

# Statement of Advice Information booklet

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**Prepared by**

**Naomi Rosenthal** JP, M App Fin (FP), BA(Psych), F Fin

Office: 2 Malga Avenue Roseville Chase NSW 2069  
Post: PO Box 117 Willoughby NSW 2068  
Phone: 02 9417 6011 Fax: 02 9417 8893 Email: [info@tudorinvest.com.au](mailto:info@tudorinvest.com.au)

[www.tudorinvest.com.au](http://www.tudorinvest.com.au)

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**Millennium3 Financial Services Pty Ltd ABN 61 094 529 987**  
**Australian Financial Services Licensee**  
**Australian Financial Services Licence number 244252**

**Unit 7 / 50 Borthwick Ave**  
**MURARRIE QLD 4172**

**▶ This Information Booklet forms part of your Statement of Advice and must be read in conjunction with your Statement of Advice**

## **General Advice Warning and Tax Warning**

- ▶ The information in this document is general in nature and may not be relevant to your individual circumstances. You should refrain from doing anything in reliance on this information without first obtaining suitable professional advice. You should obtain and consider a Product Disclosure Statement (PDS) before making any decision to acquire a product.
- ▶ Whilst care has been exercised, the taxation information contained herein is provided as a guide only and may not be relied upon. If in doubt, you should seek independent tax advice from a qualified tax adviser.

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## Frequently Asked Questions

### ► **What can I recommend and are there any limitations on the advice I provide?**

I only consider whether the investment and insurance products I am authorised to advise on are appropriate for your objectives. I do not consider whether there are other investment or insurance products available in the marketplace which have alternative methods in the way your money is invested or which offer better levels of cover or limits.

The insurance products I advise on only provide cover up to the relevant limits specified. In some cases, this level of cover may not fully cover your potential losses.

Each investment is invested differently and invested in different markets. As agreed, I rely on you to read the PDS carefully and tell me if you are aware of any considerations I need to take into account in regards to your attitude to investment risk which will mean that the investments recommended may not be appropriate to your needs. You can ask me to clarify the meaning of any investment risk or take you through them if you are unclear.

Each insurance policy contains a number of standard conditions and exclusions. As agreed, I rely on you to read the policy document carefully and tell me if you are aware of any personal circumstances which mean the standard conditions and exclusions are not appropriate for you. You can ask me to clarify the meaning of any standard condition and exclusion or take you through them if you are unclear.

I provide my advice on the basis that you have told me about all such circumstances. If you haven't, my advice that the product is appropriate for your needs may not be correct as I have not been provided with all the information needed.

### ► **Is M3FS associated with any recommended products?**

Please refer to the section titled: "Disclosure of interests that we, or associated or related parties, may have" and the M3FS Financial Services Guide.

Millennium3 Financial Services Pty Ltd (M3) is ultimately owned by the ANZ Banking Group.

### ► **Do I guarantee the managed funds I have recommended?**

No. By law, the managed fund I have recommended must be 'appropriate' for you. However, I do not guarantee that this managed fund is the best for you or that it will perform in a particular way.

### ► **Can you change your mind?**

Yes. Even after you have paid for the products I have recommended, you might be able to get your money back if you are not happy (this is known as your 'cooling off' rights). Generally for insurance products and managed funds, you can do this within 14 days of buying the product.

The PDS for each product has more information about this.

### ► **Does my advice have a time limit?**

Yes. My advice expires 1 month after it has been presented to you. You should not rely on my advice after that time if you haven't acted on it by then.

### ► **Is your personal information protected?**

Yes. Information about you will not be given to anyone without your written permission unless the law says we must. You can refer to the M3FS Privacy Statement which is available for download at [www.millennium3.com.au](http://www.millennium3.com.au).

### ► **What happens if your personal circumstances change?**

The recommendations are for the persons named in the Statement of Advice only and are not for the intended use of any other third party. The recommendations in the Statement of Advice are based on your current personal circumstances. My recommendations may not continue to be appropriate if your situation changes before you act on the advice. Call us if any changes occur.

### ► **What must you have received from me before acting on the advice?**

I must provide you with:

- a copy of my current Financial Services Guide; and
- a Product Disclosure Statement for each of the products recommended.

If these documents haven't been provided to you do not act on this advice without reading them. Please call us on 02 9417 6011 to get copies of the above documents, or if you have any concerns.

Where your Statement of Advice was not given at the time my advice recorded in it was provided to you, it is essential that you check that what is contained in this Statement of Advice is the same as what you were told. If there are any discrepancies call me before acting on it.

### ► **Corporations Act 2001 (Cth) Disclosure**

Naomi Rosenthal and Michael Rosenthal are authorised representatives of Millennium3 Financial Services Pty Ltd (M3FS). In accordance with Section 947C of the Corporations Act 2001 (Cth) we disclose that Millennium3 Financial Services Pty Ltd (M3FS) and its advisers and/or their respective families, companies and trusts may have a financial interest in any of the investments or securities included in this advice. Its advisers and/or their respective families, companies and trusts may have an equity interest in the products included in this advice.

In the event that any advice or other services rendered by M3FS constitute a supply of services to a consumer under the Trade Practices Act 1974 (as amended) or the Australian Securities and Investments Commission Act 2001, then

M3FS's liability for any breach of any conditions or warranties implied under the Act shall not be excluded but will be limited to the cost of having the advice or services supplied again.

Subject to the above paragraph, nothing in any paragraph of this disclosure affects any rights or remedies to which you may be entitled under the Trade Practices Act 1974 (as amended) or under the Australian Securities and Investments Commission Act 2001 or under the Corporations Act 2001 (Cwlth) as a consequence of services being rendered by M3FS.

► **Where can you get advice on things I can't advise you on and how much will I get paid for referring you?**

Tudor Investassure Pty Ltd has agreements in place for the referral of potential clients for our services by third parties. These third parties may include other authorised representatives of M3FS. The referring party may receive a referral fee or commission or a non-monetary benefit as a consequence of the products or services you purchase. We will disclose any referral fees by both the referrer and referee to you up front or as early as possible.

► **Do I charge GST?**

GST is applicable to the preparation and placement of the service between us, where you pay a fee for service. Where I am paid by way of commission, the amounts reflect the total commissions paid to me and GST is shown where included. Please ask me if you have any queries on this.

► **What is the Ongoing Review Service?**

I recommend that we review the matters covered in your SOA document and any other financial issues you would like to discuss at least annually. I suggest that you contact me each year in order to do so. At that time I will summarise your financial arrangements and consider their ongoing appropriateness with you. It will also be an opportunity for you to ensure that any other related matters which require attention in the future can be discussed and action taken as appropriate.

The review fee is built into the annual renewal commission I receive from the Superannuation / Investment Manager or Life Insurance Company at no additional cost to you. A review fee may be applicable where we have a Fee for Service agreement. A Plan Preparation Fee may be applicable.

## Estate Planning Information

► **Wills**

A Will is the first step to ensuring the distribution of your estate is actioned in accordance with your wishes. Without a Will, upon your death a court controls the distribution of your estate and the persons to whom your estate is distributed to, which may result in delays in asset distribution.

It is important to ensure that your Will:

- nominates executors (and successor executors) for your estate who are likely to survive you and who clearly understand your wishes
- nominates beneficiaries in relation to the whole or part of your estate and nominates second choice beneficiaries, should your first choice pre-decease you
- bequeaths monetary value or a percentage of your estate rather than a specific asset, as there is the risk that an asset may not be in existence at the time of distribution of the estate
- nominates assets to be held in Trust for beneficiaries under 18 years of age. For example you can provide funds for your children's education.

A Will can also include provision for establishing a Testamentary Trust, which can be a tax effective tool for distributing your estate.

► **Testamentary Trusts**

A Testamentary Trust is an amendment to your Will. Incorporating a discretionary Testamentary Trust into your Will would result in your assets being administered as an ongoing estate for the benefit of your beneficiaries. A Testamentary Trust provides the trustee the discretion to control the distribution of capital and income to the beneficiaries, in consideration of their other income sources and prevailing tax legislation. A Testamentary Trust comes into effect upon your death.

Some of the planning advantages for beneficiaries may be:

- taxation planning: your Will could provide that a Trust be set up for each other and each of your beneficiaries. Income can then be allocated through the Trust effectively. For instance, upon your death, income of up to approximately \$10,000 per year tax-free could be allocated to each of your beneficiaries.
- asset protection: monies held in such a Trust are protected from creditors in the event of a beneficiary being in financial difficulty. Eg: bankruptcy.
- other benefits may flow in relation to social security and family breakdown

► **Powers of attorney**

While preparing your Will it is also important to address the issue of Power of Attorney.

Granting of a Power of Attorney may be for a specified purpose (a limited power) or the grant

may be of a general power. A Power of Attorney may only be granted by someone who is over the age of 18 and who is of sound mind at the time of the grant and capable of fully understanding the nature and purpose of the document they are signing.

Where a person loses capacity through unsoundness of mind, then a standard Power of Attorney becomes void. Where it is intended that the Power of Attorney is to continue to operate in such circumstances then an enduring Power of Attorney should be granted.

An enduring Power of Attorney authorises your nominated attorney to act on your behalf, even in the event of mental incapacity. That is, in the event you are no longer able to make decisions, your attorney will have the power to make decisions on your behalf and in your interest.

### ► Superannuation Assets

Your superannuation is an asset that does not generally form part of your estate. This is due to the fact that the Trustee of the superannuation fund is required to distribute your superannuation monies in accordance with the Trust Deed.

We recommend you ensure that your nomination of beneficiaries of your superannuation monies is current. It is important for you to nominate the beneficiaries of your superannuation fund in accordance with the procedures of the fund manager of your superannuation monies. Maintaining current nominations of beneficiaries ensures that the Trustee of your superannuation fund considers your wishes when determining the distribution of your superannuation monies in the event of your death.

## Superannuation Information

### What is Superannuation?

Superannuation is an investment structure that provides concessional tax rates to encourage saving for the provision of your income needs in retirement. When you do not invest within the superannuation framework then this is referred to as investing in non-superannuation assets.

Generally, the same type of assets can be purchased within the superannuation environment as well as the non-superannuation

environment, for example, unit trusts, direct shares and listed property.

Typical characteristics of superannuation investments are that your money is not accessible prior to retirement and earnings from these investments are taxed up to a maximum of 15% in most cases.

Superannuation monies can then be used to generate an income stream in various forms throughout retirement.

### Superannuation Contribution Rules

Age	Contribution rules
Under 65	A fund can accept any contributions in respect of the member.
65 – 69	A fund can accept: <ul style="list-style-type: none"> <li>• Mandated (SG or award) employer contributions, or</li> <li>• If the member has been gainfully employed on at least a part-time basis* during the financial year in which the contributions are made: <ol style="list-style-type: none"> <li>1. employer contributions other than mandated contributions</li> <li>2. member contributions, or spouse contributions</li> </ol> </li> </ul>
70 – 74	A fund can accept: <ul style="list-style-type: none"> <li>• Mandated (SG or award) employer contributions, or</li> <li>• If the member has been gainfully employed on at least a part-time basis* during the financial year in which the contributions are made: <ol style="list-style-type: none"> <li>1. employer contributions other than mandated contributions, or</li> <li>2. member contributions.</li> </ol> </li> </ul> <p>Contributions other than mandated employer contributions must be received by the fund no later than 28 days after the end of the month in which the member turns 75 years of age.</p>
75 and over	Mandated (award) employer contributions only.

### Superannuation Contribution Rates

Concessional contribution cap 2011/12	Tax on excess contributions
<ul style="list-style-type: none"> <li>• \$25,000 or</li> <li>• \$50,000 where an individual is over 50 years of age at the end of the 2011/12 tax year</li> </ul>	<p>31.5% payable by the individual</p> <p>The liability can be funded by a withdrawal from the person's superannuation fund account or from other sources.</p> <p>This in addition to the 15% contributions tax.</p> <p>Excess concessional contributions are also added to the</p>

individual's non-concessional contributions cap.

Concessional contributions include employer contributions and personal contributions for which a tax deduction is claimed.

Non-concessional contribution cap	Tax on excess contributions
<ul style="list-style-type: none"> <li>• \$150,000 per financial year, or</li> <li>• a total of \$450,000 over three financial years if the individual is under age 65 at the time of the contribution.</li> </ul>	<p>46.5% payable in the hands of the individual.</p> <p>The liability must be funded by a withdrawal from the person's superannuation fund account.</p>

Non-concessional contributions include personal contributions for which no tax deduction is claimed and spouse contributions.

## Superannuation Guarantee

Under the superannuation guarantee, you have to pay superannuation contributions to the correct superannuation fund, by the cut-off dates, for all your eligible employees.

You may also be required to offer a choice of superannuation fund to your eligible employees.

The superannuation guarantee is administered on a self-assessing basis. There are laws requiring you to meet your superannuation obligations, and it is your responsibility as an employer to ensure arrangements you have in place for your employees satisfy the government's superannuation guarantee requirements.

The minimum you have to contribute to a complying superannuation fund or retirement savings account is 9% of an eligible employee's earnings base. Your contributions need to be paid at least every quarter (that is, every three months).

Superannuation contributions you pay for your employees are usually **tax deductible**.

### ► Eligible Employees

Generally, employees aged between 18 and 70, who are paid \$450 (before tax) or more in a calendar month are covered by the superannuation guarantee legislation, whether they work full-time, part-time or on a casual basis.

### ► When to Pay

An employee is entitled to superannuation contributions from the first day you employ them, regardless of any award or contract. Some awards or employment contracts prescribe a qualifying period before you have to start paying superannuation for a new employee. However, there is no qualifying period in the superannuation guarantee legislation and contributions should start from the employee's first day.

You have to pay superannuation contributions for each eligible employee at least four times a year, within 28 days after the end of each quarter, as shown in the table below. Superannuation contribution periods tie-in with the quarters of the financial year.

Quarter	Quarterly cut-off date
<b>Quarter 1</b> - 1 Jul - 30 Sept	28 October
<b>Quarter 2</b> - 1 Oct - 31 Dec	28 January
<b>Quarter 3</b> - 1 Jan - 31 Mar	28 April
<b>Quarter 4</b> - 1 Apr - 30 Jun	28 July

You can pay contributions on a more regular basis than the quarterly requirement. For example, you can pay fortnightly or monthly if you choose, as long as the total amount you owe for the quarter is paid by the quarterly cut-off dates above. As award or other contractual superannuation may also apply, you should check that you meet requirements set out in any relevant award or contract.

The easiest and cheapest way of meeting your obligations is to pay the full amount of superannuation owing to the fund(s) by the cut-off date for every quarter. If you pay your superannuation contributions by these dates, the contributions are tax deductible.

### ► How much to pay

The amount you have to pay is a percentage (known as the charge percentage) of each employee's quarterly 'earnings base'. For most employees, their earnings base is their 'ordinary time earnings' which generally means what they earn for their ordinary hours of work. The charge percentage is set out in the law and is currently 9%. To work out the amount you need to contribute to the superannuation fund for each employee, you simply multiply the employee's earnings base for the relevant quarter by 9%.

### ► Superannuation Guarantee Charge

The superannuation guarantee charge is a charge you will be liable for if you do not pay enough superannuation for your employees or if you pay late. The superannuation guarantee charge is made up of three components:

- superannuation guarantee (SG) shortfall amounts (which includes any choice liability)
- interest on that amount, and

- an administration fee.

You can avoid paying the superannuation guarantee charge by:

- offering all eligible employees a choice of superannuation fund within 28 days of them starting work
- providing superannuation at the level set out in the superannuation guarantee legislation, making sure you are paying enough, and
- paying your contributions for all employees by the quarterly cut-off dates.

While superannuation contributions are tax deductible (to certain limits), the **superannuation guarantee charge is not tax deductible.**

#### ► **What if I don't pay enough?**

If you don't pay enough superannuation contributions, or if you miss the cut-off dates, you will be liable for the superannuation guarantee charge.

If you do not meet your choice of superannuation fund obligations, you will have a choice liability.

In both cases, you have to lodge a *Superannuation guarantee charge statement - quarterly* (NAT 9599) and pay the

superannuation guarantee charge, which includes any interest and the administration fee to the Tax Office by the due date.

#### ► **Why you should avoid incurring the superannuation guarantee charge**

It is much better for you and your business if you pay enough superannuation contributions on time. If you don't:

- you have to pay an interest component and an administration fee on top of the superannuation guarantee shortfall and choice liability
- you will also have to pay the general interest charge if you are late with your superannuation guarantee charge payment
- you will have to put time into preparing a *Superannuation guarantee charge statement - quarterly* and calculating the charge, and
- the charge (including any superannuation guarantee shortfall) is not tax deductible, unlike most superannuation contributions.

Please refer to [www.ato.gov.au](http://www.ato.gov.au) - **Superannuation guarantee - a guide for employers** for further important information.

## Government Superannuation Co-Contribution 2011/12

Assessable Income and reportable fringe benefits (per annum)	Government co-contribution payable
\$31,920 or less	An amount equal to 100% of the non-concessional superannuation contributions the person makes during the income year, up to a maximum co-contribution of \$1,000.
\$31,921 - \$61,920	Co-Contribution amount is the lesser of : <ul style="list-style-type: none"> <li>• \$1,000 - [(total income - \$31,920) x 0.0333], and</li> <li>• 100% of the amount of personal non-concessional superannuation contributions made by the person.</li> </ul>
\$61,920 or more	No co-contribution payable.

The minimum co-contribution is \$20 (even if the personal contribution is less than \$20). It will apply to personal contributions made on or after 1 July 2003.

#### ► **Who is eligible for the co-contribution?**

You may be eligible if:

- you have made a personal superannuation contribution; and
- you derive at least 10% of your total income (generally assessable income plus reportable fringe benefits) from 'eligible employment', carrying on a business or a combination of the two
- you have assessable income plus reportable fringe benefits in the income year less than the upper income threshold (ie.\$61,920 for 2009/10); and
- you are not the holder of an eligible temporary resident visa; and

- you are younger than 71 years old; and
- you lodge a tax return.

Note that from 1 July 2009, the income test for co-contribution eligibility will add back salary sacrificed super contributions.

#### ► **How will the co-contribution be paid?**

- The Co-contribution will be paid once the person has submitted their tax return.
- It will be paid directly into a complying superannuation fund or RSA.
- The co-contribution is treated as a non concessional contribution.
- The co-contribution is a preserved benefit and the normal preservation rules apply.

## Preservation Status

Generally from 1 July 1999 all contributions to superannuation are preserved. In order to access preserved superannuation benefits a condition of release is required to be met, typically upon retirement at your preservation age or reaching age 65.

Date of birth	Preservation Age
Before 30 June 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
On or after 1 July 1964	60

## Conditions of Release

Condition of Release	Definition	Comment
Death	n/a	No cashing restriction
Attaining Age 65	n/a	No cashing restriction
Retirement	1. From preservation age, if an arrangement under which the member was gainfully employed has ended, and the trustee is reasonably satisfied the member intends never to be gainfully employed for at least 10 hours per week, or 2. From age 60, if an arrangement under which the member was gainfully employed has ended after turning age 60.	No cashing restriction. Either definition can be relied on from age 60.
Permanent incapacity	Physical or mental ill health where the trustee is reasonably satisfied the member is unlikely to engage in gainful employment for which the member is reasonably qualified by education, training or experience.	No cashing restriction
Attain preservation age	n/a	Limited cashing restriction: Benefits can only be taken as a TTR or non-commutable income stream.
Temporary resident's permanent departure	Upon request from the member and the trustee receives: 1. if benefit is less than \$5,000, a copy of the eligible temporary resident visa and passport showing departure, or 2. written statement from Department of Immigration and Indigenous Affairs that eligible temporary resident visa has ended and member has permanently departed.	No cashing restriction: Benefit must be paid in full.
Termination of gainful employment with standard employer sponsor where preserved benefit less than \$200	n/a	No cashing restriction with regard to that fund.
Termination of gainful employment with employer sponsor who had contributed to the fund	n/a	Limited cashing restriction: Restricted non-preserved benefits may be accessed. Preserved benefits can only be accessed via non-commutable life pension or annuity.
Temporary Incapacity	Physical or mental ill-health that has caused	Limited cashing

Condition of Release	Definition	Comment
	the member to (temporarily or otherwise) cease gainful employment, but not permanent incapacity	restriction: Benefits accessed as a non-commutable income stream to continue lost gain or reward for period of incapacity
Severe financial hardship	1. Trustee is satisfied that the member: - is and has been continuously on Commonwealth income support benefits for 26 weeks; and - is unable to meet reasonable and immediate living expenses or 2. The member has reached age 55 and 39 weeks and trustee is satisfied that the member: - has been on Commonwealth support for a cumulative period of 39 weeks since turning age 55; and - is not gainfully employed for at least 10 hours per week.	Limited cashing restriction: Under definition 1: - access to a single amount of between \$1,000 and \$10,000 per annum Under definition 2: - access to entire benefit.
Compassionate Grounds	On application to the Regulator (APRA or ATO) benefits may be released to: - pay for medical treatment or medical transport for member or dependant; - make loan repayment to prevent foreclosure or mortgagee power of sale of principal residence; - modify principal residence for severe disability needs of member or dependent; - meet member's palliative care expenses; - pay expenses for dependant's palliative care, death, funeral or burial; and - meet other expenses related to the above points.	Limited cashing restriction: amount determined in writing by the Regulator.

## Tax Deductibility of Superannuation Contributions

Firstly the fund to which the contribution is made must be a complying fund. Secondly, a tax deduction for personal superannuation contributions will generally be available to self-employed or unsupported individuals ie; where the person does not engage in employment activities that result in them being treated as an employee for the purposes of the Superannuation Guarantee (Administration) Act (SGAA) 1992.

Individuals who are engaged in employment activities that result in them being treated as an employee for the purposes of the SGAA will also qualify for a deduction in the financial year in which the contribution is made if less than 10 per cent of the person's assessable income and reportable fringe benefits is attributable to the employment activities.

### Reportable super contributions

Reportable super contributions include your:

- reportable employer super contributions
- personal deductible contributions.

Reportable employer super contributions are salary sacrificed super contributions or other contributions your employer makes to a super fund on your behalf that are additional to the

minimum contributions they must make under one of the following:

- super guarantee law
- an industrial agreement
- the trust deed or governing rules of a super fund
- a federal, state or territory law.

## Spouse Contributions and Tax Offsets

The tax rules provide for a tax offset of 18% on up to \$3,000 of 'after tax contribution's made for a spouse whose assessable income, plus reportable fringe benefits in the year of contribution is less than \$13,800. The maximum tax offset is available where the non-contributing or recipient spouse earns less than \$10,800 of assessable income plus reportable fringe benefits in that year, and the contribution is at least \$3000. Thus the maximum tax offset available is \$540. To be eligible for the tax offset both members of the couple must be Australian residents for taxation purposes. A

## Super Splitting

From 1 July 2007 the types of splittable contributions will be as follows:

- Personal contributions (concessional only)
- Mandated employer contributions (Superannuation Guarantee)
- Salary Sacrifice contributions.

Members will be able to split up to 85% of concessional contributions.

Concessional contributions are those for which a tax deduction has been claimed, such as employer contributions up to the aged based limits or personal contributions for which a tax deduction has been claimed by an eligible person such as self-employed, substantially self-employed or unsupported persons.

Non-concessional contributions are not permitted to be split. They include after-tax personal contributions, spouse contributions and government co-contributions.

There are certain amounts that cannot be split and these are:

- Employer ETPs
- Small business CGT exempt amounts; and
- Rollovers from other funds.

Where a member rolls over their full withdrawal benefit, the regulations allow funds offering a splitting service to provide them with the option of splitting contributions made in the current year up to the point of rollover. The split will take the form of a transfer, rollover or, if it is within the same fund, an allocation to a separate account for the receiving spouse.

- The amount will be treated as a type of ETP rollover, known as a 'contributions splitting ETP' (or CS ETP).

When using splitting, the 'splitting' spouse is still subject to the aged-based Concessional Contribution Caps. A CS ETP is not classed as a taxable contribution and therefore will not

non-resident can make a spouse contribution providing the contributing spouse is an Australian taxpayer.

*Spouse includes both married and de facto spouses (not same sex couples).*

These contributions are limited to the non-concessional contribution limits. That is, the amount of spouse contributions which can be made in any year can exceed \$3,000 it is just that the tax offset is limited to the first \$3,000 of contributions. The contributions are treated as non concessional and have to be preserved.

generate a contributions tax liability in the fund. The splitting limit of 85% of taxable contributions is intended to ensure the 15% contributions tax liability is met from the account to which the taxable contribution is first made.

The person and their partner, where required will need to submit a section 82AAT notice to claim a deduction for the original contributions prior to splitting contributions with their spouse.

The CS ETP will be fully preserved in the receiving spouse's super account. Also, the Trustee will only be able to process a splitting request if the receiving spouse has not already met one of the following 'conditions of release':

- Reached age 65.
- Retired on or after meeting their preservation age (currently age 55).

It is important to note that splitting of superannuation is not compulsory for superannuation trustees to offer. The trustee must affect the split within 90 days.

### **Points to remember**

1. Contributions made in the following financial year (ie the application must be made between 1 July following the end of the financial year in which the contributions were made and the following 30 June); or
2. Contributions made during the financial year if the entire benefit is to be rolled over or transferred in that financial year.
3. The receiving spouse must be working if they are between preservation age 55 and 65.
4. The receiving spouse must be under 65.
5. The amount must not exceed the maximum splittable amount of 85% of

taxable contributions made in that financial year.

- Sometimes it may be better to make a Spouse Contribution for lower income earners because of the tax offset you will receive.

- If you want to rollover your superannuation funds to another provider, remember that once these are rolled, you cannot split those contributions so you may wish to split the contributions before requesting a rollover.

## Death Benefits

### **Super death benefits paid as a lump sum**

Recipient of Death Benefit	Tax Treatment
Dependant (for tax purposes)	Tax free
Non-dependant	Taxable – taxed element 15%* Taxable – untaxed element 30%*

\* Plus Medicare levy 1.5%

### **Super death benefits paid as a pension**

Recipient of Death Benefit	Tax Treatment
If age of deceased/dependant 60 or over	Tax free
If age of deceased/dependant both under 60	Taxable – taxed element taxable at marginal rates, less 15% tax offset

From 1 July 2007, a person who is not a dependant (tax) of the deceased will not be able to receive a super benefit as an income stream.

Where a child of the deceased under age 25 receives a death benefit super income stream, they will be required to commute this benefit upon turning 25. This commutation is treated as non-assessable and non-exempt income.

## Choice of Fund

### **Implications for Employers:**

From 1 July 2005 employers will have to satisfy the new choice of fund obligations.

Employers must give their employees choice unless employees who are covered by state awards or have entered into certified agreements or Australian Workplace Agreements that specify the superannuation fund.

Employers will have to give their employees a Standard Choice Form which will advise them of the important matters they should consider before they exercise choice. The Australian Taxation Office will develop a form which employers can give to their employees.

Where an employee does not choose a fund, employers will continue to make contributions to same fund as they do now, provided that fund offers a minimum levels of insurance cover. The Government will consult with the

industry about the insurance obligations these funds must offer to employees.

Employers do not have to accept a choice election from an employee if the employee has previously chosen a fund within the past 12 months or if the employee provides insufficient written evidence.

### **Implications for Employees:**

From 1 July 2005, employees will have a greater choice as to which superannuation fund their employer must pay their compulsory superannuation contributions.

This will allow employees to choose a fund which provides lower fees and charges, ethical investments or other benefits they want from their fund.

An employee will be required to provide their employer with certain information about their chosen fund and written evidence that their chosen fund will accept their employer's

## First Home Savers Account

### **Overview**

First Home Saver Accounts (FHSAs) are the first of their kind in Australia and will provide a simple, tax effective way for Australians to save for their first home through a

combination of Government contributions and low taxes.

### **Eligibility**

An individual can open an account if they:

- are aged 18 or over and under 65;

- have not previously purchased or built a first home in which to live;
- do not have, or have not previously had, a First Home Saver Account; and
- provide their tax file number to the provider.

Penalties will apply if a person opens an account where they are not eligible to do so.

#### **Contribution arrangements**

Contributions may be made by the account holder or another party, such as an employer, on behalf of the account holder. Contributions will be made from after-tax income.

The Government will make additional contributions which will be paid directly into the account, after the individual has lodged their tax return and the provider has submitted the relevant information to the ATO.

The Government will contribute 17 per cent on the first \$5,000 (indexed) of individual contributions made each year.

This means an individual contributing \$5,000 will receive a Government contribution of \$850.

No minimum annual deposit is needed to keep the account open. The account can remain open for as long as necessary or until the account holder turns 65, at which time it must be closed.

#### **Level of tax on accounts**

Contributions will not be subject to tax when contributed to an account.

Investment earnings (or interest) will be taxed at a rate of 15 per cent.

Withdrawals will be tax free.

FHSA balances will be exempt from the income and assets test.

#### **Account balance limit**

There will be a limit of \$75,000 (indexed) on the overall account balance.

If an individual reaches the account balance cap, no further individual contributions will be able to be made. Earnings and any outstanding Government contributions will still be able to be credited to the account after this time.

Contributions that exceed the limit will be returned to the account holder.

#### **Four-year savings horizon**

To withdraw their funds, minimum contributions of \$1,000 need to be made over the course of at least four separate financial years.

If an account holder is purchasing a property with another individual(s) who also holds an account, only one account holder needs to meet the four-year requirement. If one person meets this, then the other individual(s) can also withdraw their funds.

#### **Withdrawals for a first home purchase**

Individuals will be able to withdraw their account balance tax free to buy or build a first home in which to live. The full amount will need to be withdrawn and the account closed.

The individual will need to live in the home for at least 6 months within the first 12 months of purchase or completion of construction.

Individuals can close their account and contribute the full amount to superannuation at any time.

Penalties will apply to individuals where they fail to meet the withdrawal or occupancy criteria.

#### **Other circumstances**

Where an individual's circumstances change during the life of the account so that they no longer wish to purchase a first home, they will not be able to access the account but can transfer the balance into superannuation and close the account. Penalties will apply if funds are withdrawn and not used to purchase a first home in which to live.

If an individual moves overseas, they can continue to make contributions into the account, but will not receive any Government contributions.

Individuals will be able to access their funds tax free once they reach age 60, consistent with superannuation.

#### **Early release provisions**

By transferring the account balance into superannuation, individuals may apply to access the superannuation early release provisions of severe financial hardship, compassionate grounds or terminal illness.

#### **Account providers**

Public-offer superannuation providers, life insurers, friendly societies, banks, building societies and credit unions will be able to offer the accounts.

Banks, building societies and credit unions will be able to offer deposit accounts and superannuation providers, life insurers and friendly societies will be able to offer investment-linked accounts.

Reference: [www.homesaver.treasury.gov.au](http://www.homesaver.treasury.gov.au)

## Retirement Income Streams Information

### Retirement Income Streams

From 1<sup>st</sup> July 2007, the government introduced simplified minimum standards, these being:

- Payments of a minimum amount to be made at least annually (no maximum amount).
- No residual capital value provision.
- Pension could be transferred only on the death of the pensioner to a dependant or cashed as a lump sum to the pensioner's estate.
- Pensions can be drawn as a lump sum tax-free.
- Withdraw amounts as lump sum when the need arises.
- Leave the benefits in the accumulation phase indefinitely.

All pensions meeting these requirements would be taxed the same on payment and

assets funding the pension would be tax exempt. Pensions that meet existing rules, which commence before 1 July 2007 will be deemed to meet the new minimum standards. Guaranteed lifetime pensions provided on an arm's length basis that meet relevant existing provisions would continue to be acceptable.

A person implementing a transition to retirement strategy would be able to receive a pension that meets the minimum standards outlined above, with a maximum limit of 10% of the account balance to be withdrawn in any one year. The existing non-commutability rules would continue to apply, and pensions commenced prior to 1 July 2007, which meet existing transition to retirement requirements, will be deemed to satisfy the new provisions.

### Overview

One of the most effective means of providing flexibility of income and including the benefits of diversification across different asset classes is through the use of an allocated pension.

An allocated pension is a retirement income stream purchased with a lump sum and is effectively paid from a superannuation fund.

Regular pension payments continue to be paid until the allocated pension account balance runs out or the account balance is commuted. If the income you draw exceeds the investment earnings then capital is used to make up your income requirement.

You can maintain control of the assets within your fund by selecting your own investment strategy in line with your attitude to investment risk.

The advantages that allocated pensions offer include;

- The ability to invest the gross amount of your superannuation benefit without any lump sum tax implications.
- No tax is payable on the investment earnings within the fund, enabling you to achieve tax-free growth on the amount invested.
- For those over age 55 but under 60, favourable taxation treatment of income drawn from the pension, which can include both a deductible amount and a 15% tax rebate on part of the income.

As stated above any benefits payable from a superannuation pension will be tax-free for those over age 60 regardless of whether the pension is taken as a lump sum or regular income stream.

In addition to flexibility and taxation benefits, the allocated pension provides favourable Centrelink treatment for persons under Aged Pension Age.

For the purposes of the Income Test, only a portion of the actual income received from the allocated pension will be assessed.

Income is drawn each financial year from the government-set minimum.

From 1 July 2007 pensions established will be subject to a minimum benefit based on your age:

Age range	Minimum Pension payment limit
Under 65	4%
65-74	5%
75-79	6%
80-84	7%
85-89	9%
90-94	11%
95 and over	14%

The ability to elect a reversionary beneficiary, so that in the event of death of the pensioner any residual benefit passes immediately to the reversionary pensioner and will not form part of your estate.

You should also be aware of the following issues regarding allocated pension:

- Eventually, the account balance can be exhausted and in this case the income payments would cease.
- Investment returns on your capital will depend on the investment option selected, market conditions and fund manager performance. This will have a major bearing on how long capital will last and minimum/maximum amounts each

## Death Benefits

Lump sum death benefit payments paid to a dependant are tax free. Lump sum payments made to non-dependants are divided into exempt (tax free) and taxable components, with the entire taxable component taxed at 15%.

Where a death benefit is paid as a reversionary pension, it would be tax free where the primary beneficiary is aged 60 or over at the time of death. Where the primary

beneficiary is under age 60 at the time of death, the pension is tax free if the reversionary beneficiary is aged 60 or over; otherwise, the pension would continue to be taxed at the reversionary beneficiary's marginal tax rate less any deductible amount and pension rebate applicable.

- Allocated pensions cannot be purchased with ordinary (non-superannuation) money. This means that you need to have existing superannuation funds or be able to make a contribution to superannuation prior to purchasing the allocated pension.

Finally, pensions cannot revert to a non-dependant - the payment would have to be made as a lump sum.

## Centrelink Information. Effective: 20 September 2011

- Refer to [www.centrelink.gov.au](http://www.centrelink.gov.au) for full information on Centrelink payments and benefits.

### Pension Age for Women

Date of Birth	Qualifying Age
Before 30/06/1944	63.0
01/07/1944 to 31/12/1945	63.5
01/01/1946 to 30/06/1947	64.0
01/07/1947 to 31/12/1948	64.5
01/01/1949 and later	65.0

### Age Pension Rate

An income and assets test will be used to work out how much you can get.

If you are	The maximum fortnightly payment is
single	\$689.00*
couple	\$519.40* each

### Income Test

If you are	For full pension pf*	For part pension pf#
Single	Up to \$150	Less than \$1,647.60
Partnered (combined)	Up to \$264	Less than \$2,522.00
A couple but separated due to illness	Up to \$264	Less than \$3,259.20

\* Income over these amounts reduces the rate of pension payable by 50 cents in the dollar (single), 25 cents in the dollar each (for couples). For transitional or saved cases income over these amounts reduces the rate of pension payable by 40 cents in the dollar (single), 20 cents in the dollar each (for couples).

# These figures may be higher if you also get Rent Assistance with your payment.

### Asset Test

Family Situation	Homeowner		Non-Homeowner	
	For Full Pension*	For Part Pension	For Full Pension*	For Part Pension
Single	\$186,750	\$686,000	\$321,750	\$821,000
Couple (combined)	\$265,000	\$1,018,000	\$400,000	\$1,153,000
a couple but separated due to illness (combined assets)	\$265,000	\$1,263,500	\$400,000	\$1,398,500

\* Assets over these amounts reduce pension by \$1.50 per fortnight for every \$1,000 above the limit (single and couple combined).

### Deeming Rates from 20 September 2011

Rate	3%	4.5%
Single Pensioner	Up to \$44,600	Over \$44,600
Pensioner Couple Combined	Up to \$74,400	Over \$74,400
Non-Pensioner Couple combined	Up to \$37,200	Over \$37,200

**\*Note:** The payment rates exclude a Pension Supplement of maximum \$59.80 pf for singles and \$90.20 pf for couples combined.

- Customers in receipt of a pension on 19 September 2009 may be assessed under transitional arrangements and be eligible for different rates of payment.
- If you and your partner are separated because of illness, you may be paid at the single rate. Your combined income and assets will be used to work out your rates.
- You may receive the single rate of Age Pension if your partner is in prison or a psychiatric hospital.
- You may be eligible for the couple rate of Age Pension even if your partner is not receiving a pension, benefit or allowance.
- If you receive Age Pension you may qualify for additional payments and benefits.

## Taxation Information

For further information, refer to [www.ato.gov.au](http://www.ato.gov.au)

### Individual Marginal Tax Rates for 2011/12

Taxable Income	Tax Payable (Residents)	Tax Payable (Non Residents)
\$0 - \$6,000	Nil	29%
\$6,001 to \$37,000	\$0 +15%	29%
\$37,001 to \$80,000	\$4,650 + 30%	\$10,730 + 30%
\$80,001 to \$180,000	\$17,550 + 37%	\$23,630 + 37%
\$180,001 +	\$54,550 + 45%	\$60,630 + 45%

From 1 July 2009, changes to tax law will mean changes to the way the ATO work out your income for some government benefits and obligations administered by the ATO and other government organisations.

#### What is your adjusted taxable income (ATI)?

Your adjusted taxable income includes your:

- taxable income
- adjusted fringe benefits (reportable fringe benefits x 0.535)
- tax-free pensions or benefits
- target foreign income
- reportable super contributions
- total net investment losses

less

- deductible child maintenance expenditure (child support paid)

#### What are your total net investment losses?

Your total net investment losses are the amount of deductions you can claim for your financial investments and rental properties that exceed the income you receive from them.

Your financial investments included when working out your total net investment losses include your:

- shares
- managed investment schemes
- forestry managed investment schemes
- a right or option in respect of any of the above.

## Personal Life Risk Insurance Information

### Life and Total and Permanent Disablement (TPD)

Life insurance can provide a lump sum payment to your nominated beneficiaries in the event of your death. Term Life Insurance provides a lump sum to your nominated beneficiaries, should you pass away during the term of the policy (subject to the terms of the policy).

Total and permanent disability cover can help to maintain a comfortable standard of living for yourself and help to maintain your family's lifestyle in the event of your disablement. The definition and application of total and permanent disablement varies from insurer to insurer. However, three general variations are applied. Naturally the more generous the benefit, the more expensive the cover.

The variations relate to the insured's inability due to disability to perform:

- their usual (own) occupation;
- an occupation for which they are qualified by reason of education, training and experience;
- any occupation.

### Trauma

With the advances in modern medicines, more and more people are now surviving major traumas such as heart attack, cancer, coronary artery surgery etc. However, the recovery period and the cost of care associated with such illnesses normally places extreme financial strain on the person suffering the illness.

For this reason "Trauma Insurance" or "Crisis Care" provides insurance cover for specified events that may include events such as Coma and Coronary Artery Surgery. This insurance typically pays a lump sum to the insured person upon diagnosis of one of a number of specified conditions.

Such a payment will help you in such situations to remain financially secure. While the payment may be used in any way that you like, you may wish to pay for medical expenses not covered by Medicare or your health fund, to clear any liabilities, or to take care of other bills and expenses.

## Income Protection

Income Protection is vital for the security of your most important asset – your ability to earn an income. The reality of serious illness, injury and death can have a profound impact, even in relatively young people. In fact, the younger you are, the more you stand to lose!

- 1 in 3 men and 1 in 4 women are expected to be directly affected by cancer before age 75. More than 50% of cancers are cured.<sup>1</sup>
- More than 60% of Australians will be disabled for more than one month during their working life and more than 25% will be disabled for more than 3 months
- Only 50% of all people who incur spinal cord injury in a car accident will receive a compensation
- 1 in 2 men and 1 in 3 women will be directly affected by coronary heart disease before the age of 75<sup>2</sup>
- Males and females between the age of 30 and 64 have a 82-95% chance of surviving a critical illness<sup>3</sup>

You can retain control of your financial independence even if you lose the ability to earn a living through your own efforts.

## Nominated Beneficiaries for Non-Superannuation Life Cover

### Summary

Who will receive your life insurance benefit if you die?

In most cases life insurance is owned by the life insured, which means, in the event of death, the sum insured will be paid to their estate. Before the sum insured is released to the executor of the estate, who then takes control and disposes of the proceeds according to the will, a grant of probate is required. Probate is an official release by a court certifying the will is authentic and valid.

To eliminate the probate procedure, which can often be time consuming, the policy owner can nominate a beneficiary. This ensures the sum insured upon death of the life insured is paid directly to the nominated beneficiary instead of to the insured's estate.

### Implications

The nomination of beneficiary facility ensures for an efficient transfer in the event of death and gives a policy owner greater control over the insurance on their life, even in changing circumstances such as divorce or children leaving home. It is more flexible than a typical transfer of ownership, which can incur a cost on transfer. Due to possible Capital Gains Tax implications, this facility is not available or appropriate when the insurance is issued for business purposes. Up to six beneficiaries may be nominated in any percentage split, up to a total of 100%.

Ensure your nomination of beneficiary facility is kept up to date. It may be changed at any time.

## Risk Insurance under Superannuation

Product	Advantages of Super ownership	Disadvantages of Super ownership
<b>Death Cover</b>	<ul style="list-style-type: none"> <li>• Pre-tax super contribution can be used to fund the premiums allowing larger sums insured, rather than funding premiums from post tax earnings</li> <li>• Benefits paid are generally tax free when paid to a dependant</li> </ul>	<ul style="list-style-type: none"> <li>• Benefits paid to non-dependents are separated into normal superannuation components which will include taxed and untaxed components. Untaxed component attracts tax up to 31.5% (depending on components)</li> <li>• When paid to an Estate, tax will be determined upon whether the beneficiary of the estate was a dependant or not.</li> <li>• <b>You should always make pre or post tax contribution to ensure the fund balance is not eroded.</b></li> </ul>
<b>Total and</b>	<ul style="list-style-type: none"> <li>• Pre-tax super contribution can be</li> </ul>	<ul style="list-style-type: none"> <li>• For a TPD benefit to be released it must</li> </ul>

<sup>1</sup> Professor Umberto Vernesi

<sup>2</sup> Australian Institute of Health and Welfare

<sup>3</sup> Australian Institute of Health and Welfare

<b>Product</b>	<b>Advantages of Super ownership</b>	<b>Disadvantages of Super ownership</b>
<b>Permanent Disablement (TPD)</b>	<p>used to fund the premiums allowing larger sums insured, rather than funding premiums from post tax earnings</p> <ul style="list-style-type: none"> <li>• In circumstances where TPD is a rider to the Death benefit, where superannuation ownership is recommended consider those insurers who allow the Death benefit to be owned under super, yet the TPD rider is held outside of super with rider rates, as this can be a more affordable and advantageous outcome.</li> </ul>	<p>meet a condition of release under the SIS legislation. This means that some TPD definitions, including "own occupation" and "Home maker" definitions may result in the benefit being retained in the super fund until a SIS condition of release is met. This can financially disadvantage a client as benefits may not be available to them until retirement.</p> <ul style="list-style-type: none"> <li>• Lump sum TPD benefits under super are not tax free, whereas they generally are outside of super. There are potential tax consequences of a TPD payment under super.</li> <li>• <b>You should always make pre or post tax contribution to ensure the fund balance is not eroded.</b></li> </ul>
<b>Trauma</b>	<ul style="list-style-type: none"> <li>• Unlike, Death, TPD and IP policies, trauma premiums are not tax deductible to a superannuation trustee. This means contributions into the fund to cover the trauma premium could effectively be subject to contributions tax.</li> <li>• Given that trauma premiums are not deductible outside of the superannuation environment, then funding via super may offer a tax advantage if the additional contribution reduces your marginal tax rate.</li> <li>• where you have already reached retirement age and are still working, consideration of trauma under super may offer cash flow advantages and reduce release risks.</li> </ul>	<ul style="list-style-type: none"> <li>• The trust deed may need to be altered to make trauma acceptable, this will need to stand up to audit issues in relation to the sole purpose test.</li> <li>• For a Trauma benefit to be released under a Super fund, you must meet the definition under the trauma contract, but also a condition of release under SIS, including permanent incapacity or retirement. If a condition of release isn't met the trauma benefit will be held in the super fund until such time as a condition of release is met. Given the purpose of trauma cover, this should be given very close consideration due to the release issues.</li> <li>• Lump sum trauma benefits paid under super are not tax free whereas they generally are outside of super. Trauma benefits paid to a super fund are tax free and trauma benefits paid from a super fund are subject to tax according to the components and your age.</li> <li>• <b>You should always make pre or post tax contribution to ensure the fund balance is not eroded.</b></li> </ul>
<b>Income protection (IP)</b>	<ul style="list-style-type: none"> <li>• As IP premiums are deductible to the trustee, the insured can fund the premiums from pre taxed earnings rather than post tax earnings.</li> <li>• This advantage is also countered by the fact that IP premiums outside of super are also tax deductible to the individual.</li> <li>• Taxation of IP benefits under super are consistent with ownership outside of super. The benefit will be taxed as income in your hand at</li> </ul>	<ul style="list-style-type: none"> <li>• The benefit paid for temporary incapacity under a super fund must not exceed 100% of the insured pre-disability income. This questions the validity of agreed value contracts, particularly if your income drops or your working hours reduce.</li> <li>• If an agreed value contract is owned under super and the benefit exceeds your pre-disability earnings the additional benefit will be held in the super fund until a condition of release is met, this may be your retirement at</li> </ul>

Product	Advantages of Super ownership	Disadvantages of Super ownership
	the relevant marginal rate.	<p>preservation age.</p> <ul style="list-style-type: none"> <li>• Additional benefits under income protection policies may not be released as you don't meet a SIS condition of release or the benefit paid exceeds your pre-disability income. These include: IP trauma benefits, claims booster, rehab benefits resulting in an additional % of monthly benefit</li> <li>• Partial disability benefits may also result in more than pre-disability earning being paid, particularly where the offset is made against the highest pre-disability earning over a period of several years, not the pre-disability earnings immediately prior to disablement.</li> <li>• Issues may also arise in total disablement, whereby "no income offset clauses" are offered, or whereby you can work a certain number of hours per week and still receive total disability benefits.</li> <li>• You may forgo auxiliary benefits of an IP contract offered under normal retail policies.</li> <li>• <b>You should always make pre or post tax contribution to ensure the fund balance is not eroded.</b></li> </ul>

## Tax Treatment of Different Types of Insurances

### What are the tax implications of Life Insurance cover (when paid as a lump sum)?

Scenario	Are the premiums tax-deductible?	Are the premiums subject to Fringe Benefits Tax (FBT)?	Are the benefits assessed as income?	Are the benefits subject to Capital Gains Tax (CGT)?
<b>Where an individual owns the policy on their own life and the premiums are paid by the individual for personal protection purposes</b>	No	No	No	No
<b>Where an individual owns the policy on their own life and the premiums are paid by the individual's employer</b>	The employer can claim the premiums (and any FBT payable) as a tax deduction	FBT is payable by the employer at 46.5%* on the grossed-up premium	No	No
<b>Where a business owns key person insurance taken out on an employee's life and the policy is for a revenue purpose</b>	The business can claim the premiums as a tax deduction	No	The benefits are assessable to the business	No
<b>Where a business owns key person insurance taken out on an employee's life and the policy is for a capital purpose</b>	No	No	No	No
<b>Where the Trustees of a superannuation fund own a policy on the life of a fund member</b>	The super fund Trustee can claim the premiums as a tax deduction	No	Dependants – tax free. Non-dependants – tax-free component – tax free; taxable component taxed element 16.5%* and untaxed element 31.5%*.	No

### What are the tax implications of Total and Permanent Disability (TPD) Insurance cover (when paid as a lump sum)?

Scenario	Are the premiums tax-deductible?	Are the premiums subject to Fringe Benefits Tax (FBT)?	Are the benefits assessed as income?	Are the benefits subject to Capital Gains Tax (CGT)?
<b>Where an individual owns the policy on their own life and the premiums are paid by the individual for personal protection purposes</b>	No	No	No	No, so long as the person receiving the insurance benefits is the life insured.
<b>Where an individual owns the policy on their own life and the premiums are paid by the</b>	The employer can claim the premiums (and any FBT	FBT is payable by the employer at 46.5%* on	No	No (as above)

\* Includes a Medicare Levy of 1.5%

<b>individual's employer</b>	payable) as a tax deduction	the grossed-up premium		
<b>Where a business owns key person insurance taken out on an employee's life and the policy is for a revenue purpose</b>	The business can claim the premiums as a tax deduction	No	The benefits are assessable to the business	Yes – Possible CGT consequences. Please see your taxation adviser.
<b>Where a business owns key person insurance taken out on an employee's life and the policy is for a capital purpose</b>	No	No	No	Yes – Possible CGT consequences. Please see your taxation adviser.
<b>Where the Trustees of a superannuation fund own a policy on the life of a fund member</b>	The super fund Trustee can claim the premiums as a tax deduction	No	Refer Table A	No (as above)

### What are the tax implications of Trauma Insurance cover (when paid as a lump sum)?

Scenario	Are the premiums tax-deductible?	Are the premiums subject to Fringe Benefits Tax (FBT)?	Are the benefits assessed as income?	Are the benefits subject to Capital Gains Tax (CGT)?
<b>Where an individual owns the policy on their own life and the premiums are paid by the individual for personal protection purposes</b>	No	No	No	No, so long as the person receiving the insurance benefits is the life insured or a defined relative <sup>30</sup> of the life insured.
<b>Where an individual owns the policy on their own life and the premiums are paid by the individual's employer</b>	The employer can claim the premiums (and any FBT payable) as a tax deduction	FBT is payable by the employer at 46.5%* on the grossed-up premium	No	No (as above)
<b>Where a business owns key person insurance taken out on an employee's life and the policy is for a revenue purpose</b>	The business can claim the premiums as a tax deduction	No	The benefits are assessable to the business	Yes – if recipient is not the life insured or a defined relative <sup>30</sup> of the life insured, however capital gain reduced by amount included as assessable income <sup>#</sup>
<b>Where a business owns key person insurance taken out on an employee's life and the policy is for a capital purpose</b>	No	No	No	Yes – if recipient is not the life insured or a defined relative <sup>30</sup> of the life insured.

\* Includes a Medicare Levy of 1.5%

<sup>30</sup> Defined relatives include a spouse (married or defacto), parent, grandparent, sister, brother, uncle, aunt, nephew, niece, child (including adopted or step), or a spouse of these.

<sup>#</sup> Generally unlikely for a capital gain to be higher than the amount otherwise assessable as income if the capital gain is a discount capital gain.

## What are the tax implications of Income Protection and Business Expense Insurance cover?

Scenario	Are the premiums tax-deductible?	Are the premiums subject to Fringe Benefits Tax (FBT)?	Are the benefits assessed as income?	Are the benefits subject to Capital Gains Tax (CGT)?
<b>Where an individual owns the policy on their own life and the premiums are paid by the individual for personal protection purposes</b>	Yes	No	Yes	No
<b>Where an individual owns the policy on their own life and the premiums are paid by the individual's employer</b>	The employer can claim the premiums as a tax deduction	No	The benefits are assessable to the individual	No

### Table A

Income component derived by the recipient in the income year	Age of person at the date the payment is received	Component subject to PAYG withholding	Rate of withholding (including Medicare Levy)
Member benefit - taxable component - element taxed	Below preservation age	Whole amount	21.5%
	Preservation age to age 59	Amount up to the low rate cap Amount above the low rate cap <sup>4</sup>	Nil 16.5%
	Age 60 and above	Whole amount	Nil
Member benefit - taxable component - element untaxed	Below preservation age	Amount up to untaxed plan cap	31.5%
		Amount above untaxed plan cap <sup>5</sup>	46.5%
	Preservation age to age 59	Amount up to low rate cap <sup>1</sup>	16.5%
		Amount above low rate cap <sup>1</sup> up to the untaxed plan cap <sup>2</sup>	31.5%
	Age 60 and above	Amount above untaxed plan cap <sup>2</sup>	46.5%
Age 60 and above	Amount up to untaxed plan cap <sup>2</sup> Amount above untaxed plan cap <sup>2</sup>	16.5% 46.5%	

<sup>4</sup> For the 2007-08 income year, the low rate cap is \$140,000 and is indexed annually. The low rate cap is a lifetime limit

<sup>5</sup> For the 2007-08 income year, the untaxed plan cap is \$1 million is indexed annually.

## Historical Investment Returns

The table below shows how the best and worst performing asset classes have varied since the start of the 1982 financial year.

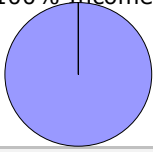
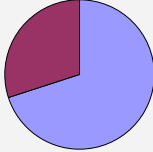
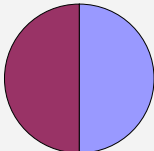
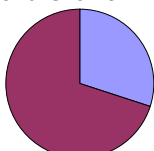
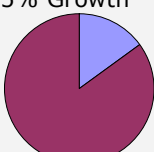

Financial year total returns (%) for the major asset classes

								Best	Worst
Year	Australian Shares	International Shares	International Shares (Hedged) <sup>14</sup>	US Shares	Australian Bonds	International Bonds (Hedged) <sup>12</sup>	Cash	Australian Listed Property	International Listed Property <sup>13</sup>
1982	-29.0	-4.0	-10.4	-0.6	-5.1		18.1	3.6	
1983	34.7	72.7	49.6	88.4	25.6		15.5	23.7	
1984	13.5	2.3	2.0	-3.2	21.4		12.6	35.3	
1985	36.5	61.6	29.9	69.5	17.0		14.0	11.8	
1986	42.5	55.2	34.5	33.5	20.5	29.2	18.3	23.8	
1987	54.0	32.6	33.2	17.7	12.1	17.6	17.3	41.3	
1988	-8.6	-10.0	-5.3	-15.5	19.4	12.5	12.5	-2.8	
1989	3.5	18.1	18.3	26.7	3.0	16.3	15.7	-1.1	
1990	4.1	1.9	5.3	11.5	17.8	13.1	18.5	15.2	
1991	5.9	-2.0	-5.8	10.3	22.4	15.3	13.5	7.7	-15.9
1992	13.3	7.1	-3.0	16.3	22.0	15.8	9.0	14.7	6.9
1993	9.9	31.8	17.3	26.6	13.9	14.7	5.9	17.1	28.3
1994	18.5	0.0	6.7	-6.5	-1.1	2.1	4.9	9.8	8.4
1995	5.7	14.2	3.7	30.0	11.9	13.1	7.1	7.9	7.5
1996	15.8	6.7	27.7	12.9	9.5	11.2	7.8	3.6	2.4
1997	26.6	28.6	26.0	42.6	16.8	12.1	6.8	28.5	35.7
1998	1.6	42.2	22.1	58.2	10.9	11.0	5.1	10.0	25.0
1999	15.3	8.2	15.9	14.2	3.3	5.5	5.0	4.3	-6.8
2000	13.7	23.8	12.6	18.2	6.2	5.0	5.6	12.1	14.1
2001	8.8	-6.0	-16.0	0.5	7.4	9.0	6.1	14.1	38.2
2002	-4.5	-23.5	-19.3	-26.3	6.2	8.0	4.7	15.5	7.5
2003	-1.1	-18.5	-6.2	-15.2	9.8	12.2	5.0	12.1	-5.2
2004	22.4	19.4	20.2	15.4	2.3	3.5	5.3	17.2	28.7
2005	24.7	0.1	9.8	-4.1	7.8	12.3	5.6	18.1	21.2
2006	24.2	19.9	15.0	11.6	3.4	1.2	5.8	18.0	24.2
2007	30.3	7.8	21.4	5.6	4.0	5.2	6.4	25.9	3.0
2008	-12.1	-21.3	-15.7	-23.4	4.4	8.7	7.4	-36.3	-28.6
2009	-22.1	-16.3	-26.6	-12.5	10.8	11.5	5.5	-42.3	-31.2
2010	13.8	5.2	11.5	8.9	7.9	9.3	3.9	20.4	31.3
2011	12.2	2.7	22.3	3.7	5.5	5.7	5.0	5.8	9.2
<b>Best</b>	<b>54.0 (4)</b>	<b>72.7 (3)</b>	<b>49.6 (3)</b>	<b>88.4 (6)</b>	<b>25.6 (3)</b>	<b>29.2 (3)</b>	<b>18.5 (2)</b>	<b>41.3 (2)</b>	<b>38.2 (4)</b>
<b>Worst</b>	<b>-29.0 (2)</b>	<b>-23.5 (3)</b>	<b>-26.6 (3)</b>	<b>-26.3 (5)</b>	<b>-5.1 (2)</b>	<b>1.2 (2)</b>	<b>3.9 (5)</b>	<b>-42.3 (4)</b>	<b>-31.2 (4)</b>

(X) denotes the number of times each asset class was the best/worst performer during a financial year ending between 1982 and 2011.

Sources: Australian Bureau of Statistics, ASX Limited, Melbourne Institute of Applied Economic & Social Research, Commonwealth Bank of Australia, MSCI Barra, Reserve Bank of Australia, Standard & Poor's, Thompson Reuters, UBS AG Australia Branch. Notes: 1. One-year returns are total returns from 1 July 2010 to 30 June 2011. Five, ten, twenty and fifty year returns are average annual compound returns to 30 June 2011 (except CPI data which is to 31 March 2011). 2. S&P/ASX All Ordinaries Accumulation Index. 3. MSCI World ex-Australia Net Total Return Index. 4. S&P/ASX Total Return Index. 5. Prior to December 1989 the index is the Commonwealth Bank All Series Greater Than 10 Years Bond Accumulation Index. From September 1989 the index is the UBS Composite Bond Accumulation Index. 6. S&P/ASX 200 A-REIT Accumulation Index. 7. Data prior to March 1987 supplied by Reserve Bank of Australia. From March 1987 the index is the UBS Bank Bill Accumulation Index. 8. ABS Consumer Price Index. 9. Recessions as defined by the Melbourne Institute of Applied Economic and Social Research. 10. Interest Rate prior to July 1981 is a short-term Government Bond rate. From July 1981 the interest rate is the Reserve Bank of Australia's Official Cash Rate. 11. Annualised Rate of Inflation (CPI data is to 31 March 2011). 12. Index prior to 30 June 2008 is the Citigroup World Government Bond Index AUD Hedged. From 30 June 2008 the index is the Barclays Capital Global Treasury Index AUD hedged (previously Lehman Global Treasury Index AUD hedged). 13. UBS Global Real Estate Investors Index ex Australia (net dividends). 14. MSCI World ex-Australia Net Total Return Index (Local Currency) - represents a controversially hedged portfolio without any respect from foreign exchange fluctuations. All figures are Australian dollars. All marks are the exclusive property of their respective owners. "Vanguard", "Vanguard Investments" and the ship logo are registered trademarks of The Vanguard Group, Inc. © 2011 Vanguard Investments Australia Ltd. (ABN 72 072 881 086 / AFS Licence 227263 / RSE Licence L0001335). All rights reserved.

## Risk Profiles and Investor Types

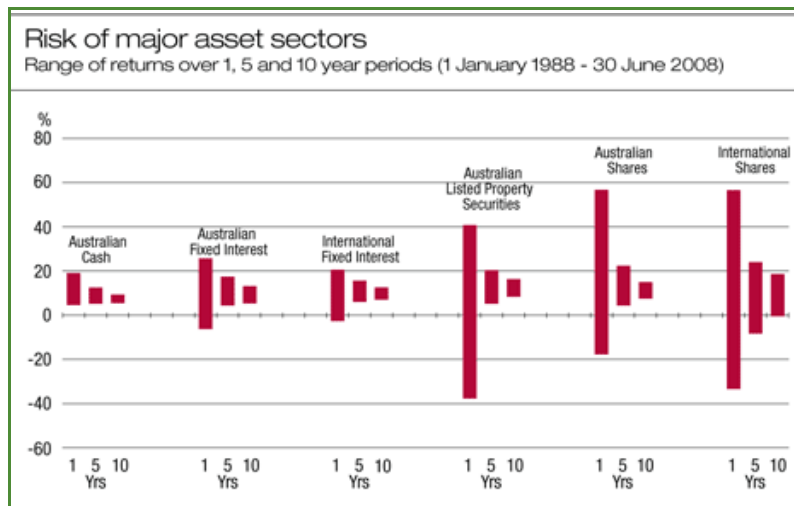
Risk Profile	Income and Growth Split	Investor Type
Preservation	100% Income 	This portfolio focuses entirely on investments with little risk of capital loss over a short time frame. As such the return will be low and consistent compared with the other risk options offered. The portfolio is restricted in its ability to reduce taxable income or the tax effectiveness of that income. It is not an appropriate investment option for medium- to long-term investors seeking capital growth.
Moderate	70% Income 30% Growth 	This is an income portfolio that has a small exposure to capital growth assets. The main emphasis is on generating income, with some capital risk in order to achieve overall portfolio growth. It will have a low fluctuation in short-term value, with some small short-term capital risk. The income generated by the fund will have a small tax benefit from some share dividend franking credits. It is suited to an investor who either seeks a high level of income or has a short investment time frame.
Balanced	50% Income 50% Growth 	Using a balanced exposure to growth assets and income assets, this portfolio will have lower short-term fluctuations in value than the other growth-based investment portfolios. Its aim is to produce capital growth in a medium time frame. It has a "balanced" exposure to shares: property and fixed interest assets, while the income generated by the portfolio will be partially tax effective.
Growth	30% Income 70% Growth 	A moderate income exposure slightly reduces the short-term fluctuations of the Growth portfolio. It is best suited to medium-to long term investors who can accept some investment risk over at least 5 years. The income stream will be tax effective and it will have a higher exposure to shares and property to provide long-term investment growth.
Aggressive	15% Income 85% Growth 	A minimal income exposure tempers the short-term fluctuations of the Aggressive portfolio, though the investor should expect high volatility over a short time frame. It is best suited to long term investors looking to maximise their wealth over the long term. The income stream will be tax effective and it will have a high exposure to shares and property to provide long-term investment growth.
Very Aggressive	100% Growth 	A totally share and property based portfolio with no fixed interest exposure. It has a strong emphasis on maximising capital growth over the long term. The aim is to produce minimal, tax effective income. Investors can expect high short-term fluctuations in values and a higher chance of capital loss. However, they are prepared to accept this as a trade off in achieving their long-term investment objective.

## Investment Risk versus Return

Investing involves risk. Risk is the chance that an investment will not give you the returns you hoped for or that you will lose money. Almost all investments have risk, but some have more than others.

Generally, investments that are expected to pay higher returns involve more risk. While these investments are likely to produce higher returns over time than more conservative investments, over short periods they can fall in value and lose money.

Over the long term, growth assets such as shares and listed property will continue to be more volatile, but are expected to provide higher returns than cash and fixed interest. Time has a moderating influence on market risk. The longer you hold an investment, the more likely it is you will earn a positive return.



The chart above shows the risk of the major asset sectors by displaying the range of returns for one, five and 10 year periods over 20 years. As you can see, the range, or volatility of returns, reduces over time.<sup>6</sup>

<sup>6</sup> Source: Vanguard using the following index data: Vanguard Cash Plus Index, UBS Australian Composite Bond Index, Citigroup World Government Bond Index Hedged in \$A, S&P/ASX300 A-REIT Index, S&P/ASX300 Accumulation Index, MSCI World ex Australia Total Return Index in \$A (net divs)

## Know the Risks

It's crucial to understand the trade-off between investment performance and risk. In order to pursue higher returns, you must be willing to assume additional risk. While shares and property might offer higher long-term returns than fixed interest and cash, they also expose you to higher levels of risk, particularly in the short run.

Holding diversified investments across all asset classes can moderate the overall risk of a portfolio. Unfortunately, no matter how well diversified your portfolio, there is no way to eliminate risk. Following are descriptions of some important investment risks:

*While specific asset classes can be risky in the short-term, time has a moderating effect on market risk.*

### ► Inflation risk

Rising prices due to inflation can erode the real value, or purchasing power, of investments. Over long periods in the past, returns from shares have beaten inflation by larger margins than fixed interest or cash investments. If your investment earns six per cent, but inflation is four per cent, the actual or 'real' return is only two per cent. This risk is particularly relevant for cash investments where the possibility of negative real returns can be quite high.

### ► Market risk

This is the risk that share, property, fixed interest or cash markets will decline in value. The share market is influenced by investors' changing expectations of the economy and individual companies and the fixed interest market is influenced by expectations about interest rates and inflation. For example, during October 1987 the Australian share market dropped by 42.1%; and in the first half of 1994, the Australian fixed interest market dropped by 6.4%.

More recently international shares fell by more than 20% for the year to September 2001 and again for the year to September 2002. If you had invested in shares during these periods, you are likely to have seen values decline. While specific asset classes can be risky in the short term, time has a moderating effect on market risk. Market risk can be reduced by holding a diversified portfolio of investments across different asset classes.

### ► Currency risk

If you include international investments in your portfolio, fluctuations in the value of the Australian dollar and foreign currencies can seriously affect the return on your assets. A weaker Australian dollar increases the value of foreign holdings, benefiting the Australian investor with exposure to international investments. On the other hand, if the value of the dollar rises, the value of foreign assets falls. (This risk can be offset by currency hedging.)

### ► Political risk

Like changes in the value of a country's currency, political changes can also have a large impact on the value of overseas investments. For instance, a change in economic policy, trade restrictions or the nationalisation of industries can lead to market declines and affect returns from overseas investments.

### ► Credit risk

For funds that invest in fixed interest and debt securities there is a credit risk. This is the possibility that an issuer will fail to repay interest and principal in a timely manner (also known as default risk). In a managed fund this risk is lessened because a number of different issuers are usually represented.

### ► Manager risk

Manager risk is defined as the risk that the fund chosen will under-perform its benchmark or market index due to poor security selection by the manager.

### ► Timing risk

When it comes time to invest, many investors hesitate because of fears of market fluctuations. The risk associated with having a 'market timing' strategy (i.e. picking the right time to invest) is high. Hoping to invest when prices are low and sell when they are high, thereby avoiding any market declines sounds ideal in theory. The reality is that very few investors, if any, can accurately foresee the short-term direction of share or investment markets.

Market timers risk being 'out of the market' when the market rallies, leaving little time for them to invest and benefit. Investing over time and then 'staying the course' are usually better long-term investment strategies than market timing.