Insight

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INNOVATIVE
FINANCIAL SOLUTIONS
(QLD) PTY LTD

Helping you achieve financial success and peace of mind by providing you with a personalised financial strategy

In This Issue...

Welcome to the spring edition of Insight

Through this newsletter we hope to provide you with relevant insight into the areas which affect you and those around you.

Spring is now upon us and we are fast approaching the end of 2013. Since our last edition a lot has changed. Markets have provided less volatility and continued to show steady growth, the US surprised markets with its decision to continue it's economic stimulus program and Europe has steadied while continuing to deal with its long standing issues.

Back home we now have a new prime minister, our third for 2013. With a new government in place we continue to monitor closely any proposed changes to areas that will impact you and your strategies. The government has already indicated it will make future changes to superannuation and the tax system and most of these changes look like they will provide a positive outcome for our clients.

While the noise has died down in comparison to the beginning of the year we feel the need to review your situation is just as important as ever. Continuing to make sure you are maximising your situation and heading towards achieving your goals and objectives is of the utmost importance to us.

We look forward to continue to work with you and of course feel free to contact us at any time to discuss your situation.

Also we hope this newsletter is of value to you and appreciate any feedback and suggested topics that you feel you would like us address in future editions.

Thank you for your continued support.

Kind Regards
Chris Hockey
Director
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We've changed the government, will Tony change the country?

Whether you believe Paul Keating's statement: "When you change the government, you change the country" or perhaps take the view that both major parties have morphed toward populist, poll driven policies, the election of the Coalition should (if we believe its rhetoric) promise a more stable and business friendly environment.

The signs are promising. This could be the era of "lucky Tony" as the global economy looks set to strengthen, with Europe out of a recession after six quarters of negative growth, the US trundling along well, with more talk of tapering, and the great Abenomics experiment in Japan driving some growth and weakening the yen. Comments from China's Premier Li's in July, and more recent comments from senior bureaucrats, make it clear that 7% growth is the bottom line for China and let's face it they do have a great track record of driving that command economy to meet their targets, at least in the short term.

So, Tony may have inherited a reasonable environment but the new Senate which takes effect from July 2014 could be a little more problematic with 33 seats (39 needed to vote in new legislation), 25 to Labor and 10 to the Greens (who have tended to vote with Labor). That leaves an eclectic bunch of 8 independents including two Palmer United, a Liberal Democrat (who the cynics say won votes due to their "first box" position on the NSW ballot paper and a name that could be confused with other parties), independent Xenophon, Motoring Enthusiasts and Australian Sports Party. Some see this a disaster leading to a double dissolution. However, perhaps Tony can successfully negotiate with at least six of the eight power brokers just as John Howard did some years ago.

Inside super or outside super? We'll explain your options

Insurance is quite often held within super because the premiums can be paid from accumulated super balances or employer contributions. This preserves an individual's disposable income. Alternatively, individuals can make additional contributions into super to fund insurance premiums by salary sacrificing through their employer, or if they are an eligible person* they can make tax deductible contributions into super.

The differences between owning insurance inside and outside super

Issue	Inside Super	Outside Super
Cash flow	Premiums can be funded by super balance or contributions	Premiums must be paid from disposable income
Tax on money to fund premium	Generally no tax on contributions used to fund premiums	After-tax money must be used to pay premium (up to 47.5% marginal tax rate applies)
Access to insurance proceeds	Must meet a condition of release as well as the insurance definition. Problems may arise for younger individuals with TPD or trauma inside super.	Insurance definition must be met to release proceeds
Tax on proceeds	Tax applicable if: • Life cover payment is made to a non tax-dependent • TPD/trauma payment is made to an individual under age 60, or • Income protection payment (taxed at marginal tax rates)	Generally no tax on proceeds except income protection (taxed at marginal tax rate)
Product features	Restricted because of sole purpose test	No restriction as sole purpose test does not apply outside super
Product offering	Trauma not generally offered in public offer funds	All insurance products available
Timing of payment	Slower than insurance outside super as there is an additional release process from super	Only one release process from the insurer
Beneficiaries	Generally must be dependents as defined under super law	Can generally be anyone

*An eligible person is a self-employed, substantially self-employed, retired or unemployed person. It also includes anyone who has less than 10% of total assessable income, reportable fringe benefits, and reportable employer super contributions derived from employment as an employee.

Tax concessions on super contributions to fund premiums

Meet Grace, she pays her premiums inside super

Grace[1] earns $80,000 per annum.

Her insurance premiums are $1,500 per annum for $1 million life cover.

If Grace used her after-tax income, she would have to use $2,206[2] of gross income.

However, if Grace chose to hold her life cover inside super, she would need to salary sacrifice only $1,500[3]

Effectively no tax has been paid on this contribution compared to paying 32% marginal tax if insurance is held outside super.

If an individual is an eligible person, they can claim a full deduction on contributions made into super. Therefore any contributions they make to super can fund premiums and also provide a tax deduction.

Meet Robert, he pays his premiums outside super

Robert[1] is self-employed and earns $65,000 per annum.

His insurance premium are $2,000 per annum for $1.5 million life cover.

If he held this insurance outside super he would use $2,941 of gross income to pay the premium.

However, if Robert chose to hold his life cover inside super, he would only need $2,000 of gross income.

He could also claim a deduction of $2,000 on his contribution to super.

Release and taxation of insurance proceeds from super

A super condition of release must be met to release any super, whether the payment is funded by the accumulated balance or insurance proceeds.

With life cover, there is usually no issue with releasing the proceeds from super, as 'death' is a condition of release. Upon death, the balance of the client's account (including insurance proceeds) is generally paid to dependants (defined under super law) and/or the estate. The trustee of the super fund will only pay a non-dependant if they have exhausted all other avenues.

If a super benefit is paid to a tax dependant, the entire benefit (including insurance proceeds) is tax-free if paid as a lump sum.

A death benefit pension can only be paid to certain dependants i.e., spouse, certain children, interdependent or financial dependant. If paid to a child, they must be under age 18, aged between 18 and 25 and financially dependent, or disabled.

If a death benefit pension is paid and either the deceased or the beneficiary were/are aged 60 or older, all payments will be tax-free. If both were/are under age 60, the taxable portion of pension payments will be assessable, but a 15% tax offset will apply.

Something to note: If the deceased was aged 60 or older, the income payments from a continuing pension will continue tax-free to the reversionary dependant beneficiary.

Payments to non-tax dependants can be paid as a lump sum with the following tax rates applying: **1.** This and the other case studies in this brochure are for illustrative purposes only and your clients' personal circumstances may be different. This example is based on Year 2 as the rebate only applies from Year 2. **2.** $2,206 x 32% (includes Medicare levy and Flood levy) = $706. $2,206 - $706 = $1,500. **3.** The contribution does not generally need to be grossed up for contributions tax as the super fund would normally pass on the deduction claimed on the payment of insurance premiums.

To diversify or not? That's the investment question you should ask yourself.

Whether you're a long-term investor or just starting out, it can be easy to fall into a rut and leave your investments undiversified. With all the things going on in our lives, keeping track of the market and researching investments can feel like one more project we just don't have time for.

Because it's often easier not to think about it, we'll stash our money in the same investment month after month, or keep it in our bank account.

However, the sense of security that comes from using a limited investment strategy can be a false one. By not diversifying your investment portfolio you may be more susceptible to fluctuations from individual types of investments, which could impact the return of your investment portfolio over time.

Why diversify?

How many times have we heard of someone who put all of his or her savings into 'the next big thing' only to have that particular business or industry take a hit, and their hard-earned money along with it?

Investing will always come with certain risks, so even having a diversified investment strategy will never entirely eliminate risk or guarantee success.

Since most of us don't have the financial savvy of Warren Buffet, diversification is important as it can help to protect us from the unnecessary risk that can come from investing in too narrow of an area of the market.

Since historically no single asset class performs best in all economic climates, you may wish to consider a variety of assets to help offset market volatility.

Diversification generally involves investing across different industries and asset classes, including shares, bonds, cash, real estate and commodities. These investment vehicles often perform differently under the same market conditions. For example, historically when shares go down, bonds often go up, and vice versa.

Don't be afraid to ask for help

Contrary to popular belief, it's not hard to become a smart investor. What you do invest in, however, will very much depend on your time horizon and your tolerance for risk. In general, the longer your investment time horizon, the more risk – and hence returns – you can assume.

If you don't want to go it alone, a good financial adviser can help you decide the best mix of assets for you, whether it be from shares, managed funds or bonds for long-term growth, or cash products to help you achieve shorter-term financial goals, such as saving for a house.

Keep in mind that investing will always come with certain risks, so even having a diversified investment strategy will never entirely eliminate risk or guarantee success. However, diversification historically has offered potentially higher returns over the long run while reducing risk exposure.

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Thinking About Money. What happens to your money when you die?

Most people want their assets to go to their family when they die – perhaps only to specific members - but there are traps for the unwary that can be expensive and cause unnecessary stress for your family when you are gone. The result may see other family members and/or the tax office inadvertently receiving a share of your wealth.

Getting ready now

Estate planning is arranging your affairs now so your wishes are met when you die.

Following some simple steps and knowing the rules can help you avoid many of the traps.

- **Have a current will.** Dying intestate, or without a will, means state laws decide who gets your money. And there may be delays and disputes.
- **Choose your executor with care.** The executor will gather together all your assets when you die, pay off any debts and distribute assets to your beneficiaries. You should appoint someone you trust, who is knowledgeable, has the time to act for you and preferably will outlive you.
- **Superannuation is separate.** Fund trustees usually decide how your money is distributed. You can tell them what you want by making a "binding nomination".
- **Think about your children.** Income payments from an estate are taxed concessionally when paid to children. A testamentary trust can ensure that both your minor and adult children receive income tax-effectively.
- **Remember Centrelink.** If you leave assets to your spouse you may accidentally cut off their age pension if they are over the single person's assets test limit.

Being a smart beneficiary

Estate management is dealing with the wishes of the deceased and passing on the assets in the best way. Again, knowledge of the rules can save you heartache and lower your tax bill. For instance:

- **Beware of the two-year rule.** If you sell your own home, it is exempt from capital gains tax. The same applies if you inherit the family home and sell it within two years from the date of the deceased's death.
- **Value the assets.** If you inherit assets and sell them, you will probably be liable for capital gains tax. Depending on when they were bought, you will need to know what the assets were worth at the date of death or their purchase price.
- **Choose who pays any tax.** A tax return is required for a deceased person up to the date of death. The estate then puts in a tax return for the rest of the year. It may pay less tax if the estate sells an asset and gives you the cash rather than you receiving the asset and selling it.

Like the proverbial iceberg, these tips only just break the surface of managing and planning your estate matters. Whether you are concerned about how your assets will pass to your family or you have inherited assets, it will be well worth discussing your situation with your adviser sooner rather than later.

Disclaimer: This article has been prepared by Suncorp Financial Services and does not consider your personal circumstances and is general advice only. You should not act on any recommendation without considering your personal needs, circumstances and objectives. Innovative Financial Solutions (QLD) Pty Ltd recommends you obtain professional financial advice specific to your circumstances.

At Innovative Financial Solutions (QLD), our aim is to help you achieve financial success and peace of mind by providing you with a personalised financial strategy.

About us

We are a boutique financial planning practice providing strategic financial advice solutions for clients in areas such as wealth creation, superannuation, risk management and retirement. We strive to provide you with a plan that will create and protect your wealth over the long term, while dealing with your day to day financial needs.

We are committed to service excellence and ongoing adviser education. All of our advisers are qualified, financial experts with the experience to ensure the best financial out come for you. Our quality financial advice puts you in control.

Our advisers

Our highly accessible and expert professional advisers are the key to our first-class client service. They will provide clearly communicated, tailored solutions and practical recommendations to ensure you grow and succeed in today's challenging environment.

Their capability is constantly improved through training, professional development and workplace programs.

The value of advice

Making the right decisions about your finances has never been so important. A financial planner can help you do this by understanding your financial situation and helping you develop a financial plan to meet short and long-term goals.

The right financial planner has the potential to provide outstanding value for money - creating a benefit that reaps rewards far in excess of the cost involved.

Of course, 'value' often goes beyond dollars and cents. It can be the peace of mind and security that comes with being prepared for the future. Or it may be the helping hand that arrives at a time of personal upheaval. Sometimes it's the clear sense of direction an expert can provide when we arrive at one of life's crossroads.

Whether you have definite personal goals, like saving for retirement or funding your children's education, or you're facing a raft of financial challenges, a financial planner can make a difference. Put one of our financial planners to the test and you will be offered sensible, achievable solutions that identify opportunities and help you avoid costly mistakes that could derail your future plans.

Our Services

Personal insurance
Superannuation

Retirement Planning
Investment Strategies

Small Business Planning
Estate Planning

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