INVESTMENT SOLUTIONS

AUTUMN 2013

WHAT'S INSIDE

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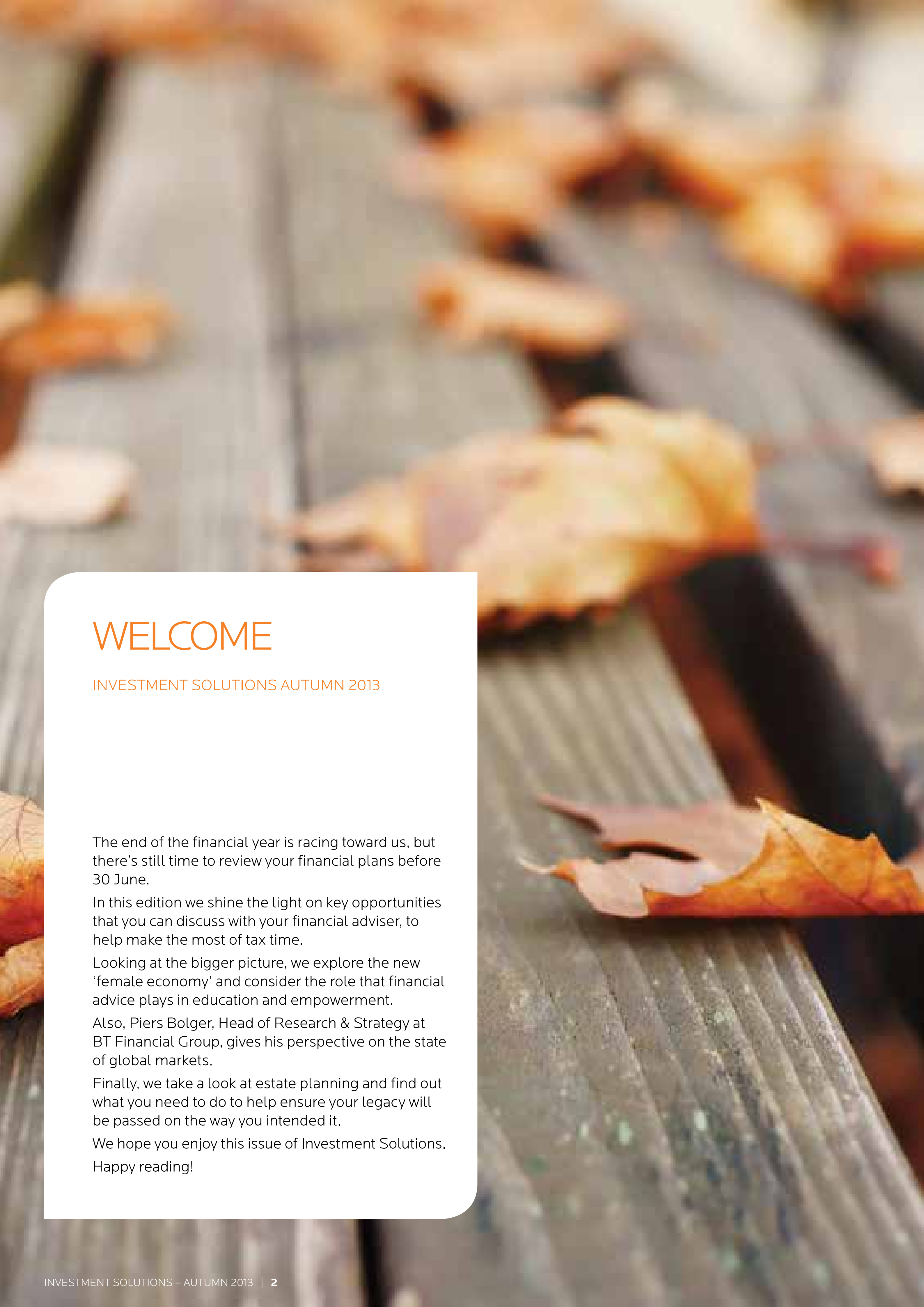

WELCOME

INVESTMENT SOLUTIONS AUTUMN 2013

The end of the financial year is racing toward us, but there's still time to review your financial plans before 30 June.

In this edition we shine the light on key opportunities that you can discuss with your financial adviser, to help make the most of tax time.

Looking at the bigger picture, we explore the new 'female economy' and consider the role that financial advice plays in education and empowerment.

Also, Piers Bolger, Head of Research & Strategy at BT Financial Group, gives his perspective on the state of global markets.

Finally, we take a look at estate planning and find out what you need to do to help ensure your legacy will be passed on the way you intended it.

We hope you enjoy this issue of Investment Solutions.

Happy reading!

MARKET UPDATE

THE EQUITY MARKET RALLY AT THE BACK-END OF 2012 HAS CONTINUED INTO 2013 WITH 'RISK' SEEMINGLY NOW WELL AND TRULY BACK IN VOGUE WITH GLOBAL EQUITY MARKETS CONTINUING TO MOVE HIGHER.

In January, the US S&P500 posted its largest monthly gain since October 2011 and rose above the 1500 level for the first time since December 2007. At the same time European, Asian and emerging markets are also higher, while the domestic equity market (ASX 200) is now trading above the 5000 mark, its highest level since the peak in mid 2007. However, the ongoing concerns about the direction (and strength) of global growth, combined with the euro debt crisis and the continuing budgetary impasse in the US continue to weigh on market sentiment and have the potential to mitigate some of the recent market gains.

Globally, cash rates have remained unchanged in recent periods and continue to remain very accommodative, a trend that we expect will continue for a number of years. In Australia, so far the RBA has lowered cash rates by 0.50% (50bps) to 3.0% during Q4 2012, but have so resisted making any further cuts through the early part 2013.

The ongoing improvement in US housing remains one of the bright parts of the global economy. Record low mortgage rates spurred by the Federal Reserve's aggressive monetary policy stance have assisted in ongoing signs of a housing recovery.

Notwithstanding signs of increasing stabilisation in regard to the debt crisis in Europe, there remains a significant number of structural headwinds. The labour market remains virtually stagnant with Eurozone unemployment still at 11.7%, while the strength of the euro has reduced the export competiveness of the region and reduced a key lever (i.e. weaker currency) in assisting economic recovery.

In Japan, the economic outlook remains constrained with most recent data indicating that the nation has entered a technical recession (two consecutive quarters of contraction). Data in Asia showed that Japan's industrial output tumbled more than forecast to the lowest level since the aftermath of the record 2011 earthquake, bolstering the case for Prime Minister Shinzo Abe to unleash a large-scale stimulus, beginning with a significant devaluation of the Yen to support the economy.

In China manufacturing expanded at the fastest pace in 19 months in December 2012, boosting optimism that a recovery in the world's second-biggest economy is gaining traction.

AUSTRALIAN ECONOMIC COMMENTARY

While the Australian economy continues to track relatively well to its global peers, the recent comments by the RBA and supporting data highlight some underlying general fragility and weakness. Equally, the relative strength of the Australian dollar continues to hamper export orientated industries. That said, if the most recent data from both China, the US and Europe continues to show an improvement this may provide the fillip to the local economy.

Nevertheless, as we expect that domestic growth will continue to moderate through 2013, the potential for more stimulatory measures via further official interest rate cuts still remains.

BEAT THE CLOCK AT TAX TIME

PRETTY SOON IT WILL BE DECISION TIME FOR A NUMBER OF END OF FINANCIAL YEAR STRATEGIES. HERE ARE THREE WAYS YOU MAY BE ABLE TO MAKE THE MOST OF TAX TIME.

Every year around this time, a window of opportunity opens to help maximise your end of financial year tax strategies. And if you leave it too late, the chance to improve your financial position could go begging.

So what are some of the strategies you might want to consider?

1. MANAGE YOUR CONTRIBUTIONS CAPS

WHAT'S THE GOAL?

To maximise your super contributions.

HOW DOES IT WORK?

There are limits on how much you can contribute to super tax-effectively each financial year. These limits (referred to as 'caps') are important for two reasons:

1. If you've already commenced a super contribution strategy, you need to monitor your contribution levels to help maximise your opportunities without unintended penalties.
2. If you're not using your caps, there's an opportunity to increase your super contributions.

The following table shows what the two types of super contributions are, and what limits and penalties relate to each.

WHAT ARE YOUR CONTRIBUTIONS CAPS?

	Concessional (before-tax) contributions cap	**Non-concessional (after-tax) contributions cap**
Types of contributions included	• Superannuation Guarantee (SG) • Salary sacrifice **(see strategy 2)** • Personal deductible (if self-employed)	• Personal super contributions you've made from your after-tax income **(see strategy 3)**
Maximum allowed (2012-13)	$25,000	$150,000
Tax on amounts over the cap	31.5% (in addition to the 15% paid by the super fund)	46.5%
Important information	Any concessional contributions in excess of the cap will also count towards your non-concessional contributions cap.	If you are under age 65* at any time during the financial year, you may be able to bring forward the next two years' worth of contributions. This effectively allows you to contribute up to $450,000 at once, or at any time during the next three financial years.

* If you are under age 65 at any time during the financial year, you may be able to bring forward the next two years' worth of contributions. Speak to your financial adviser about the criteria you need to meet to take advantage of this.

If you have room under your caps, the next two strategies explore how you may be able to use that room to your advantage.

2. START A SALARY SACRIFICE ARRANGEMENT (USING BEFORE-TAX CONTRIBUTIONS)

WHAT'S THE GOAL?

To boost your super balance in a tax effective manner.

HOW DOES IT WORK?

You may be able to enter into a salary sacrifice arrangement with your employer, provided you have room in your concessional contributions cap. This may allow you to contribute some of your before-tax salary directly into your super account.

The benefit of this strategy is that your before-tax super contributions are taxed at 15% — compared to your marginal tax rate of up to 46.5% (including Medicare Levy) if you took this money as cash.

An added benefit is that these potential savings are going towards your super balance, so they can compound over time and make a significant difference to your retirement savings.

Salary sacrifice arrangements differ depending on your place of work, and you may need to check what rules are in place for you. It's a good idea to have this conversation with your employer well before 30 June as you can't salary sacrifice income (including year-end bonuses and commission payments) to which you are already entitled — it must relate to employment income that you will earn in the future.

Remember, if you have a salary sacrifice arrangement in place, it's important to review the strategy annually to ensure it remains appropriate for your circumstances or any changes in legislation.

3. MOVE ASSETS INTO SUPER (USING AFTER-TAX CONTRIBUTIONS)

WHAT'S THE GOAL?

To place your long term investments in a tax effective environment.

HOW DOES IT WORK?

When you hold investments like shares or managed funds outside super, you pay tax on these investments at your marginal tax rate — which could be as high as 46.5% (including Medicare levy).

However, if you held these assets inside super, those same investments would be taxed at 15% or less. Assuming your marginal tax rate is higher than 15%, these tax savings could help your investments grow faster inside super than outside super.

Once you've started accessing your super in the form of a pension, this strategy may become even more attractive. That's because:

- Any earnings on the investments supporting the pension are tax-free.
- Up to age 60, the tax you pay on pension income you draw may be reduced by tax offsets, and/or you may receive some income tax-free if you've made after-tax super contributions.
- After age 60, any income or benefits you withdraw from super are tax-free.

This strategy is best suited to investments you're putting aside for retirement, as you won't be able to access them until you reach your preservation age (currently age 55) and you are permanently retired from the workforce. Your financial adviser may assist you in identifying any issues to be aware of with in specie transfers including capital gains tax (CGT) considerations, contribution rules and caps.

KNOW WHERE YOU STAND BEFORE 30 JUNE

The best year-end tax strategies for you depend on your personal circumstances and goals — which may change from year to year. Likewise, the strategies can vary over time with changes to rules and regulations.

To make sure you know where you stand before 30 June, speak with your tax and financial advisers as soon as possible.

COULD PROTECTING YOUR FAMILY ALSO SAVE YOU TAX?

Income protection is a popular type of insurance that replaces a percentage of your income (usually up to 75%) if you can't work because of sickness or injury.

This insurance may be an effective way to protect your family's lifestyle as it can give you the money you need to keep up with your financial commitments — such as your household bills and mortgage repayments — while you focus on your recovery.

Another benefit of income protection is that premiums are generally tax-deductible. And if you pay your premium in advance before 30 June, you may be able to bring forward the tax-deduction to this financial year. Talk to your financial adviser to find out more.

WHAT WOMEN WANT

WORLDWIDE, WOMEN ARE INCREASINGLY MAKING THE KEY FINANCIAL DECISIONS – YET RESEARCH SHOWS THEY ARE OFTEN HELD BACK BY A LACK OF CONFIDENCE IN THEIR INVESTMENT KNOWLEDGE. CAN FINANCIAL ADVICE HELP BRIDGE THE GAP?

It's been dubbed 'The Female Economy'[1] — the emerging trend of women becoming increasingly more interested in their finances and making the majority of spending decisions.

Women now control around $20 trillion in annual consumer spending globally.[1] In the United States, 80 percent of consumer purchasing decisions are made by women[2]. Closer to home, women make up 46 percent of Self Managed Super Fund (SMSF) trustees[3].

But while women are making leaps and bounds in terms of managing their finances, research shows they are often held back by a lack of confidence in their investment knowledge.

A recent survey showed that just over 20 percent of women feel very confident that they have a good financial plan for the future. At least six in ten worry about their financial future at least monthly.[4]

This lack of confidence is complicated by broader market factors that can often leave women in a more financially disadvantaged position than men. Women typically earn less than men, yet live longer.

Many also experience punctuated career cycles meaning they are underprepared for retirement. When they do retire, the average payout is 43 percent less than their male counterparts.[5] For small business owners, the statistics are particularly stark. Around 53 percent of self employed females – that's 700,000 women in Australia — do not contribute to superannuation.[6]

This creates a risk that many women may outlive their savings and be unable to manage their current lifestyles in retirement.

Together these factors highlight the need for good planning early on — both to increase women's confidence in investing and also to achieve financial security that's on par with that of men.

The role of advice to help bridge this gap is key. Women and families who obtain financial advice are reported to be happier, wealthier and have more control over their finances than those who don't. A recent survey by KPMG found that Australians who have a financial planner saved more and have a greater investment balance than those who do not get advice.[7]

Of course, the true value of advice goes beyond a single financial plan. It's found in the ongoing relationship between the client and adviser - where the adviser guides, mentors and supports their client to achieve their financial and lifestyle goals.

Education is another key ingredient of good advice — the adviser's ability to make the complex simple and encourage confidence in financial decision making.

The end result — heightened confidence in personal finances — is of course positive for the individual. But it's also good for the global economy, with full participation from both women and men reported to produce stronger economic growth, social cohesion and prosperity.[8]

1_'The Female Economy', Harvard Business Review (Blog), 2009
2_'Why Women Mean Business', Wittenberg-Cox & Maitland
3_'Female SMSF trustees narrow gender gap', Financial Standard, 2013
4_Westpac Women's Markets Survey, 2011
5_Get on board for Super Equality, Fin Review 2012
6_Australian Women Chamber of Commerce & Industry survey
7_KPMG Econtech: Value Proposition of Financial Advisory Networks, 2009
8_'Removing barriers to women's participation fuels economic development', UN Women

KNOW WHAT YOU'RE LEAVING BEHIND

WE ALL LIKE TO THINK WE'LL LEAVE A LASTING LEGACY — BUT GOOD PLANNING IS KEY. IF YOU'RE NOT SURE WHAT WOULD HAPPEN TO YOUR ASSETS IF YOU PASSED AWAY, IT MIGHT BE TIME TO FORMALISE YOUR ESTATE PLAN.

Your personal assets ('estate') will one day be divided among the people you love and the causes you believe in. But do you know exactly how that division is going to happen? Or whether you could be distributing your assets more tax-effectively?

While your family may have a good understanding of your intentions, the only way to avoid uncertainty and make the most of your legacy is to put together a formal estate plan.

WHY DO YOU NEED A VALID WILL?

A valid Will specifies how you would like your estate distributed following your death. Combined with the rest of your estate plan, it can be used to make provisions for children and grandchildren — as well as yourself while you are alive — through various powers of attorney and guardianship.

If you pass away without a professionally-drafted, up-to-date Will, it opens the door to the confusing and often expensive world of intestacy. This could see some of your estate eroded by legal fees at the expense of your beneficiaries.

Despite the importance of a Will, it's estimated that around 45 per cent of Australians don't have one[1]. Among those that do, many could find their Will doesn't meet strict legal requirements — effectively leaving loved ones no better placed than if there was no Will at all.

1_"NSW Trustee and Guardian, 2012"

ARE YOU PASSING ON YOUR ASSETS TAX-EFFECTIVELY?

Another important part of estate planning is ensuring the effective distribution of your assets to the intended beneficiaries. Tax is a key consideration here — particularly around benefits paid out of superannuation.

If you leave your superannuation death benefit — including the proceeds of any life insurance held in super — as a lump sum to a spouse or someone who is financially dependent on you (such as a child or grandchild who lives with you), there will be no tax payable by the beneficiary.

However, if you leave that death benefit to someone who is not financially dependent (such as an adult child or grandchild) they may have to pay tax of up to 31.5%. Not only is this an unfavourable result from a tax perspective, it could mean your estate is distributed unevenly as a result.

GREATER CERTAINTY FOR YOUR ESTATE

Working with your solicitor and financial adviser, you can put together a Will and estate plan to help ensure your wishes are carried out in the way you intended, and in the most tax-effective way possible.

Ongoing reviews of your estate plan every year or two help to ensure it keeps up with any changes in your personal circumstances, or changes in the rules and regulations.

To know what you're leaving behind, and to find out more about getting your estate plan in order, talk to your financial adviser today.

EDITORIAL

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IMPORTANT INFORMATION

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