

# focus

## Issue: Summer 2005

### Invest Smart

In the old days, it was common for your lawyer to arrange a good return for your capital invested.

Your lawyer simply arranged to lend your money on security of real estate property.

However, problems often occurred when borrowers were late with repayments causing grief for the investors.

Nowadays, with regulations imposed by our government to protect investors, you can invest your money in a "Mortgage Fund" that has robust investment procedures and can deliver good regular returns with little risk.

Below is an example of Fixed Term (effective) Rates offered;

<b>24 Month</b>	<b>7.75% p.a.</b>
<b>12 Month</b>	<b>7.5% p.a.</b>

For more information call us on  
1300 880 789

## Superannuation: when getting the right advice really counts

The introduction of superannuation choice legislation on July 1 has given many Australians an opportunity to shop around for the proverbial 'best deal'.

There has been a lot of hype in the marketplace, spurred by various advertising campaigns seeking to capitalise on the new era of super mobility that have focused on the impact of management fees on long-term investment returns.

However, while fees can have an impact on returns, they are really only one part of the overall superannuation story. The reality is that advice and education – which are covered within the management fees charged by financial services companies – can significantly increase the dollars in a person's super account.

Super is not the most stimulating topic and because of its complexities, many people put it in the 'too hard basket'. Advice is a valuable super benefit that you may access through a professionally managed super plan. It can make thousands of dollars difference to your retirement payout. The bottom line is that all super funds charge fees for administering your super, but having advice included as part of these costs, can pay in the long run.

A professional financial adviser can ensure you take advantage of every perk and can help you with your investment and insurance decisions. That will get you on your way to maximising your final retirement payout.

To talk about maximising your superannuation, contact us.

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## Words of Wisdom

It is not necessary to do extraordinary things to get extraordinary results.

- Warren Buffet,  
Berkshire Hathaway

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## Case Study

Compare the pair below. Both are the same age and both receive the same income. Yet there can be a large impact on their super account balances thanks to the benefit of advice and education.

<b>Name</b>	Nathan	<b>Name</b>	Adrian
<b>Super investor</b>	Navigator Access	<b>Fund member of</b>	Industry fund
<b>Age</b>	35	<b>Age</b>	35
<b>Income</b>	\$100,000	<b>Income</b>	\$100,000
<b>Take home pay after personal super contribution</b>	\$53,535	<b>Take home pay after personal super contribution</b>	\$53,535
<b>Net gain from salary sacrifice contributions</b>	\$451,290	<b>Net gain from personal after-tax contributions</b>	\$300,000

Nathan and Adrian are both 35 years old and both earn \$100,000. Nathan has his super with Navigator Access and Adrian has his super with an industry fund.

Adrian knows that it is good to top up his super so he puts \$10,000 into his super account as an after-tax contribution. Unfortunately Adrian does not have access to a financial adviser or education through his fund and does not know about the advantages of salary sacrifice.

Nathan also wants to put \$10,000 into his super so he talks to his financial adviser and learns about the benefits of salary sacrifice. He arranges with his employer to put \$19,290 of his before-tax salary into his super account.

As you can see from the table, both Nathan and Adrian receive the same take-home pay of \$53,535 (after their super contributions have been made). However because of the tax benefits of salary sacrifice, Nathan's pre-tax contribution of \$19,290 equates to an after-tax amount of \$15,043 in his account.

Adrian's account only increases by an after-tax amount of \$10,000.

This means that the net gain from the salary sacrifice strategy for Nathan is \$5,043 per year. After 30 years at age 65, Nathan will benefit from an extra \$151,290 in his super account, thanks to the recommendations of his adviser.

**Assumptions.** This example compares the benefit of advice and education in relation to the net benefit of salary sacrifice versus after-tax contributions. The figures are not final retirement account balances. The figure for Nathan represents the extra amount attributable to his superannuation account from adopting the salary sacrifice strategy. The figure for Adrian represents the extra amount attributable to his superannuation account from adopting an after-tax personal contribution strategy. Figures are based on 2005-06 PAYG tax rates and assume salaries of \$100,000 (total income) are the same over the projection period. 15% tax has been applied to salary sacrifice contributions. Nathan's figure of \$451,290 is based upon a reduced SG contribution of \$6,664 per year, and a \$19,290 salary sacrifice contribution which provides an additional amount of \$15,043 in his super account each year. Adrian's figure of \$300,000 is based upon 30 years of a yearly after-tax contribution of \$10,000. Fees, inflation and investment returns have not been taken into account. In addition, the figures used are predictive in character and may be affected by inaccurate assumptions or by known or unknown risks and uncertainties, & this may materially affect the figures ultimately achieved.

## The ins and outs of insurance and super

Most of us readily accept that having the right level of personal insurance cover in place is extremely important.

Topping up your life insurance makes sense to protect you and your dependants from unforeseen events, particularly if you just have a basic level of cover through a company superannuation scheme. But how you decide to go about topping up your cover – inside or outside of your superannuation structure – is also really important.

Choosing which way to go will depend on your personal circumstances. It's important to choose wisely, however, because doing things the wrong way could have serious consequences. For example, in certain

## Fast Facts

### Mature Aged Worker Tax Offset

While Transition to Retirement is now helping some workers move into retirement earlier, the Mature Aged Worker Tax Offset introduced last year also rewards and encourages mature aged workers to stay in the workforce.

The Mature Aged Worker Tax Offset is available to people aged 55 and over and provides a maximum annual rebate of \$500 on their net working income. This excludes investment income and pension income. The offset phases in at 5 cents for every dollar of net working income up to \$10,000, so that the full \$500 offset will be available when net working income is between \$10,000 and \$53,000 per annum.

In 2005-06 and beyond, the tax offset starts to phase out once net working income exceeds \$53,000, so that no offset is available when earned income exceeds \$63,000. This means that for every \$1 over \$53,000 the Mature Age Workers Tax Offset reduces by 5 cents.

situations, your family could have to pay higher amounts of tax on your life insurance benefit, after your death, than they would otherwise have needed to if your insurance was set up differently.

Topping up your insurance within an employee super fund does have an element of convenience because the premiums are generally deducted from your pre-tax salary in each payment cycle. The life cover component is considered a super contribution, meaning that when you package it through salary your super is FBT exempt. Using pre-tax dollars also reduces your PAYG tax bill.

Taking cover through a superannuation fund does mean that the fund trustee decides how any death benefits are to be distributed unless you have lodged a valid binding nomination. A trustee deciding who to pay the death benefits to can become complicated, because the trustee will need to comply with both the superannuation law and tax law in regards to payouts.

The trustee must pay all dependants, which can also become complex, especially in situations where a divorce has occurred and there are dependants in different families. There can also be adverse taxation implications where the trustee pays benefits to individuals not financially dependant on the deceased. In addition, binding nominations will tell the trustee who should be paid, but not how the proceeds are to be paid. There will be different tax outcomes depending on how the benefits are to be paid out. The tax concessions provided in superannuation for an individual are capped at a limit set by the Tax Office.

By comparison, taking out your life insurance outside of your existing superannuation structure is generally a lot simpler. Taking this approach means that any payout will be made directly to your nominated beneficiary, eliminating the need for your trustees to distribute the funds to other dependants, and the payment is tax free.

Getting the right professional advice on how to structure your life insurance is very important. Please contact us to talk to one of our financial advisers about your insurance needs.

## Global property gets more attractive

Australia's listed property trust sector has undergone dramatic change in the past 18 months, with industry consolidation increasing levels of gearing and exposure to offshore assets increasing the attractiveness of global property investment.

The attraction of global property, via listed property trusts, reflects the fact that Australian investors are keen to have indirect exposure to a much larger pool of commercial property assets than can be achieved through the domestic LPT market.

Investors focusing on the LPT sector have been attracted for a number of reasons. These include the high and stable yields, tax-advantaged distributions, modest capital gains tax, slightly lower volatility than Australian shares, and the benefits of asset diversification.

Recent LPT merger and acquisition activity has considerably narrowed the investment spread in Australia. The merger of three listed Westfield trusts last year into the Westfield Group resulted in 35 per cent of the entire LPT sector being tied to the performance of just one trust. As a result of consolidation within the sector in Australia, there are now only 23 LPTs compared with 51 in 1999.

By comparison, the global LPT sector is diverse and has a market capitalisation of approximately \$650 billion, compared to an Australian property market capitalisation of approximately \$71 billion.

Global property returns have low correlations with other asset classes, providing diversification benefits within investor portfolios. This is because global property is exposed to different economic cycles and property markets.

### Growth in REITs

The most common global property security is the Real Estate Investment Trust (REIT) – which can be thought of as an overseas version of the LPT. The number of countries adopting REIT structures is increasing every year. REITs distribute



much or all income to shareholders in the form of dividends. Most REITs remit the majority of their taxable income to their shareholders and because they are given particular tax advantages, pay no corporate tax.

### Investment Risks

The prevailing risks in the sector are earnings quality and the translation of earnings to the Australian dollar. Investors should be aware of the following investment risks:

- Property market valuations and/or the level of income from properties can change depending on the economic conditions, demand and supply factors, government, legislation, market sentiment and other influences.
- Interest rates – property markets are influenced by interest rate movements.



## Fast Facts

### Transition to Retirement

The introduction of Transition to Retirement legislation on July 1 is continuing to have a profound impact on the Australian workforce as the benefits of this change become more widely known.

Workers aged 55 and over (preservation age) can tap into their superannuation while still working by taking a pension. They can either supplement their income if they scale back their working hours, or simply maintain their existing hours at work.

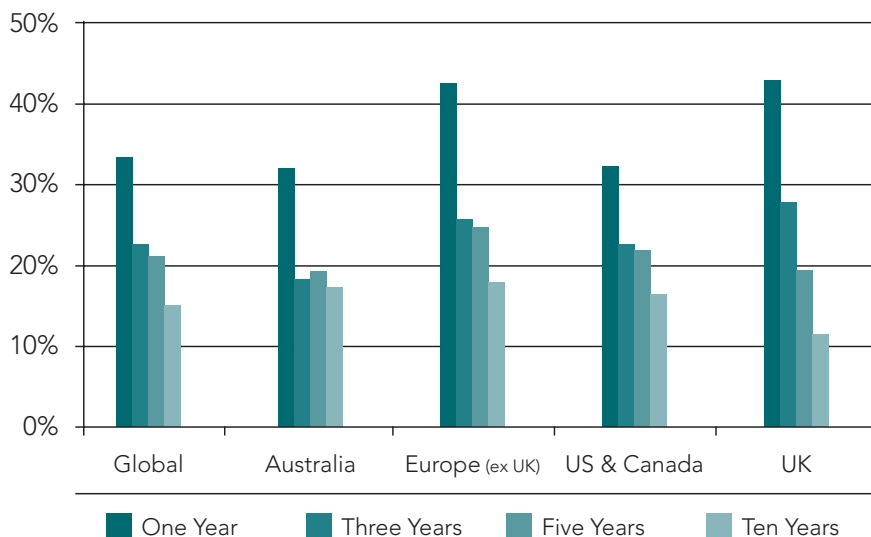
The intention is to make it easier for older Australians – including those who are self-employed – who wish to reduce their working week as they transition to retirement, or improve their savings potential by participating in the generous tax concessions the government has provided, which was previously only accessed by those who had retired.

Individuals choosing this option must take their benefit in the form of a non-commutable income stream, meaning it cannot be commuted to cash. The income stream receives the pension tax concessions, including a tax deductible amount; up to 15% tax offset; and 0% tax on all investment earnings. Also the pension income is exempted from being included in the assessment of income for the Mature Age Workers Offset.

If you would like to know more about Transition to Retirement, contact us.

- Interest cost – rising interest rates affects earnings of heavily geared companies due to the increased costs of borrowing.
- Earnings quality – the rental income/development mix will have a bearing on the consistency of the income stream. Property development is cyclical, meaning earnings will decrease in a downturn.

Chart 1 - Global Property performance to December 31, 2004



Source: UBS Warburg Global Real Estate Investor Index/AMP Capital. Local currency returns and assumes dividends reinvested.

- Currency – the potential for adverse currency movements to reduce returns for Australian investors in unhedged global property funds.

Investors concerned with changes in the local LPT sector and interested in diversifying their Australian property exposure may be attracted to global property. Periodic downturns in the Australian property market may be offset by improved conditions in global property and vice versa.

The benefits of diversification and yield should be balanced with the sector risks, which include interest rate, earnings risk and currency. Investors may wish to consider the following investment issues before allocating a portion (if any) of their portfolio to global property.

Global property demonstrates similar performance characteristics – that is return and lower volatility – to Australian property as compared with international equities.

Given the Australian LPT market is already expanding its exposure to international property (with approximately 30 per cent of the listed property market now exposed to the US), investors should be reasonably

comfortable in allocating a proportion of existing property allocations to global property.

To discuss your property investment option in more detail, please contact us.

**Disclaimer:** The information in this document reflects our understanding of existing legislation, proposed legislation, rulings etc as at the date of issue. In some cases the information has been provided to us by third parties. While it is believed the information is accurate and reliable, this is not a guarantee in any way. The information is not, nor is it intended to be, comprehensive or a substitute for professional advice on specific circumstances. The financial product advice or information in this document is of a general nature only and has not taken into account the investment objectives, financial situation or particular needs of any particular person. Before making an investment decision on the basis of the advice above, a prospective investor needs to consider, with or without the assistance of a professional adviser, whether the advice is appropriate in light of their particular needs, objectives and financial circumstances.