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GOLDSBOROUGH news

GOLDSBOROUGH FINANCIAL SERVICES

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JULY 2015

ECONOMIC UPDATE

It has certainly been a fluctuating 2015 for investment markets. The first quarter of 2015 saw the Australian sharemarket rise by over 10% but as with most sharp rises in sharemarkets we usually see a period of volatility to follow.

Since the end of the first quarter the market has seen a fall of nearly 6% which means the sharemarket is ahead by around 3% since the beginning of the year. Dividends would also need to be added to that to give a more accurate picture. Barring any further large falls before the end of June financial year returns should still be fairly pleasing.

The Australian sharemarket's more recent flat performance has been largely driven by mixed sector performance with the negative performance coming from the Banking sector and to a lesser degree Consumer staples but this has been offset by strong gains in other sectors of the market. The Industrial sector has led the gains aided by a rebound in the Transport and Mining services sectors.

While growth prospects in many parts of the world remain weak, the stimulatory policies by most Central banks around the world continue to support financial assets including shares. The current sell off in Bond markets is causing some weakness in equity markets but it does present opportunities for fund managers to buy favoured companies at lower prices. The United States and Japan have provided reasonable gains in recent months but a sell off in European markets is occurring due to fears about a Greek default although this has been a common theme for some time.

Back in Australia the Reserve Bank decided to leave the cash rate unchanged at 2% at it's June monetary policy meeting. The Reserve Bank's comments indicate that it is prepared to reduce rates further (to an unprecedented level in our history) if circumstances require but they are giving no clear indication as to their intentions. The economy is still operating very sluggishly with consumer and corporate spending remaining fairly subdued. They are really grappling with the decision to lower rates to help stimulate the economy further but are acutely aware of the risks of inflating the property bubble even further. There is no easy answer to the current predicament. Many economic forecasters are predicting rates to remain on hold for some time.

We are not in the business of making predictions. We leave that to the economic experts but even they are wrong as often as they are right. Suffice to say that investors have faired well in recent years and therefore subdued returns in the near future are very possible. Sticking to your long term strategy is as important as ever and now is not the time to be making knee jerk reactions.

JOHN OLIVER CFP®
Director
Authorised Representative
(No 227298)

Budget 2015

Aged Care Changes

There have been some significant changes to aged care over the past two or three years.

Primarily, the government has simplified the fees aspect. The introduction of RAD's (Refundable Accommodation Deposits) and DAP's (Daily Accommodation Payments), as well as knowing in advance the cost of the accommodation, has taken much of the guess work away. Basic daily care fees, extra services fees and means tested fees continue to form part of the overall cost of aged care.

From 1 January 2016 there will be a change to the means testing arrangements for those who enter aged care ***from that date***. This change will align aged care means testing arrangements for those who pay via a DAP to those who pay via a RAD. In other words, the change removes the rental income exemption for those who are renting out their former home and paying aged care accommodation costs by DAP.

The existing protections, such as annual fee caps and lifetime fee caps, remain.

The government is also proposing to provide additional funding to increase consumer choice and flexibility for those in receipt of Commonwealth funded Home Care Packages. This change, from 1 January 2017, means Home Care Package funding will be allocated directly to recipients by the My Aged Care Gateway (an online service) rather that via service providers.

Should you have any questions about aged care, your Goldsborough Adviser will be happy to discuss it with you.

BRENTON MIEGEL
CFP®
Authorised Representative (227297)

Proposed changes to the ASSETS TEST

For this newsletter I've delayed my planned topic of Foreign Exchange until next time. The proposed Centrelink changes are much more pressing following the recent Budget.

For a few Part-Pension recipients (Age or Disability or DVA Pensioners), this article will be welcome news; for most, not so good news…

Firstly, the proposed changes are unlikely to affect those people who either get a full pension, or those who are currently Income Tested.

The proposed changes (good and bad) are to be effective from ***1 January, 2017*** and relate to those people who are currently Assets Tested AND receiving a part pension:

GOOD: Increase of the Assets Test thresholds

The 'Asset Test Threshold' describes the level of assets a retiree can have, on top of their family home, before their Age Pension entitlement is reduced under the Assets Test. The current and proposed thresholds are detailed below.

Full pension/part pension		Home-Owners		Non Home-Owners	
		Single	Couple (combined)	Single (Combined)	Couple (combined)
FULL Pension (assets at or below)	Current	$202,000	$286,500	$348,500	$433,000
	Proposed	$250,000	$375,000	$450,000	$575,000
NO Pension (assets at or above)	Current	$775,500	$1,151,500	$922,000	$1,298,000
	Proposed	$547,000	$823,000	$747,000	$1,023,000

NOT SO GOOD: Increase the Assets Test taper rate from $1.50 to $3.00

The Assets Test taper rate is used to determine a retiree's Age Pension entitlement under the Assets Test. Currently a person's Age Pension entitlement under the Assets Test is reduced by $1.50 for every $1,000 of assets above the Assets Test threshold (which is being increased as described previously). The proposed measure will increase the taper rate to $3, effectively reducing the amount of assets a person can have before they are no longer entitled to a part Age Pension entitlement. A person is no longer entitled to a part Age Pension when their assets exceed the levels set out above.

In simple terms, a 'few' who get nearly a full pension on the assets test, will likely then get a full pension. However, the 'many' who get just a bit of pension, will likely lose it altogether.

Those who lose the pension are assured that they will still be eligible for the Commonwealth Seniors Health Care Card but the benefit is less than the Full Pension card.

There is no silver bullet to fix this issue but there's a number of small strategies that we can consider to maximise your pension which you should discuss with us.

The important factors to consider are what you can do to protect any grandfathering of allocated pensions and also ensuring that you don't cause Income Test issues by trying to fix Assets Test issues.

If you or someone you know are assets tested and get a part pension, discuss it with us. While it is not yet legislated, these changes are likely to be passed through parliament. Like the Allocated Pension changes in January this year, those who prepare early will be best able to manage the change.

WILL CHAPMAN
DipFS(FP)
Authorised Representative (311745)

Financial Health Check

Part 3 of 3

In the last two newsletters I highlighted what we consider to be important things people need to consider in the 25–45 and 45–65 age brackets.

Create and Build (25–45)

- ○ Budgeting
- ○ Adding to Super
- ○ Managing Debt
- ○ Considering Risk Insurance
- ○ Maximising Savings

Manage and Maximise (45–65)

- ○ Retirement budget
- ○ Maximise super & minimise tax
- ○ Get your investment strategy right & reduce risk insurance
- ○ Review Estate planning

In this edition we will look at the 65+ age group.

Enjoy and Transfer (age 65+)

This is the time to enjoy the rewards of your hard work. You're aiming to lead a long and healthy life so it's important to make sure your finances keep pace.

It may be time to reconsider your investment options in your super and other investments. As you need to access your money on a regular basis and for the occasional one-off expense (e.g. new car) you may want to reduce the level of growth assets in your portfolio. It's important to get this balance right — your investments may need to fund your next 20 years or more.

Make sure that you take advantage of all the government benefits you are entitled to. This can include pensions, health cards etc. It is also important that you carefully plan what will happen to your nest egg when you're not around by implementation of an Estate Plan if you do not already have one in place.

Consider some of the following strategies:

Budget

- ○ Prepare a budget that you can follow.
- ○ Review spending in light of your reduced income.
- ○ Downsize where appropriate

Investment Strategy

- ○ Review your investment strategy against your new circumstances.
- ○ Ensure you have the right balance of risk and return.

Estate Planning

- ○ Ensure you have a valid Will in place.
- ○ Consider making a binding nomination within your superannuation or pension account.
- ○ Put appropriate powers of attorney in place.
- ○ Consider Aged Care options.

Centrelink Options

- ○ Ensure you're receiving all the benefits you're entitled to.
- ○ Structure your income and assets for minimal impact on your entitlements.

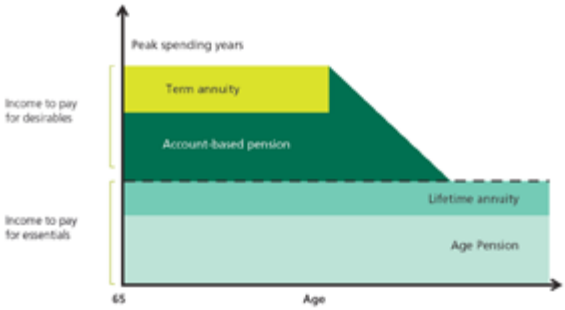
GLENN TODMAN CFP®
Director
Authorised Representative
(227295)

The *Ins & Outs* of INCOME LAYERING

Leading up to the Global Financial Crisis, strong share market returns (2002–2007) and the loss of favourable Centrelink assessment (50% assessable in 2004 and 100% assessable in 2007) resulted in annuities falling out of favour.

Following the GFC, a combination of more innovative annuity products being available and the dramatic falls of many retiree's investment portfolios have seen a turnaround in the popularity of annuity products. What appeals to many retirees is their ability to provide a guaranteed retirement income no matter how long they live or how markets perform.

The retirement strategy that uses annuity products is called income layering. Using this strategy a retiree would aim to have their most basic living needs met with a combination of Centrelink's Age Pension and a lifetime annuity. This is the first layer of income in the diagram below labelled 'essentials'.



An additional layer is then built on top to provide for non-essential expenditure and desirables. Due to the more discretionary nature of these expenses a growth orientated investment structure can be used to provide higher returns over the long term. An Account Based Pension is an ideal product to provide the income for this layer as it offers a large choice of investment options in a flexible, tax free environment.

The top layer is for planned upcoming costs early in retirement such as holidays, car changeovers etc. This income is met by a term annuity as opposed to the lifetime annuity used in the 1st layer.

Income layering is increasing in popularity and uses a combination of market linked and annuity products to provide retirement income. As with all retirement investment strategies it will be made up of an allocation to both growth and defensive assets. With the help of your adviser you can determine what investments will make up the defensive allocation, and whether you prefer the use of an annuity type product or the use of cash, fixed interest and bonds.

The fundamental goal of almost all retirees is to invest and provide income through the many investment cycles which are likely to be seen over the average 25 years in retirement. It is unlikely that cash or an annuity alone will achieve this goal due to their low returning nature. Just as it is unlikely a 100% allocation to the share market would provide the security for lifelong retirement income.

If income layering is a strategy you would like to discuss further, your Goldsborough Adviser will be able to help.

SAM MARTIN
CFP®
Authorised Representative (252676)

CHILD COVER *protection against the unexpected*

Raising kids is an expensive business at the best of times, but imagine the burden your family would be placed in if your child suffered an illness or injury that required ongoing care or expensive medical treatment.

It's not something we like to think about, but many families across Australia are faced with exactly this predicament every year. Aside from the emotional stress of a child's illness or injury, parents are often hit with financial stress resulting from out-of-pocket specialist care and allowing a parent to take time off work to be with the child.

What is child life insurance?

Child life cover can be attached to an adult's life or trauma policy for children aged between two and sixteen. Some insurers automatically include this benefit and others require a separate application. The policy provides a lump sum should your child die, get diagnosed with a terminal illness or suffer a listed trauma condition. Each insurance company will maintain their own list of illnesses and injuries, but common examples include brain damage, cancer, major head trauma, burns, blindness and deafness.

How much cover?

How much child life insurance cover you'll need depends on a range of factors including your current levels of debt, income and savings. If you and your partner both work, or if you're a single parent, you may need to allow enough cover to support the family financially if you're unable to work for an extended period.

Example — Benefit of child trauma cover

George and Mary have a 7-year old son, Jack. Everything was going well until Jack started feeling tired and unwell. They went to their GP who ordered some tests, and Jack was unfortunately diagnosed with leukaemia.

Fortunately the family had $50,000 of child trauma insurance attached to George's policy and received this as a tax-free lump sum upon diagnosis. This enabled them both to take time off work to spend time with Jack during his illness and hospital visits. When his cancer went into remission there was even enough left over for a family holiday.

Child cover generally expires once a child turns 21. Some polices provide a continuation option, which means that after your child turns a particular age, the policy will convert to a standard adult policy regardless of their health at such time.

CRAIG KIRKWOOD
ADFP
Authorised Representative (401525)

Minimising Tax *in Super* upon Death

Super benefits are mostly made up of two components: tax-free and taxable components. The tax-free component is always tax-free regardless of your age, even if the benefit is paid out as a death benefit.

The taxable component is more complicated. If you withdraw your super the tax on this component will depend on your age (if you're over age 60 it will be tax free). If this taxable component is paid to a beneficiary upon death then the tax treatment depends on whether that person is classified as a 'dependent for tax purposes.'

A dependent for tax purposes is:

1. A Spouse
   (including ex-spouse, de facto, same sex)
2. Child under 18
3. Financial dependent
   (or a person in a interdependancy relationship)

You will notice that the list above excludes adult children and this is where a major issue arises. When a superannuation death benefit is paid to an adult child (even when paid via an estate) the fund will withhold 17% tax (including Medicare Levy). On a $100,000 benefit the tax would be $17,000!

Re-contribution

A strategy to minimise the tax when super is paid to adult children is to boost the tax-free component by pulling it out of super, then putting it back in. The money comes out as taxable but is put back in as tax-free.

This can be tricky because if you are under age 60 there can be tax implications on the super withdrawal. There are also restrictions on how much an individual can contribute back in, for instance people over 65 can't contribute unless they meet a 'work test' and people over 75 may not be able to contribute at all.

Anti-detriment Payments

An Anti-detriment payment does not reduce the tax payable but rather offsets it with an additional payment. The anti-detriment payment is effectively a refund of all of the contributions tax paid throughout the life of the superannuation benefit. It is paid as a lump sum to a 'dependant'. In this instance, the term 'dependant' refers to individuals treated as dependants under the super laws (which also includes adult children).

Because the anti-detriment payment is made with respect to the 'taxable component' people often consider it as an alternative to a re-contribution strategy.

There is no one right way but here are some points to consider when deciding between the two strategies:

Self-managed super funds are seldom able to pay an anti-detriment payment so a re-contribution strategy may be favourable.

A spouse can receive an anti-detriment payment but does not have to pay tax on the death benefit. The anti-detriment payment may provide an additional payment rather than simply offsetting tax paid. In this instance the payment is conditional upon receiving the benefit as a lump sum payment, when often an income stream may be preferred.

There is the possibility that rules may change, for instance anti-detriment payments may not be available in future.

In any event estate planning should be a discussion undertaken with you financial adviser and lawyer where appropriate. If you're uncertain where you stand in relation to your own estate planning, speak with your financial planner.

LACHLAN HARVEY
CFP®
Authorised Representative (227293)

news from the office

Our Goldsborough Staff conference was held in May in Melbourne and was a fantastic opportunity to focus on our strengths and areas that we'd like to improve on. Many of our clients would find it hard to believe our team now consists of 16 staff and gathering together provides an opportune environment in which to share ideas and suggestions.

One of the activities we undertook during our time away from the office was '*Raw Canvas*' — a team building activity in which we were asked to design and paint a series of artwork based on the themes Trust, Education and Diversity. We were very proud of our creations and have them on display in our corridor — please take some time to have a look when you are next in the office.

Client ONLINE ACCESS

We have a small group of clients trialing a new online 'client portal' at present and they've been providing us with feedback and suggestions over the past few weeks.

This portal is designed to consolidate data into an easy to use and secure website with reporting capabilities, the ability to update contact information, asset & income values and much more. You'll also be able to reference any portfolio documentation that has been sent to you over the past years and moving forwards. We would hope that within the coming months we can roll this functionality out to even more clients so that you too can enjoy the functionality that it provides.

Stay tuned for further information…

How you receive your newsletter

We are now offering the option for you to receive your newsletter via email. If you would like to change to this method of delivery please email to

mail@goldsborough.com.au

requesting this option and we will alter our records.

Goldsborough is a referral based business

The biggest compliment any client can give us at Goldsborough is the referral of a friend, relative or business associate who could benefit from our services.

As an indication of our appreciation for the referrals that we receive from our clients, we have instituted a quarterly draw where the names of the referring clients for that quarter are put in a box and one is drawn out.

The winner of the draw receives a $100 shopping voucher!

We have pleasure in announcing the winners of our 'Referrers Award' for the June quarter are* Michael and Margaret Fuidge — *congratulations Michael and Margaret, your voucher is on its way.

UPCOMING seminars 2015

TUE 14 JUL
TUE 11 AUG

2.30pm and 6.00pm

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