

A Strong Year for RV – Thank you to Our Clients

Welcome to the Winter Edition of *RV Client News*. It is our intention to publish a winter edition and a summer edition each year to help keep clients up to date with what is happening at Retirement Victoria and to address topical areas of interest.

The past year has been a big one for us and we are appreciative of the strong and committed support of clients.

The business is experiencing a period of rapid growth. We have moved to meet demand for services by progressively recruiting quality staff. At the same time part of the office is being redesigned to provide space for additional advisers and support staff.



Marnie & Emma at Work – Geoff's view

Staff Changes

Over the past year we have added four support staff in Melanie Brown, Emma Delahey, Joan Zivchak and Katrina Hage to our team. All combine the

characteristics of enthusiasm, ability and commitment to service and relationships which we value so highly.

Our current adviser team comprises Alan Cooper, Geoff Allen, Denis Cleary and Ed Paterson. Gary Martin will join us shortly. Gary is a highly regarded adviser with comprehensive knowledge and fifteen years experience in retirement planning for public sector employees. He may be known to some of you through his visits to schools as an adviser or in earlier days as a field officer for what was then Ed Credit. He will be a welcome addition.

Linda Tong

Linda has worked with Alan for the past decade and became widely known and respected by clients for her competence, friendliness and caring approach.

In March Linda took long service leave and at the end of it decided to take some time out of the workforce to enjoy her family and "smell the roses". Linda has been a key person in the building of our culture of service and teamwork. We hope she will rejoin us before too long.

Retirement Victoria Annual Conference

RV has committed itself to holding a three day conference for all staff each year.

Our purpose is to provide the opportunity for specialised training as a group and to reward all staff with an enjoyable experience in recognition of their work on behalf of clients and RV.

In mid March this year we held the conference from Thursday to Saturday at Cradle Mountain Lodge in Tasmania. The entire staff attended accompanied by Bob Parr of the Australian Education Union and Don McLean of the Government Superannuation Office. Both Bob and Don had important training roles and their sessions, expertise and insights were immensely valuable.

We also used the opportunity for some formal Occupational Health and Safety training with an excellent half day course offered by the Red Cross.

If you get the impression that the conference was all work we would just add that the weather was wonderful with clear Tassie skies for all three days, the walks around Cradle Mountain were a treat and the food, accommodation and company made the whole experience a great success.

We place great store in providing an enjoyable work environment – one in which staff value expertise, teamwork and each other in the service of clients.

So enjoy this first issue of *RV Client News*. We hope you find it of interest and we welcome any feedback. Thank you for your support.

Best Wishes.

Alan and Geoff – on behalf of our team –

Alan Cooper	Melanie Brown	Geoff Allen
Maria Beltran	Denis Cleary	Joan Zivchak
Ed Paterson	Chris Harris	Gary Martin
Emma Delahey	Susan Heath	Katrina Hage
Marnie Ewinger		



RV Conference – Staff on the move

The World of Advice and Super

The introduction of super choice legislation has enabled workers in many industries to choose a superannuation fund for their accumulating superannuation benefit rather than have it determined by their employer.

One of the short term effects of the legislation has been a frenetic and narrow advertising campaign by superannuation funds seeking to retain or attract funds under the new legislation. Superannuation funds flog product. Such campaigns can be a distraction from the importance of a comprehensive and strategy based approach to planning for retirement.

It is important to intelligently integrate strategy and investment. In this article we summarise some of the issues of advice and investment which characterise good retirement planning.

Advice

The starting point for thinking about retirement is in the realm of hopes and dreams – what you want to do in the years ahead – five years – ten years. Developing your lifestyle objectives forms the basis for developing your retirement strategy.

In the early years of retirement (or partial retirement) people tend to undertake the things they have not previously had the time or capital to do. This may include such things as travel, home improvements or the purchase of a vehicle or other equipment. The early years tend to be the heavier spending years of retirement.

As time passes and people age they tend to be less active. Income and capital needs can drop away. At the same time opportunities can arise for the buffering of total income through the inclusion of part age pension.

Good planning will look at these issues in terms of planning periods, starting with lifestyle needs and addressing the income and capital needs for each planning period. It will take account of issues such as age pension efficiency and the income tax efficiency that is available in the superannuation world from age 55.

In accessing advice it is essential to work with an adviser who has an established reputation in the areas of client relationships and planning quality – a person with whom you will feel comfortable working over time and who has a history of providing continuing service and support to clients.

Investment

Too much of the advice given to people entering retirement does not take the approach outlined above. A superannuation fund, for example, may offer only one or two superannuation products – perhaps a superannuation accumulation fund and an allocated pension. The fund may employ general advisers with their role restricted to product information. Advice is limited to placement of superannuation capital which is always directed to one or other of the superannuation fund's products.

This may be dressed up as retirement planning but it is not. The advice is not and cannot be directed to your personal situation and circumstances, needs, objectives and strategy. Members need to be wary of institutions or superannuation funds which operate in this way.

Once appropriate personal planning has been done, however, it is time to put in place an effective structure to service income and capital needs across the planning periods. And superannuation products will form a part of most efficient retirement income and capital structures. The primary reasons for the use of superannuation products as part of retirement structures arise from two sources –

- the tax concessions available to superannuation income streams and capital structures in retirement and
- the friendly nature of Centrelink rules in the treatment of certain superannuation income and growth products as they apply to benefits such as age pension and allowances.

There are hundreds of superannuation accumulation and retirement products available in Australia. Some are income products, some are growth products and some seek to include the characteristics of both income and growth. They include cash funds, fixed interest funds, share funds and property funds. And they include funds which contain a mix of asset types – with common designations such as balanced funds, growth funds and diversified funds.

Risk characteristics, asset quality, tax efficiency, Centrelink efficiency, administrative standards, responsiveness and service standards vary widely.

How then do you choose from the hundreds of options available?

In implementing plans for clients there are many matters which are important in fund selection.

Some of the issues we take into account in establishing a portfolio are–

- diversification across different types of assets
- the use of funds which focus on high quality assets
- the inclusion of a number of fund managers with different and complementary strategies
- a preference for actively managed funds which seek to add value and which have a defensive strategy rather than passive funds with no defensive strategy
- the volatile Australian dollar and the attendant risks in some international investment
- a preference for bias in retirement structures towards Australian assets
- appropriate time periods for different types of investment
- short and long term risk to income and capital
- administrative and service standards of the funds
- the risk tolerance of the client.

It is essential to establish a structure with which a client is emotionally comfortable. If a client is not comfortable with the suitability, quality and risk profile of a portfolio in terms of their needs and objectives then it is not appropriate for them.

Value

Establishment of an appropriate retirement model is a demanding task. Most people do not have the technical or strategic expertise to do it themselves because it is something they do only once in their lives and the rules and options are complex. It often involves the most major planning and investment decisions that a person will make in their lives.

And yet some people seek to obtain the cheapest outcome they can find. In most areas of our lives we do not seek to buy the cheapest product because we know it is unlikely to be what we want.

What we seek is good value for money in obtaining the quality and combination of benefits which satisfies our requirements.

Developing a retirement strategy and implementing it is no different. The combination of advice, strategy, product, the continuity of care and service over time and a fair price should be seen as an integrated and interdependent whole.

Federal Budget 2005

A Year of Major Changes

A year seldom passes in which the Federal Budget does not contain some changes to superannuation rules, retirement rules, age pensions, aged care benefits or tax rates.

However this year was a special case. Changes were significant in all of the above areas. The information below provides a summary of major budget measures in areas which are likely to affect retiree clients and those approaching retirement.

Personal Tax Rates

Personal tax rates have been reduced in two stages. The first stage will apply in 2005\6 and the second stage in 2006\7. The changes in tax rates carry a bias towards high income earners with most benefits flowing to those on higher marginal tax rates.

In the range \$6,001-\$21,600 p.a. the marginal tax rate has been reduced from 17% to 15%. The 30% marginal tax rate which in 2004\5 applied between \$21,601 and \$58,000 will apply up to \$63,000 for 2005\6 and up to \$70,000 for 2006\7.

The Table below summarises the marginal tax rates for 2005\6 and 2006\7:

Income Range	Tax Rates 05/06	Income Range	Tax Rates 06/07
0 - 6,000	Nil	0 - 6,000	Nil
6,001 - 21,600	15%	6,001 - 21,600	15%
21,601 - 63,000	30%	21,601 - 70,000	30%
63,001 - 95,000	42%	70,001 - 125,000	42%
95,000 +	47%	125,000 +	47%

As a consequence of the above the effective levels of tax neutral superannuation income will rise – that is clients will be able to receive a higher level of rebateable superannuation income before incurring any net tax.

Superannuation Surcharge

The Superannuation Surcharge has been a controversial tax levied on the pre-tax superannuation contributions of higher income earners. In addition to the normal 15% contributions tax an additional tax of up to 15% was levied in arrears based on income including the pre-tax superannuation contributions.

From the 1st July 2005 the surcharge has been abolished. Employer and salary sacrifice contributions will now attract only the 15% contributions tax.

Starting a Superannuation Income Stream

A significant change to preservation rules for superannuation will allow those aged 55 and over to commence a complying superannuation income stream from preserved superannuation capital while still continuing to work.

The measure is intended to encourage people to remain in the workforce at least on a part-time basis while receiving a mix of superannuation income and employment income.

Previously an income stream could not be commenced from preserved superannuation capital until retirement from the work force from age 55, resignation from age 60 or age 65 in the case of a person continuing in work.

The measure will provide another option in the development of efficient income and capital models for clients from age 55.

Splitting of Superannuation Contributions

For several years the Federal Government has expressed a desire to permit splitting of superannuation but until this year had not provided a concrete proposal.

From 1st July 2006 the splitting of both personal and employer contributions will be available to eligible couples.

The measure will be of most benefit to those with a large superannuation accumulation and to those who wish to control tax on large withdrawals from the superannuation environment.

There are currently a number of ways that superannuation can be structured to provide efficient income sharing between members of a couple. The introduction of superannuation contribution splitting will add an additional option in developing efficient strategy for those developing their retirement income and capital model.

Newstart Allowance

From 1st July 2006 higher income test thresholds will apply to Newstart and a range of other allowances. The effect is to reduce the rate at which the Allowance is lost as a consequence of other income being earned – a measure intended to encourage the pursuit of income from employment by reducing disincentive.

Disability Support Pension

From 1st July 2006 the rules for those seeking Disability Support Pension will become more stringent. DSP will be available to applicants assessed as being incapable of fifteen hours of work per week. A new category of benefit will be introduced for those assessed as being capable of 15-29 hours of work per week – to be called Enhanced Newstart.

Those currently receiving DSP are not affected by the rule changes.

Aged Care

Entry to Hostel and Extra Care Service accommodation is often associated with the payment of a large bond. There is no maximum bond amount with the level negotiated between the facility and the resident.

While most of the bond capital is ultimately recovered (apart from the statutory retention amount) the earnings on the capital are retained by the hostel or nursing home as part of the conditions of residency.

Until now the amount of the bond has been counted as an asset under the Centrelink assets test and has thus precluded or reduced age pension entitlement for many residents.

From 1st July 2005 accommodation bonds will be exempt from asset testing.

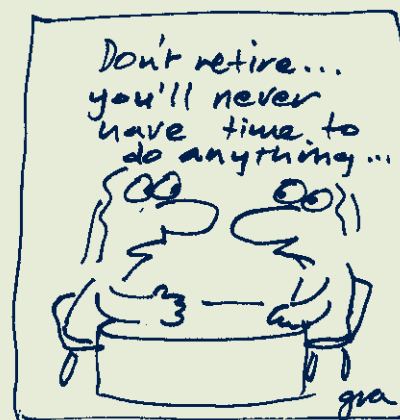
The change has the potential to significantly increase the availability of age pension benefits to hostel residents.

A range of related rule changes in tandem with the above are likely to see changes over time in the way hostels charge as the strategic implications of the changes become understood and take effect.

It is likely that bonds will tend to increase as a consequence of the changes.

Other rule changes will see some residents preferring to meet bond commitments by way of periodic payments rather than by way of a single lump sum payment.

At Retirement Victoria an increasing proportion of our services are directed to assisting clients with ageing relatives in the development of efficient aged care income and capital models. If you would like assistance in this area please let us know.



Offsets

Topical Bits and Pieces

GSO Revised and New Schemes – Salary Sacrifice of Contributions

The 2004 Agreement between the AEU and the Government provided the option for members of the Revised, New and SERB Schemes of the GSO to 'salary sacrifice' their superannuation contributions.

Members are now able to make their superannuation contributions to the Revised or New Schemes from before tax salary rather than after tax salary. This has the effect of reducing assessable income, therefore reducing the amount of tax paid and resulting in an increase in take home pay.

Superannuation contributions from 'before tax' salary are subject to contributions tax of 15%. Members of the Revised and New Schemes who elect to salary sacrifice their contributions to the GSO have their contributions grossed-up to take account of the 15% contributions tax.

In almost all cases it is advantageous for members to salary sacrifice their GSO contributions.

The following example for a 50 year old member of the Revised Scheme illustrates the potential benefit to take home pay –

Gross Salary	\$63,000 p.a.
Revised Scheme contribution rate	9.5%
After tax contribution	\$5,985 p.a.
Before tax contribution – salary sacrifice	\$7,041 p.a.
After tax cost to salary	\$4,823 p.a.
Net Increase in Take Home Pay	\$1,162 p.a. (\$44.70 per fortnight)

While substantial numbers of members have exercised the option to salary sacrifice GSO contributions the majority have not. The option can be exercised at any time.

If you are eligible to take up the option and have not yet done so please ring our office for assistance.

Withdrawals from Superannuation

The superannuation environment provides a high level of tax efficiency for income and growth investments in retirement. From time to time people will want to remove capital from the superannuation environment for a range of reasons – to pay out debt, purchase a car, travel or to do some home improvements.

Provided an efficient strategy is used lump sum tax on the withdrawal of capital from superannuation for most retirees is very small.

However, the implications of superannuation withdrawal are not limited to the amount of tax which may be payable on the lump sum withdrawn. The withdrawal may also impact on other entitlements which are based on taxable income.

Superannuation benefits consist of various components, each with its own taxation characteristics. Certain components of withdrawals are added to a person's taxable income in the year of withdrawal. Care needs to be taken in areas which can be affected by increase in taxable income which include –

Commonwealth Seniors Health Card (CSHC)

Eligibility is based upon taxable income in a financial year. A withdrawal from superannuation may increase taxable income above the eligibility threshold and thereby impact on eligibility for the card.

Medicare Levy & Medicare Levy Surcharge

Increase in taxable income above the relevant thresholds may result in liability to pay Medicare Levy or Medicare Levy Surcharge.

Family Tax Benefit & Child Care Benefit

Eligibility is based upon taxable income in a financial year. Increase in taxable income which may impact on the level of these benefits.

Income Tax – Entitlement to Offsets and Rebates

Some offsets and rebates against income tax are subject to an income test – for example the Senior Australian Tax Offset. An increase in taxable income arising from a superannuation withdrawal can result in loss of tax offsets against income tax in the year of withdrawal.

Accommodation at Reduced Rates for RV Clients

Country clients often like to stay over in Melbourne when visiting RV or when pursuing other activities. A number have enquired about accommodation close to RV – St Kilda Rd and the surrounding precinct is an interesting and pleasant area.

As a consequence we have made arrangements for clients to receive corporate rate discounts if they wish to stay in one of the hotels near our office. Albert Park Manor is on the east side of St Kilda Rd near Toorak Rd. Eden on the Park and Bayview on the Park overlook Albert Park. Car parking is available.

Rates are as follows (not including breakfast – coffee/tea making facilities in each room):

Hotel	\$ Amount per night per room	Published Price \$
Eden on the Park (4 1/2 Star)	\$160	\$290
Bayview on the Park (4 Star)	\$115	\$250
Albert Park Manor Boutique Hotel	\$80-\$155	\$89-\$173

The corporate rate applies at any time of the year – just as long as you are a client of Retirement Victoria. Further information is available from Joan Zivchak at RV.

GSO Benefits and Changes to Time Fraction

We regularly hear it asserted by teacher clients that reducing your time-fraction will reduce final average salary for superannuation purposes. It is one of the more common staffroom myths.

The GSO Superannuation Schemes (Revised and New) are defined benefit funds. Retirement benefits are defined by the number of years of recognised contributory service, age at retirement and final average salary.

Some members would like to reduce time fraction in the years running up to their retirement but believe that this will proportionately reduce their final average salary for superannuation purposes. This is not the case. Salary for superannuation purposes is based on Equivalent Full Time (EFT) salary. For example, a member who is receiving a salary for superannuation purposes of \$60,000 p.a. and who reduces time fraction from 1.0 to 0.5 will have an actual salary of \$30,000 p.a. but superannuation salary will still be EFT salary of \$60,000 p.a.

However service for superannuation purposes will accrue more slowly. A member working 0.5 time fraction will accrue one full year of contributory service over two years. For members with a long history of contributory service, going part-time in the lead up to retirement has only a very minor effect on retirement benefits.



About RV Client NEWS

RV Client News is written and published by Retirement Victoria as a service to clients.

Retirement Victoria are specialists in public sector retirement strategy and are the Australian Education Union's preferred provider of financial and retirement planning services to members.

The information in *RV Client News* is of a general and summary nature only and is neither represented as, nor intended to be, personal advice on any matter. No person should act on the basis of the information contained herein but should seek appropriate professional advice based upon their own personal circumstances.

Retirement Victoria

Level 3, 432 St Kilda Rd, Melbourne 3004
Ph. 9820-8088 or Fx. 9820-8588

Retirement Victoria Partnership
ABN 13 409 340 986 AFSL 273316