



Don't leave it too late – the importance of estate planning

Understandably, many people avoid the whole topic of estate planning. After all, no-one likes to think about their own mortality.

About 40 per cent of Australians die intestate, or without a will, leaving their dependants to sort out their affairs.

If you don't have a will, or your will is inadequate, your assets will be divided according to a pre-arranged formula, which could:

- burden your beneficiaries with unnecessary taxation penalties, or
- pave the way for expensive legal action if your beneficiaries contest decisions.

It's a recipe for chaos.

What is estate planning?

Estate planning is a process that ensures your property, money and other assets are distributed according to your wishes after your death.

Estate planning is a three-step process:

- 1 **Review** your current financial situation.
- 2 **Decide** what you want for your intended beneficiaries in the event of your death.
- 3 **Put in place** the appropriate arrangements to realise your wishes.

Effective estate planning can help minimise potential tax consequences for your loved ones and ensure that your assets go to the intended beneficiaries. Most importantly it also ensures your loved ones aren't exposed to more emotional stress, in the event of a dispute.

The cornerstone of estate planning is a watertight will that formally sets out how to divide your superannuation, property and assets among your beneficiaries.

Useful estate planning tools include:

- **Testamentary trust** – may generate significant tax advantages for your beneficiaries and protect their assets in the event of financial difficulties.
- **Binding nomination** – creates a framework for your superannuation death benefit.
- **Life insurance** – provides a lump sum for your beneficiaries.

Keeping your will up to date

There are many milestones on life's journey, such as getting married, buying your first house and having children.

You should update your will regularly to reflect your most recent wishes, particularly at the time of key life events.

If it is time to review your will, please call our office to make an appointment. We can help you consider the implications of your superannuation, life insurance and any taxes on your estate plans. We can provide you with a referral to access specialist legal advice to help you make a valid will and a testamentary trust if appropriate.



Life Planning Solutions

Certified Quality Advice Practice

ABN 42 083 734 589

Level 7
11 Help Street
Chatswood
NSW 2067

Dennis Georgiou AFP

Ace Ilievski CFP

Kathryn Fitch AFP

Authorised Representatives

PO Box 5194
Chatswood West
NSW 1515
Phone: 02 9406 0150
Fax: 02 9411 8126
Email: lps@lps.com.au
Web: www.lps.com.au

Tax advantages of investing in super

Superannuation is an investment for the long term, designed to ensure you remain financially independent in retirement. However the tax advantages associated with super make it an effective way of saving for retirement.

Super has a super tax advantage

Of course, super isn't the only way that we can support ourselves in retirement. Other assets such as direct shares, managed funds, investment properties and even cash in the bank can also help generate retirement wealth.

However, there are substantial differences in taxation between super investments and non-super assets.

The earnings and income from most assets held outside the super system (interest, rent, share dividends) are taxed at your marginal tax rate of up to 46.5 per cent (including the Medicare levy). In contrast, earnings within super are taxed at a maximum rate of just 15 per cent, regardless of your marginal tax rate.

When super and non-super assets are sold, the proceeds are usually subject to capital gains tax. However in the case of super, the amount of capital gains tax will typically be lower and if you are in pension phase there may be no capital gains tax payable at all.

So, if your marginal tax rate is more than 15 per cent and you invest in super, your return will usually be better than a similar investment outside super. As shown in the following table, the higher your marginal tax rate, the more effective it is for you to invest in super.

Investment earnings	Marginal tax rate ¹	Super tax rate	Invested in:		Difference
			Non-super	Super	
\$1,000	0%	15%	\$1,000	\$850	-15.0%
\$1,000	16.5%	15%	\$835	\$850	1.8%
\$1,000	31.5%	15%	\$685	\$850	24.1%
\$1,000	39.5%	15%	\$605	\$850	40.5%
\$1,000	46.5%	15%	\$535	\$850	58.9%

Once you reach the age of 65 (or age 55 if you satisfy a condition of release such as retirement), your super investment is accessible at any time. And if you are 60 or over, no tax is generally payable on withdrawal.

Investing inside super versus out – a real difference

For many of us, being able to access money is important. As super has strict rules around this, some people would rather invest outside super.

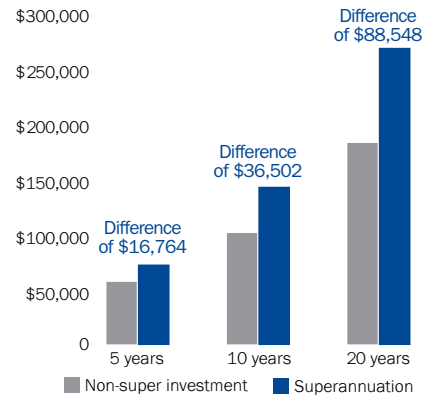
However, if you're investing your money to save for retirement anyway, the tax benefits of keeping it in super are considerable.

To illustrate the potential benefits of investing in super for retirement, see the following graph. If you invest \$20,000 outside of super in ordinary savings for 10 years, and contribute \$1,000 each month as well, it may grow to around \$98,000. Investing the same amount in super for 10 years may grow to around \$134,000. That's \$36,000 more – almost a year's worth of income for a comfortable retirement!²

As you can see, access to your investment comes at a price. While investing in super may mean there are rules as to when you can take your money out, the tax treatment of super can make a significant difference to your end investment.



Investing inside super vs outside



Assumptions:

The projections in this example are based on various assumptions, including but not limited to:

For non-super investment: Non-super managed fund return – growth rate 2.37% pa, income 4.88% and franking 0.56% – based on Pathways 70 (balanced fund) return used for long range client modelling. Regular investments are \$1,000 based on pre tax per month ie net \$605 per month, not indexed over life of projection. Marginal tax rate 38% plus Medicare levy 1.5% used over life of projection (ie earning > \$80,000 pa (2009-10)).

For superannuation investment: super growth rate 6.60% pa is after tax – based on Pathways 70 (balanced fund) return used for long range client modelling. Contributions are \$1,000 per month net of contributions tax 15%, ie net \$850 per month, not indexed over life of projection.

Results are adjusted for inflation at 3%. No administration fees or charges have been deducted. Capital gains tax not taken into account.

The super advantages

- Super is a tax structure that gives you access to concessional tax rates, rather than your normal marginal tax rates.
- Salary sacrifice may enable you to put more of your income into your super account rather than making after-tax contributions, with the added benefit of reducing your overall taxable income.
- You can invest in many of the same things you might want to invest in outside of super such as bank deposits, listed companies, property and infrastructure, but with the added benefit of less tax.
- As you can't access your savings until retirement (except in specific circumstances), you won't spend your savings before you retire.

If you'd like to find out more about the best investment option for you, please make an appointment with our office. We can help you work out the best way to invest your money to ensure you save enough to enjoy a comfortable retirement.

¹ 2009/10 tax rates, including Medicare levy.

² Westpac – ASFA Retirement Standard figures for the December 2009 quarter show that for a comfortable lifestyle in retirement, a single person requires \$38,611 a year and a couple \$51,727.

How can trauma insurance help?

What would happen if you suffered from a traumatic illness and had to take time off to recuperate, or were unable to return to work in the same capacity?



Who depends on your income? How would you pay for your mortgage or children's school fees? How would you maintain your current standard of living?

Trauma insurance is one way to help you and your family cope financially with the impact of a trauma event such as cancer, heart attack or stroke. If you suffer a trauma event during the term of your plan a lump sum is paid which can be used to ease the financial stress due to a loss, or reduction, in income.

While it is hard to think about the possibility of suffering a major trauma event in your lifetime, the likelihood is very real. Currently one in three Australian men and one in four women will be diagnosed with cancer by the age of 75.¹

Although death from a major trauma can be a reality, mortality rates for many of our leading health concerns are falling due to

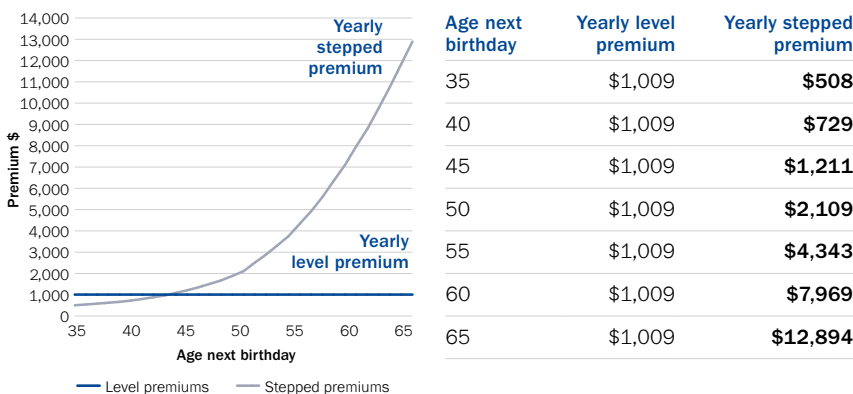
better diagnostic tools, earlier detection and improvements in the treatment of trauma events. Research shows great gains in the five-year relative survival for people diagnosed with cancer in the early 2000s, compared to those diagnosed in the early 1980s. For the 50-59 age group, survival increased from 50 per cent in 1982-86, to 71 per cent in 1998-2004.²

These survival statistics are positive news. However, those who do survive a major trauma still face the ongoing costs associated with their care, rehabilitation and existing financial commitments.

Choosing a trauma plan to suit your needs

When taking out trauma insurance you can generally structure your premiums in one of two ways: stepped premiums or level premiums. Each option provides the same benefits for any given sum insured, however the premium paid over the life of each plan differs:

- **Stepped premiums** are linked to age so the premium rate increases, or 'steps up', each year in line with your age, reflecting the higher risk of a claim being made.
- **Level premiums** remain the same throughout the duration of your plan, although premiums can be indexed for inflation if required. Premiums are averaged over the term of the contract however, at a predetermined date, level premiums will change to stepped.



Premiums calculated using AXA's Premium Quoting Tool. The premiums are not guaranteed and may vary in the future. Assumptions: Premiums have been calculated for a male, non-smoker, age 35 with \$250,000 sum insured trauma insurance with policy fee.

What are the benefits of stepped versus level premiums?

The answer to this question depends on your personal circumstances, including your age and how long you will require the cover.

Stepped premiums are likely to be the cheapest option at the beginning of your policy with lower payments than level premiums at the outset. However, as time goes by, stepped premiums overtake level premiums and can become prohibitively expensive around the same time your chances of claiming become more likely (typically between the ages of 40-55 according to historical claims).

Consequently stepped premiums may suit those, for example, who need a short-term insurance solution, during periods of high financial exposure, such as a home mortgage or business loan.

In contrast, level premiums may be more suitable for those seeking long-term protection, such as supporting a family and children until age 18 and beyond. While level premiums are more expensive at the outset, they remain constant, potentially making your premiums more affordable as you get older and your chance of making a claim increases.

Blended premiums

A third option, offered by several insurers, is blended premiums. This hybrid option fills the gap between stepped and level premiums and offers the best of both worlds. Premiums are priced somewhere between stepped and level at the outset, rise during the first stage of cover and then level-out to a fixed rate.

At a set age the blended premium reverts to stepped for the remainder of the policy.

Whether you choose stepped or level premiums, or a combination of the two, it is important to ensure you have a sufficient level of protection to cover any financial obligations in the event of the unexpected.

Speak to us for more information on the right level of cover and the right premiums for your needs and your budget.

1 Source: Australia's Health 2008, Australian Institute of Health and Welfare (AIHW).

2 Source: Australia's Health 2008, Australian Institute of Health and Welfare (AIHW).

10 tax tips for 2010

The 2009/10 financial year is drawing to a close, which means it's time to examine your finances to ensure they are as tax-efficient as possible.

To help you conduct a quick audit of your tax situation, we've pulled together our top 10 tax time tips to help you boost your bottom line.

1. Sacrifice your salary to super

If your marginal tax rate is more than 15 per cent, salary sacrifice can be a great way to boost your superannuation and pay less tax. By putting your pre-tax salary into super, rather than having it taxed at your marginal rate, you may save tax.

2. Offset capital gains

Tax is normally payable on any capital gains. To lessen this obligation it may be possible to realise investment losses on non-performing assets through 2009/10. Capital losses from previous years can also be carried forward and used to offset capital gains.

3. Move assets into a lower tax rate ownership

This strategy involves changing the ownership of assets from a higher to a lower income tax bracket. For example, if a husband works part time and his wife earns a higher wage from full-time employment, it may be tax-effective for assets to be in the husband's name.

However, be aware that putting this strategy into action can trigger capital gains tax and other transaction costs.

4. Contribute to your super

Whether you make personal tax-deductible (concessional) or after-tax (non-concessional) contributions, putting money into super can be very tax effective. This is because earnings on super assets are taxed at a concessional rate (up to 15 per cent), compared with earnings on your personal investments, which are taxed at your marginal tax rate (up to 46.5 per cent).

Personal tax deductible (concessional) contributions

If you are under 50, you can make contributions of up to \$25,000 (indexed) each financial year. If you are over 50, you can contribute up to \$50,000 for the 2009/10 to 2011/12 financial years, after which the limit will revert to \$25,000 (indexed).



After-tax (non-concessional) contributions

A cap of \$150,000 each financial year applies to these contributions. This amount can be averaged over a three-year period to allow for a larger one-off contribution of up to \$450,000 if you are under 65.

Penalty rates of tax may apply where you make contributions in excess of these caps.

5. Contribute to your spouse's super

You can claim an 18 per cent tax offset on super contributions of up to \$3,000 made on behalf of a low-income or non-working spouse. To be eligible for the maximum \$540 tax offset, your spouse's total income² must be under \$10,800 per financial year, while a reduced offset is available if your spouse earns less than \$13,800.

6. Qualify for a Government co-contribution

If your total income² is less than \$61,920 in 2009/10, you may be eligible for a super co-contribution from the Federal Government. For each dollar in personal super contributions, the Government will contribute up to \$1, up to a maximum co-contribution of \$1,000 for those earning less than \$31,920.

7. Protect your income

Cover for one of your greatest assets – your ability to earn an income – can be an important part of securing your financial future. Income protection insurance replaces up to 75 per cent of your salary if you are unable to work due to sickness or an accident, plus the insurance premium is tax deductible.

8. Take out life insurance within super

Normally personal life insurance premiums are not tax deductible. However, if this insurance is held within your super fund, and you make either salary sacrifice or personal concessional contributions, you are effectively getting a tax deduction on your insurance premiums.

9. Start a transition to retirement strategy

Once you reach 55, you can access your super through a transition to retirement pension (a regular income stream drawn from your super savings). In most cases, you'll pay less tax on income received through a pension than you would on the same amount of salary or wages, making this a great way to boost your super balance.

10. Claim an education tax refund

The Education Tax Refund (ETR) is a government initiative to help with the cost of educating primary and secondary school children. Eligible parents, carers, legal guardians and independent students can get a 50 per cent tax offset on a range of primary and secondary school education expenses, such as computers, educational software, textbooks and stationery, subject to certain conditions and limits.

To learn more about boosting your financial bottom line, please call our office today. We can help you determine how to best structure your financial affairs and generate additional wealth.

1 Total income includes assessable income, reportable fringe benefits and reportable employer superannuation contributions.

2 Total income includes assessable income, reportable fringe benefits and reportable employer superannuation contributions less certain business deductions.