Financial Directions

Autumn 2010

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Welcome

Welcome to the Autumn edition of Financial Directions

For many Australians, the greatest problem is financial security and dignity in retirement.

It is no secret that Australians are living longer now than ever before. Unfortunately, the retirement age is not changing and this means some people will live a quarter or even one third of their life in retirement.

Therefore, the importance of financial planning for retirement has never been so great or so important.

Financial planning is all about security – for by implementing a comprehensive financial plan today you can achieve financial peace of mind in retirement and also help to protect you, your family, business and estate against unforeseen events.

AFGFP financial advisers utilize a holistic approach with their clients and this process takes into account their current situation and needs (e.g. assets and liabilities) and future objectives and goals, in order to help the client make the most of their personal financial circumstances, potential and objectives.

In developing each client's personal solution, AFGFP financial advisers will take into consideration –

- Wealth & lifestyle protection
- Investment strategies
- Superannuation & retirement planning
- Taxation
- Savings potential and debt management
- Estate planning

But financial planning doesn't end with the implementation of the financial plan it also involves and requires regular reviews and adjustments where necessary to take into account changes in personal, career, health, business and family circumstances.

We hope that you find the latest edition of Financial Directions interesting reading and that it enhances your knowledge and understanding of the long term benefits of a good financial plan.

Spouse Contributions

Give your spouse a present for the future, and save some tax at the same time.

What are spouse contributions?

A spouse super contribution is an after-tax payment that can be invested into a complying superannuation fund held in your spouse's name. In other words you're investing money into your spouse's super account rather than your own.

Spouse contributions can be made at any time before your spouse's 65th birthday regardless of whether or not they are working. After age 65, if your spouse has worked at least 40 hours in 30 consecutive days, you can make spouse super contributions up until their 70th birthday. The chart below illustrates how this works.

Who qualifies as your 'spouse'?

You must be either legally married or a de facto spouse living together on a permanent, bona fide domestic basis (including same sex couples). A married couple living separately does not qualify. Both you and your spouse must also be Australian residents at the time the contributions are made.

Contributing spouse

- Can be any age.
- Can be employed or not working.

After-tax super payment of any amount

Receiving spouse

- If younger than age 65, can be employed or not working.
- If aged 65-70, must have worked at least 40 hours in 30 consecutive days within the financial year.

Receiving spouse's super account

A potential $540 tax rebate every year

As the contributor, you can get the full tax rebate if:

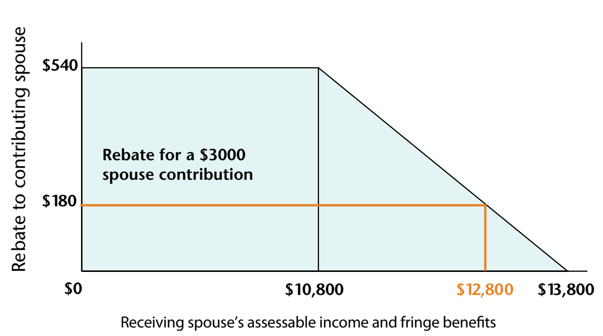
- you contribute at least $3,000 to your spouse's account, and
- their assessable income plus reportable fringe benefits plus reportable employer super contributions is less than $10,800 for the year.

If you contribute less than $3,000, the rebate will be equivalent to 18% of your contributions.

If your spouse's income is higher than $10,800, the rebate reduces until it cuts out when your spouse's income reaches $13,800.

The graph below shows the maximum rebate you can claim for a $3,000 spouse super contribution, at varying amounts of spouse income.

Benefits of spouse contributions



For example, if your spouse is earning $12,800 and you make a $3,000 contribution, your rebate would be $180.

The contributing spouse claims the rebate via their tax return.

Two funds could be better than one – splitting your super with your spouse

If you intend to retire before age 60, splitting your super with your spouse might be a useful strategy for you. One spouse often accumulates the lion's share of super. By splitting your super contributions with your spouse, you could save thousands of dollars in tax at retirement. How does this work?

By having similar amounts of super in each of your accounts you get to take advantage of two tax-free thresholds. If you want to withdraw a lump sum and if you're aged between 55 and 60 you're both entitled to a tax free threshold of $150,000 in the 2009-10 financial year. Also, if you are receiving pension payments and are under 60, you both have a PAYG tax free threshold to use before you start paying income tax.

If you intend to retire once you're age 60, splitting contributions may not be as attractive because all super benefits (including pension payments) received on or after age 60 are not subject to tax.*

Note: Since 1 July 2007 you can only split your employer or personal deductible contributions with your spouse. In addition, non-concessional (after-tax) contributions made on or after 6 April 2007 can no longer be split.

Who can apply to split contributions?

You may split contributions with your spouse if they:

- are under preservation age (currently age 55) at the time of the request
- have reached preservation age and are under 65, and do not satisfy the 'retirement' condition of release at the time they request to split their contribution.

Contribution splitting isn't available for your spouse if they are 65 or older.

When can contributions be split?

Contributions made between 1 July 2008 and 30 June 2009 can be split from 1 July 2009 until 30 June 2010.

Tip! If you intend to roll over your entire super balance before the end of the financial year, you can apply to split your contributions within that same financial year prior to creating your new pension account.

For more information on spouse contributions splitting, please speak with your AFGFP financial adviser.

Exploding the Insurance Myths

The five biggest myths about insurance

Australia is suffering an underinsurance epidemic, driven by a number of misconceptions about life insurance – it's too expensive, too complicated or superfluous to requirements.

But life insurance should be as integral a part of your family's financial planning as other forms of financial protection. After all, you would be unlikely to insure your car to only half its value. So why do most Australians only have half the life insurance cover they need?

It's important for your family's financial wellbeing that you base your decisions on facts rather than myths.

Myth 1: I have enough insurance inside my superannuation

Unlikely**.** The minimum level of cover provided by your super fund is set with all members in mind and therefore may not be enough to cover all your financial obligations. Make sure you contact your super fund to find how much cover you actually have.

Myth 2: I don't need insurance – the Government will look after me if I get sick or injured

This would be nice but it's not really the case. Centrelink pays a maximum disability pension of $569.80 per fortnight for singles and $475.90 (each) for couples. Would this cover your current lifestyle?

Myth 3: Life insurance is not affordable

For most Australians insurance is very affordable. For example, the monthly premium for a 35-year-old male non-smoker applying for $500,000 of life insurance cover would be approximately $30, while his female counterpart would pay approximately $25.

That's peace of mind for less than the cost of a coffee a day. And if you have some existing cover, increasing this to adequate levels will cost you even less. You may find a budget planner useful to help you free up the spare cash to pay for increased cover.

Myth 4: Life insurance companies don't pay claims

Insurers do pay claims. Life insurance companies pay out almost $10 million every working day in claims to customers. This figure would be even higher if Australians had adequate levels of cover.

Myth 5: Most people have enough insurance

Unfortunately, this isn't the case. In fact, research shows that 60 per cent of families with dependent children do not have enough insurance to cover the household expenses for a year if the family breadwinner were to die. And on average those who have death cover through their super policy have less than half the level of cover they need.

Ironically, most Australians insure their homes and cars but less than a third insure their most valuable asset – their income.

Get the cover you need

Consider what it would mean financially if you were incapacitated. To help you get the right cover that suits your needs, please make an appointment with your AFGFP financial adviser today.

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[1]IFSA analysis based on APRA data and Risk Store data 2007 [2] IFSA/TNS Protection Gap research 2005 [3]IFF/AIST Research, 2008

Life events trigger reminder to update beneficiary nominations

It is prudent to ensure that you have an up-to-date nomination of beneficiary for your superannuation fund to protect your financial future and any dependants. But sometimes, the busyness of life gets in the way.

When major life events occur, such as divorce or starting/ending a de-facto relationship, updating your nomination of beneficiary for your superannuation fund may not be high on your priority list.

A binding nomination of beneficiary expires three years after the date you sign and date the form. Similar to a Will, a binding nomination becomes invalid when certain changes occur to family circumstances which result in the nominated beneficiaries ceasing to be dependants.

When the nomination expires or becomes invalid, it is no longer binding on the trustee and the superannuation fund's rules often set out how death benefits are to be paid in these circumstances. This may mean that the trustee may pay the death benefit in a manner you did not intend.

Luke and Sarah's story

Let's look at Luke and Sarah's story as a timely reminder of the importance of keeping a nomination of beneficiary and Will up-to-date.

Luke and Sarah have been happily married for 10 years. Four years ago, Luke decided to make a binding nomination of beneficiary in favour of Sarah. Luke made this decision knowing that his son from his first marriage, who does not keep in contact, would receive a small portion of the death benefit.

Luke leads an active life and, as often happens, he did not make a Will or renew his binding nomination after it expired. When Luke died, the lack of a binding nomination and a Will had significant financial impact on Sarah because the Trustee paid his death benefit to his estate. Under the law of intestacy, Luke's son received approximately half of the death benefit (rather than a few thousand dollars) from Luke's estate.

To prevent a similar situation occurring, remember to have an up-to-date nomination of beneficiary and Will. As a reminder, some life triggers include divorce, starting/ending a de-facto relationship and when you are reviewing your finances or obtaining a financial plan with your financial adviser.

If you would like a nomination of beneficiary form for your superannuation fund – contact your AFGFP financial adviser today.

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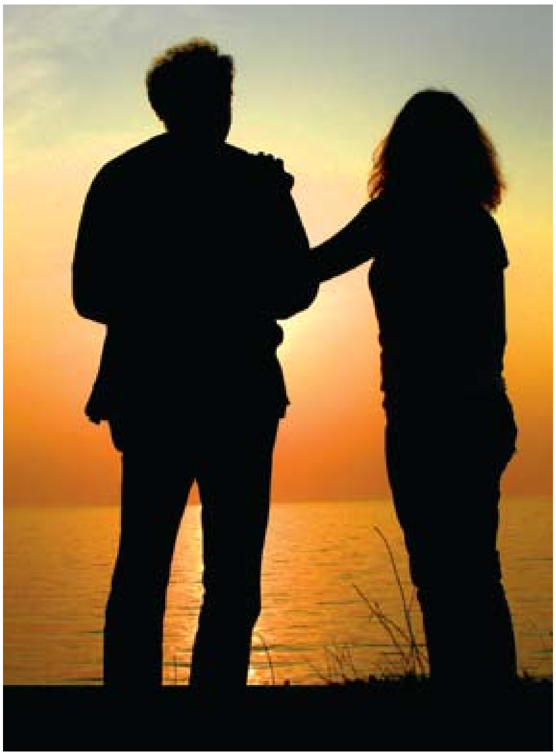

For further information contact your Financial Adviser

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