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Federal Budget update

Far from all the gloomy hype, the 2011 Federal Budget succeeded in not upsetting too many interested parties, with measures being spread fairly evenly across various sectors. On the plus side, there were some limited wins for small business, retirees and income earners.

We have cut through the detail here to bring you the key budget issues that could affect you. In looking at these changes it is important to remember that most measures are proposals only. They still need to be passed into law and may be changed during this process.

Superannuation

Concessional contribution cap changes

From 1 July 2011, if you exceed your concessional contribution caps for the first time only by less than \$10,000, you will have the option of requesting that the excess contribution be refunded to you and taxed at your marginal tax rate instead of paying the excess contributions tax.

If you are aged 50 and over with less than \$500,000 in super in total, you will be able to contribute an extra \$25,000 in pre-tax dollars each year. The budget also confirmed that any future indexation increase to the under 50s cap of \$25,000 will also be applied to the full \$50,000 cap for over 50s.

Account based pension drawdown reductions

If you are an account-based pension holder, the good news is you will still have a 25% reduction in the minimum drawdown for the next year. This enables you to preserve more of your capital in the pension investment thereby giving you more time for the markets to recover which may help you to recoup any losses that could have occurred during the Global Financial Crisis.

Co-contribution remains attractive

The co-contribution thresholds will be frozen for another year at \$31,920 for full dollar for dollar support, tapering out to zero once income reaches \$61,920. These thresholds will now apply until 30 June 2013.



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From the CEO



It was a budget with few surprises...

with minor amendments to superannuation and capital gains tax as well as a number of social welfare measures being introduced. In this edition we have covered some of the main changes in the Federal Budget and what they may mean for you.

The co-contribution provides up to \$1,000 of Government superannuation support for people who make a personal after-tax contribution into super.

Taxation

Dependent spouse offset reform

If you have a dependent spouse aged less than 40 years old you may lose the dependent spouse tax offset from 1 July 2011, unless your spouse is a carer, an invalid, or is permanently unable to work. If you have children and are eligible for Family Tax Benefit B, or if you are eligible for the zone, overseas forces or overseas civilian tax offsets, you will not be affected by the changes.

Family Tax Benefits boosted for 16-19 year olds

If you have a child or children aged 16-19 in full-time secondary study, or the vocational equivalent, you may be eligible for up to \$160 per fortnight in additional payments per eligible teenager, from 1 January 2012 via the Family Tax Benefit Part A. You now also have more flexibility around obtaining advance payment of up to \$1,000 of FTB Part A entitlements.

LITO loophole closed

If you have been diverting dividends, interest and rent to one of your non-working children in order to take advantage of the Low Income Tax Offset provisions for non-work related income, this loophole has now been closed.

On page 4 and 5 we raise the issue of women having low superannuation balances and provide suggestions to show how your adviser can help to re-right this unbalance.

Also being the 'Year of the Volunteer' I encourage you to read our story on page 7 as it touches on both the emotional benefits of volunteering and the positive health outcomes. All RI staff and advisers are encouraged in their endeavours to give something back to the local community and at a National Level we were pleased to have raised over \$4,000 at our recent Conference for our charity partner Camp Quality.

As winter kicks in and bills and expenses start to escalate, keep in mind your adviser is someone who is able to look for options to prepare for any unforeseen events and a financially healthy future – they are just a phone call away.

Kind regards

Paul Campbell
CEO, RI Advice Group

Medicare levy thresholds

From the 2010/11 financial year, the Medicare levy low-income threshold will increase with different increases for couples, singles, families and pensioners. Incomes up to these thresholds shown in the table will not incur the levy. This will provide some small relief in Medicare costs for those on low incomes. Incomes up to these thresholds will not incur the levy.

Category	No Medicare levy payable if income is less than
If you are eligible for the senior Australians tax offset	\$29,867
Pensioners below age pension age	\$30,439
Singles	\$18,839
Couples	\$31,789
Threshold increase for each dependent child	\$2,919

Small business tax breaks

If you are a small business owner and intend buying a vehicle in the 2012/13 financial year or onwards, you can now claim \$5,000 of the cost as an immediate tax deduction. You can also claim a similar deduction on other business assets valued at under \$5,000.

Incorporated small businesses will also benefit from a reduction in company tax rate to 29 per cent.

Fringe Benefit Tax (FBT)

From April 2014 you will no longer need to drive a minimum distance to increase the tax concession for your car fringe benefit. Instead, an across the board statutory rate of 20% will be used to determine the taxable value of car fringe benefits. This new rate will be phased in over four years with new contracts entered into from 10 May 2011. For people who drive more than 25,000 km a year, this change will reduce the tax concession associated with their car fringe benefit.

Want to explore more?

While changes may seem modest, it pays not to be complacent about seeking to benefit from them. The best place to start is to chat to your adviser and explore the key issues affecting your situation.

If you or someone you know is potentially affected by the issues summarised here, then now is the time to act and get some sound advice. Why not call your adviser today?

When the Australian dollar recently reached parity with the US dollar, it crossed a psychological barrier in the minds of many Australians, but does such an event have significance for your investments?

There is no doubt that the rise of the Aussie dollar has a strangely gratifying effect. Perhaps we feel that it asserts a stronger presence as a serious international economy... and, of course, it gives us more bang for our buck if we are heading off on an overseas holiday!

Traditionally the Australian dollar has been viewed as a speculative currency by overseas investors, but those investors seem to be a lot more comfortable in holding longer-term positions in our humble local currency these days.

An attractive place to invest

This change in perception has been justified in recent times by the tangible benefits our economy offers to overseas investors.

We have been successful at avoiding much of the malaise infecting other economies and the demand for commodities fuels our growth and keeps upward pressure on interest rates.

There are also some less obvious factors in the attraction. The hunger that the powerhouse Chinese economy has for our raw materials means that some will look to invest here as a way of participating in the benefits of Chinese growth, without direct investment in Chinese companies.



Aussie ascent – should exchange rates impact your investments?

But there is a downside too

Sectors that rely heavily on selling to overseas markets, such as manufacturing, tourism and tertiary education, are hindered by a strong dollar making their products and services more expensive for foreign customers to buy.

The strong currency can also have a dampening effect on the local sharemarket. Those in the US and Europe who may be considering investing in the Australian market have to pay a 'currency premium' when their US dollars are used to buy Australian shares. This means lower demand resulting in less upward pressure on local share prices.

What if our dollar falls again?

By now, you can probably gather that a strong Australian dollar in itself is not exclusively a good or bad thing. A falling dollar, for example, can be a good thing for someone who has already diversified their investments broadly overseas as they benefit when those overseas investments are converted back to Australian dollars.

Conversely, if our currency is strong, it could be argued that it is a good time to look at overseas opportunities due to the increased buying power.

Two principles to consider

- **Stay diversified** - It is critical to be well diversified in both overseas and domestic markets, so that you are positioned well to benefit from currency movements.
- **Relentless review** - If you are to take advantage of profound shifts in currency values between countries, then you must be active in seeking advice and making relevant changes at the time those shifts happen. There is no 'one-size-fits-all' strategy. The correct balance for you will constantly change and will depend on your changing circumstances. The key is to remain in dialogue with those who can interpret and counsel you in sound decision making.

If you are concerned about how recent currency movements are affecting your investments, then don't delay in talking to your financial adviser to gain a better understanding.



Women and super time to take control

While women have achieved great strides in equality in many areas of life, superannuation and the financial independence it can bring is sadly lagging behind. What can women do to redress this imbalance?

Financial independence is a privilege and a goal that any person should have the right and the opportunity to strive for. No other area of financial independence is more significant than superannuation, in terms of the amount of time and money involved. One of our society's greatest challenges is the gap that needs to be bridged in terms of women providing properly for their retirement savings.

The scope of the problem

To try and quantify the extent of this challenge, it is important to determine what a reasonable savings goal would be in order for any person – male or female – to live comfortably in retirement. This can be a subjective area, but that should not prevent you from making a reasonable and rational attempt to come up with a figure.

Some say that a proportion of earned income is a good guide and two thirds of income is generally accepted as a reasonable figure.

For someone on \$60,000 income, that would mean a retirement income of \$40,000. In order to generate that, it would take a lump sum of around \$570,000 invested at a 7% return (not making allowances for inflation and tax).

The reality is that the average retirement payout that women are going into retirement with today is only \$73,000¹. This is a massive shortfall that can only be partly redressed by an age pension system that is already under significant pressure from an ageing population. It's a frightening wake up call to women who want to build genuine financial independence.

Men are well behind an adequate retirement amount but they are averaging more than double what women are achieving at a figure of around \$155,000¹.

Women and men are not always equal

To compound the discrepancy in retirement savings between the genders, it is also a fact that women will on average live longer than men, which means they need to survive longer on whatever income they generate. If a woman reaches age 65 today her life expectancy would be 21.62 years, whereas a man reaching 65 today would only have an expectancy of 18.54 years².

The cause of the problem

There are many reasons why women's superannuation falls so far short of where it should be. Even if a woman has a career, it is much more likely that she will stop and start while taking time away from work to care for children. If not that, they may tend toward more casual and part-time work with a lower income result.

Such a pattern is not conducive to regular and substantial saving for retirement. This is compounded in many cases for working mothers who perhaps take multiple part-time jobs. If they earn less than \$450 per month in each job, current rules say that they are not eligible for compulsory super contributions to be made by those employers.

Another significant factor affecting continuity of financial planning and saving for women is the prevalence of divorce. In Australia currently one third of all marriages ends in divorce³. It is only in relatively recent times that women have been able to claim an equal share of their husband's superannuation.

Over 26% of women remain single³ and thereby have sole responsibility for their retirement provision.

Single parenthood is by far still a female dominated phenomenon with 87% of one parent families being headed by women³. This further restricts freedom for women to provide income for their family, let alone superannuation for themselves.

Turning the tide

One part of the solution is to fully utilise the tax incentives that have particular significance for women. One example is the spouse super contribution incentive, whereby the main breadwinner can contribute to superannuation on behalf of a spouse who is not working or is not earning a high income. In the majority of cases this incentive will be one that will benefit women who still tend to be the non-working spouse. The contributing spouse gains a tax rebate of up to 18% on such contributions, with a maximum potential rebate of \$540.

A further opportunity may exist for couples where one partner has a lower income. The higher income earning spouse may be able to split super contributions toward their spouse (if they are concessional contributions). The higher-income spouse gets the tax break and their partner gets a larger super benefit.



The value of good advice

Opportunities will depend on specific circumstances and this is where financial advice from a professional can be used to assess the applicability of rules and incentives.

Perhaps of broader importance to women is the role that advice can play at all stages of life to help manage superannuation growth.

Even at times where income is interrupted or is at lower levels, the value of getting sound advice cannot be underestimated. An adviser can help map out future contribution strategies and identify incentives, so that when conditions do improve you are poised to 'make hay while the sun shines' with your super accumulation.

1. Association of Superannuation Funds in Australia (ASFA) 2009.

2. Compiled from Australian Life Tables, 2005-2007, Australian Government Actuary (www.aga.gov.au). Released 27 November 2009.

3. Australian Bureau of Statistics - Australian Social Trends, 2007.



Putting the 'success' into succession for small business owners

If you are a small business owner, you are no doubt a master at making your business tick, but are you applying the same focus to an exit strategy from your business to maximise your retirement position?

Questions, such as "When do I want to retire?" and "How do I extract value from my business?" may sound simple but the answers are not always easy to grapple with. Nonetheless, failure to plan ahead for these questions can seriously compromise your retirement lifestyle.

In a survey conducted by CPA Australia, only 38 percent of small business owners interviewed have succession plans¹. When this is coupled with ABS data that shows 33 percent of all Australian small business operators are over 50 years old², a worrying picture emerges of a large group of small business owners approaching retirement without proper succession and retirement planning in place.

The first step

Many business owners feel pressure to push retirement back so they can continue to generate income. Of the 1.9 million retirees who had worked at some time in the last 20 years, the most common factor in their decision to retire was their health³.

Is your business your retirement nest egg?

You may have a general idea that one day you will be able to 'cash in' your business and retire on the proceeds. It is vital to analyse the issues involved, such as:

- How much is your business really worth on the market?
- Are there specific actions that can be taken to improve value prior to retirement?
- How will you go about selling your business to maximise value and avoid a 'fire sale' situation?
- Are there family succession issues to be considered?

Cash to thrive or just enough to survive?

Once you know when you want to retire and have a succession strategy, you then need to assess if this will actually provide enough funds for you to enjoy the 20 or 30 years of retired life that you may well have.

How to get what you deserve in retirement

In the same way that you are an expert in your small business, your financial adviser is expert in the business of putting structure and direction into your goals for retirement.

Your adviser can help you assess the 'ins and outs' of selling a business and if there are retirement funding shortcomings they can offer guidance in how to effectively allocate business income to help plan for your retirement.

Time is the key to it all and the clock is ticking, so don't delay in acting today!

It's never too late to commit to a plan

Greg, 55, owns a deli. His wife, Janine, worked as a casual part-time teacher's aid. Greg loves his work but health-wise aims to retire at age 60. His kids have no desire to take over the family business and with no superannuation in place he knows he needs to sell the business to have some money to live on in retirement.

Fortunately, he decided to engage a financial adviser who was able to help Greg set out a 5 year strategy to improve his business sale value and accelerate savings in Greg's retirement fund. This included:

- Working with Greg's accountant to get financial records up to date and quantify the business value.
- Raising issues such as reducing redundant stock and debtors list to improve saleability.
- Setting up a super plan for Greg so he could improve funds for his retirement.
- Setting up super for Janine, so that they could take advantage of the Government Co-contribution scheme and the spouse rebate, to maximise super inflows.

1. CPA Australia: Small Business Succession and Exits Survey 2004.

2. Australian Bureau of Statistics: 2006 Characteristics of Small Business (COSBO) survey.

3. Australian Bureau of Statistics: 2009 Australian Social Trends.

Volunteer your way to a happier life

In this International Year of the Volunteer it is timely to take a closer look at the growth of this movement and how it can provide you with real lifestyle and health benefits.

While much of modern society seems to become increasingly individualistic, there is a growing trend for the practice of volunteering. Volunteering reflects a passion to improve the quality of life or opportunities for others. The less obvious consequence of volunteering, however, is the benefits it can reap for the volunteer themselves.

Why do people do it?

Volunteering can take many forms and can spring from a variety of motivations. Volunteering Australia's research on why people volunteer indicates that 57% do it to 'help others or the community'. This was followed by 'personal satisfaction' 44% and 'to do something worthwhile' at 36%¹.

These results clearly suggest a strong element of altruism is involved, but also recognition that it can have benefits for the volunteer just as much as the person they are helping.

What's in it for me?

The reward for people who volunteer goes beyond having a warm feeling about doing something worthwhile. Research² suggests that for those aged 65 and older there are positive physical and mental health benefits. The personal sense of accomplishment that volunteering provides leads to a reduction in rates of depression.

The report also states that those over age 70 who volunteered an average of just 2 hours per week experienced greater longevity and a slower rate of decline in self-reported health levels.



A greater purpose in retirement

Of course, the contribution to volunteering is prevalent in those who have more time on their hands.

The Australian Bureau of Statistics reports that couples aged 55 years and older contribute an average of 170.3 hours per year – the most of any age bracket surveyed³.

Many retirees are factoring in volunteering holidays into their retirement plans. This can take place anywhere from outback Australia to a third world country. Of course it is not an exclusive domain for retirees as many working professionals are taking time out to volunteer abroad.

Finding your niche

The demand for various life skills that can be used in volunteering is incredibly diverse. If you have business or marketing experience, you could help develop sponsorship plans for a youth outreach program. If you have practical skills like plumbing or carpentry, they can be put to use helping impoverished communities create basic infrastructure.

If you are a dab hand in the kitchen, you can volunteer in community centres that provide meals for the those in need or even help at the school canteen. If you have a heart for children in poorer countries, why not teach English in a school?

The possibilities are endless. If you want to explore the volunteering concept and opportunities further a good place to start is www.volunteeringaustralia.org

A key part of your planning

Your interests, activities and abilities are all issues that should be discussed with your adviser so that the financial plans you make can best serve what you actually want to do with your life.

1. www.volunteeringaustralia.org
2. Corporation for National and Community Service: The Health Benefits of Volunteering: A Review of Recent Research.
3. Australian Bureau of Statistics: ABS 2006 Volunteer Work Survey.



An age pension increase

In March this year we saw an increase in age pension rates. The new rates (excluding the pension supplement) are:

Single \$670.90 per fortnight

Couple \$505.70 each per fortnight

The increase in pension rates also means the cut-off thresholds for being eligible for the age pension increases so if you weren't eligible for the pension before, you could be now.

Your financial adviser can help you maximise your eligibility, which could be as simple as rearranging your assets.

For example, it may be possible to 'gift' some assets to family members in order to improve eligibility for a pension, but you need to be careful that you satisfy Centrelink's rules and limits.

Your adviser would be happy to clarify any options you might like to explore to maximise your age pension income.

Performance returns to 30 April 2011

Asset	1 Year Return (%)	3 Year Return (%)	5 Year Return (%)	10 Year Return (%)
Australian Listed Property	1.4064	-15.6253	-9.0508	2.8609
Cash	4.9317	4.9412	5.6519	5.4387
Australian Fixed Interest	6.7805	7.5396	6.2367	5.9559
Australian Equities	4.5767	-0.4895	2.6018	8.199
Global Fixed Interest	7.8091	8.7116	8.1242	7.7187
Global Equities	-1.5032	-7.6041	-7.0414	-5.6866

Source: This advice has been prepared by van Eyk Research (ABN 99 010 664 632, AFSL 237917) with data sourced from Morningstar Research Pty Ltd (ABN 83 062 096 342 AFSL 243 161) and does not take into account your objectives financial situation or needs. Before acting on any advice you should consider the appropriateness of the advice having regard to your financial situation and needs. We recommend you obtain financial legal and taxation advice before making any financial investment decision. All potential investors should obtain a Product Disclosure Statement relating to the product and consider the Statement before making any decision about whether to acquire the product.

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