shadow banking' sector could have on market stability continues to act as a drag. Shadow banking exists to fill credit demand for a notable portion of the economy, both the private and public sector. While the Chinese Government continues to pursue financial market deregulation promoting the domestic consumption as it endeavours to transition away from its reliance on export growth, the banking sector is largely unregulated meaning prudential supervision is lacking.

In the UK, the steady pace of growth that is now prevalent remains in place. Business conditions have consistently been in expansionary mode since the latter part of 2012, while industrial production has moved demonstrably higher since the 2Q13. In our view this points to an economy that has further upside.

Back home in Australia, the domestic economy continues to show mixed signals. The positive performance of financial markets has been offset by weaker economic activity, a 'sticky' currency and mixed inflationary data and weaker consumer confidence post the May Budget. We continue to expect that cash rates to remain steady at 2.5% for an extended period. Additionally, the corporate environment continues to be challenging. The one positive for the domestic economy has been the pickup in house prices, although prices have also begun to reach a 'new equilibrium' after a sharp run up over the last 12 months. While we maintain a generally more positive outlook for 2014 there continues to be a range of factors that have the ability to cause a high degree of financial market dislocation and uncertainty. To this end we support a balanced (and somewhat cautious) view to any investment strategy with a disciplined focus on managing downside risk.



Dealing with the two percenters

In the lead up to the 2014 Federal Budget, the Government had indicated that it would be a tough Budget, with everyone to shoulder their share of the pain. For high income earners, there was the expectation of the introduction of a “deficit tax” although it was unclear at what rate and exactly who it would apply to.

In the Budget announcements, this was clarified. For a three year period commencing 1 July 2014, those with taxable incomes over \$180,000 would pay an additional 2% levy on their taxable income to the extent it exceeds \$180,000. The Temporary Budget Repair Levy (TBRL) as it is technically called would operate by essentially increasing the highest marginal rate for the three year period from 45% to 47%. Add the Medicare Levy to this, which increases to 2% from 1 July 2014 also, and the effective tax rate on taxable income above \$180,000 will become 49%.

Whilst at the time of writing this change had not passed through the Parliament into law, it is one of the few Budget

measures that is virtually guaranteed to pass without any need for negotiation by the Government. So, on the assumption that it will become law, what options are open?

Being clear on what it applies to

The TBRL applies to taxable income. This means your tax return will determine what it applies to, and is your assessable income for the year less allowable deductions. It also only applies to that part of your taxable income above \$180,000. For example, if your taxable income was \$230,000, the 2% TBRL would only apply to that \$50,000 of taxable income which is in excess of \$180,000. In this case your liability would be an additional \$1,000 for the year.

As the TBRL is levied on taxable income, it's important to be aware of what things can have an impact on your liability. For example, whilst your salary income may not vary too much, you can always consider the option of salary sacrificing (for example to additional superannuation

contributions) to reduce your income. If you are considering selling an asset that has a large unrealised capital gain, it is important to remember that your net capital gain (ie after offsetting any capital losses and, if relevant, discounting by 50%) will be added to your assessable income. If you are considering selling an asset in the three year period while the TBRL is in place, then you need to remember that some additional tax may be payable.

The TBRL shouldn't be the sole influence on when you decide to sell an asset, as you need to determine if it's the right time in the market to sell, or there may be other reasons why you need access to the funds that are otherwise invested in that asset.

Consider other options

As mentioned, salary sacrificing may be away to reduce the impact of the TBRL. Superannuation is a definite option, but for other benefits you would need to consider any fringe benefits tax (FBT) implications. The Government announced that the



'The Temporary Budget Repair Levy (TBRL) would operate by essentially increasing the highest marginal rate for the three year period from 45% to 47%.'

TBRL would also impact fringe benefits, with the FBT rate to increase to 49% also, but only for the period from 1 April 2015 to 31 March 2017 (the FBT year works on a different timeline to the income tax year). This means that there is some potential for effective salary packaging arrangements that can lower an overall tax liability between 1 July 2014 and 31 March 2015 – a nine month period before the FBT rate increases.

The starting point for any consideration around salary packaging is a discussion with your employer to find out what packaging options they will allow. Employers can decide what benefits they will or won't allow employees to package – they aren't all the same.

Beware the scope of the TBRL

Like changes to the FBT rate, the Government indicated that a number of other taxes that are based on the highest marginal tax rate will also increase as a result of the TBRL, but on Budget night didn't specify which ones they would be.

However, it is expected that some of the following taxes may be increased for the three year period as a result of the TBRL:

- The penalty tax rate applying to the unearned income of minors. Where a person under 18 years of age is in receipt of unearned income (for example, interest, dividends and trust distributions), that income is taxed at the highest marginal tax rate.
- Undistributed income of a trust. Where a trust fails to distribute all of its income in a year to beneficiaries, the trust is liable to pay tax at the top marginal rate on that undistributed amount.
- Penalty tax rates for exceeding superannuation contribution caps. If you exceed your caps for contributions to super in a given year, and you don't take advantage of the opportunity to have those excess contributions refunded to you, the excessive amount may be taxed at the highest marginal tax rate.

It is very important to remember that until passed into legislation, Budget announcements are just that – announcement only and they have the potential to change as they move through the legislative process. It is highly recommended that you speak to your financial adviser to determine how the Budget impacts may apply to your personal circumstances.



The front-foot approach to aged care

Research shows that more than 60% of women aged over 65 and almost half of men aged over 65 will need some form of aged care during their lifetime¹. These figures illustrate that aged care is something all of us need to consider. This is why it's important to understand how the rules around aged care work before a sudden event such as an accident or illness means you're faced with making aged care decisions on the run – either for yourself or for a family member.

Right now, residential aged care costs are heavily subsidised by the Federal Government. But, with the Government's aged care costs estimated to double from \$13 billion now to \$26 billion by 2023/24, there will be substantial changes to the aged care system.

Some changes to aged care will start from 1 July 2014 to make the system more sustainable, fairer and more transparent. So what's changing?

- Aged care facilities will need to publish details of their accommodation, services and maximum rates on their websites to allow people to compare different facilities' fees.
- New fee structures for residents moving into aged care. Arrangements for existing residents will remain under the previous system.

- New rules about how assets will be included in the combined income and assets means test for new residents.
- Lump sum accommodation deposits, as well as resident's home up to a threshold (with certain exceptions) included in means tests.
- Residents holding substantial assets will pay higher care fees in earlier years, subject to an annual cap (\$25,000 per annum, indexed).
- A lifetime cap (\$60,000 indexed) means long-term residents will pay minimal fees in later years.
- For those not eligible for Government support, accommodation payments will start from \$19,287 a year and residents will need to pay living and care costs of up to \$41,972 a year.
- Income concessions available for people who have long-term annuities and accommodation deposits.

It's all in the planning

With a little pre-planning, you can avoid having to make quick decisions about aged care at a time your focus is on your own or your family's health. This will also avoid a situation in which you need to rapidly sell valuable assets such as the family home to meet upfront deposits and ongoing fees for living, accommodation, and care services.

If you or a family member is likely to require aged care in the short or medium-term it's worth thinking now about how you will manage the transition financially. It's also important to ensure that any asset restructures that will take place as you move into aged care are considered in your Will.

People that need aged care soon should be thinking now about what they can do to help reduce aged care fees and maintain any social security benefits. One of the other important things to consider is ensuring there are enough funds for upfront and ongoing payments, which will help to ensure you have aged care options.

Let us help you devise strategies to ensure you have options when it comes time for you or a family member to move into aged care. Call or email us today to find out how we can help.

¹ Australian Government Productivity Commission Inquiry Report: Caring for Older Australians, 28 June 2011.

Make your money grow: your year-round financial management plan

As the saying goes, money doesn't grow on trees. But, just like nurturing a beautiful garden, if you give your nest egg the right attention throughout the seasons, it will grow into a substantial asset. Let's take a look at what you need to do throughout the year to cultivate a great financial future.

As it's the start of the financial year, July is one of the best times to review your investments. So how should you go about doing this? First, develop a spreadsheet of your super and investments. On a quarterly basis, record the price of each asset for the last day of the period, for instance the share price, unit price and estimated property value. Then record any income generated by the investment for the quarter. Compare the performance to a benchmark (for instance, the ASX 200 Accumulation Index) and if you find any significant underperformance, do further research to understand the reason why. If necessary, consider whether you need to talk to your financial adviser about changing your investment approach in light of any underperformance.

Having made any necessary changes to your investment strategy for the new financial year, August is the time for reviewing your household budget. For many of us, September is when we need to work with our accountant to lodge a tax return.

October is the time to review your investment performance for the July quarter. November is the time to plan for any additional Christmas expenses. Then in December, stick to the spending plan set out during November.

In January set aside time to review your financial goals. In February, make sure you're sticking to the resolutions you made in January. March is the month your focus should be on your insurances. Are your car, home, health and life

Maximum concessional (before tax) contributions

Financial year	Age below 50	Age 50-59	Age 60 or above
2013/14	\$25,000	\$25,000	\$35,000
2014/15	\$30,000	\$35,000	\$35,000
2015/16*	\$30,000	\$35,000	\$35,000

Maximum non-concessional (after tax) contributions

Financial year	Per year	Per three years (bring forward rule)
2013/14	\$150,000	\$450,000
2014/15	\$180,000	\$540,000
2015/16*	\$180,000	\$540,000

Source: ATO

*Please note the amounts for 2015/16 are estimates only and are confirmed by the government by June 2015

insurances still adequate? In April, expect your health insurance premiums to rise and factor this into your budget.

May's a big month for financial matters, starting with the Federal Budget. It's also the time of year when you should start your annual tax planning. Assess whether you have adequately maximised your before tax contributions and pre-pay any interest on investment loans or premiums on income protection insurance to bring forward deductions. At this point, also consider realising capital losses to offset capital gains, pay for any tax deductible expenses and evaluate whether your investments are structured as tax effectively as possible.

It's also the month when you should focus on your super contributions, to ensure you don't exceed annual contribution caps. The idea is to review legislated limits for super contributions,

both concessional (before tax) and non-concessional (after tax). Then, check online or call your super fund for total amounts contributed in the current financial year. Add these amounts to your spreadsheet. If you're salary sacrificing, contact payroll to increase or decrease contributions, depending how close you are to your limits and, if you're under, how much extra you can afford to contribute.

In the lead up to the close of another financial year, June is a time to reflect on whether you've achieved what you set out to during the year.

A great financial future means paying attention to your finances and assets throughout the year. That way, your nest egg will continue to mature through the seasons. Why not call us today to find out how we can help monitor your investment strategies and help your investments grow?



Disclaimer

This publication has been compiled by Securitor Financial Group Limited ABN 48 009 189 495, AFSL and Australian Credit Licence 240687 and is current as at time of preparation, June 2014. Past performance is not a reliable indicator of future performance. Any outlooks in this publication are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the outlooks given in this publication are based are reasonable, the outlooks may be based on incorrect assumptions or may not take into account known or unknown risks and uncertainties. The results ultimately achieved may differ materially from our outlooks. Material contained in this publication is an overview or summary only and it should not be considered a comprehensive statement on any matter nor relied upon as such. The information and any advice in this publication do not take into account your personal objectives, financial situation or needs and so you should consider its appropriateness having regard to these factors before acting on it. This publication may contain material provided directly by third parties and is given in good faith and has been derived from sources believed to be reliable but has not been independently verified. To the maximum extent permitted by law: no guarantee, representation or warranty is given that any information or advice in this publication is complete, accurate, up-to-date or fit for any purpose. It is important that your personal circumstances are taken into account before making any financial decision and we recommend you seek detailed and specific advice from a suitably qualified adviser before acting on any information or advice in this publication. Any taxation position described in this publication is general and should only be used as a guide. It does not constitute tax advice and is based on current laws and our interpretation. The tax position described is a general statement and is for guidance only. It has not been prepared by a registered tax agent. It does not constitute tax advice and is based on current tax laws and our interpretation. Your individual situation may differ and you should seek independent professional tax advice. SECCB13814C-0514jo