Robertson | deRooy associates FINANCIAL SERVICES

MAY 2013

# Client Briefing Invitation

**Friday, 14 June 2013**

**9.45 am for 10am start**

**Wallis Lake Room**

**CLUB FORSTER**

At our Client Briefing in November last year Frank Casarotti from Magellan Asset Management provided us with a thoroughly entertaining and generally up-beat view on the world economy and why the world should “muddle through” the on-going economic crisis.

Since that briefing share markets in many countries have improved dramatically providing a welcome lift to portfolio returns. But with the U.S Federal Reserve suggesting that the stimulus measures may be wound back and the Chinese economy showing mixed signals, investors are wondering whether the impressive returns on share-markets can continue.

Based on the positive feedback from our previous client briefing and with Magellan consistently one of the best performing international share managers, we are pleased to have **Emma Heffernan joining us to provide Magellan’s views on “where to from here?”**

In addition, with only a few months to the Federal election, we will take a look at some of the issues closer to home including;

- **the impact of proposals in the May Federal Budget, and**
- **why interest rates are so low and whether they may fall further**.

The briefing will run for no more than 2 hours and will include a break for light refreshments.

Please feel free to bring a friend along.

To assist us in planning our catering could you please advise of your intention to attend by phoning the office on 6555 6433 or emailing us at adviser@robertsonderooy.com.au by no later than **Tuesday, 11 June 2013**.

**We hope you can join us**

# Economic Snapshot

April turned out to be a busy month for global financial markets. Concerns about the pace of growth in the United States and China, combined with the ongoing challenges in Europe, gave markets some pause for thought after the strong run of risk assets in the first quarter. The US Federal Reserve and the European ECB equivocated about what they would do with monetary policy, while the bank of Japan made it very clear that they would provide more stimulus than people had expected.

Here in Australia, the Federal government flagged further deterioration in the outlook for the budget deficit.

The reason behind the rapid increase in the budget deficit is a shortfall in revenues. The mining tax is only expected to deliver $3.3 billion over four years, down from $13 billion forecast a year ago. Company and carbon tax receipts have also fallen short. On a more positive note, debt remains low. Net government debt is tipped to peak at 11.4 per cent of GDP, compared to Germany with a current net debt to GDP of over 50 per cent, and the USA and the UK above 80 per cent.

With the economy moderating, Treasury has wound back its forecast for GDP growth in 2013–14 from 3.0 to 2.75 per cent. But economic activity is expected to return to 3.0 per cent growth in 2014-15.

Inflation in the March quarter was also lower than expected. The headline CPI rose 0.4% in the March quarter. In the year to March the CPI was up 2.5% implying a satisfactory level of control and within guidelines. The figures were generally interpreted as giving the Reserve Bank room to cut interest rates further – which they proceeded to do. At its meeting on 7 May, the Reserve Bank Board cut the official cash rate by 0.25% to a new all-time low of **2.75%.** It was encouraging to see the Reserve Bank of Australia expressing optimism that the housing sector would be able to pick up the slack from the fading resource investment burden.

### *Low interest rates – starting to impact!*

Interest rates remain at historically low levels in many parts of the world including Australia. This has certainly eased the pain for borrowers and may be starting to stimulate activity in the housing market. However, low rates are also impacting the earnings of many retirees that rely on interest income, and in some cases forcing them to look for alternative sources of income. The impressive returns on share markets in recent times has in part been due to an increased demand for high yielding shares such as Telstra and Australian bank shares. Investors need to remember that as the prices of shares move higher the risks also get higher unless those share price increases are supported by increased company earnings.

# Budget 2013: Charting a middle course

Whilst we will be covering the Budget in our Client Briefing on 14 June, the following is a summary of the major changes that may affect those nearing or in retirement.


It should be noted that most measures are proposals only, legislation is still required to be passed with possible changes and clarification to be provided.

As widely anticipated, the bottom line of this year's budget reveals a blowout in the budget deficit to $19.4 billion this financial year followed by $18 billion in 2013–14. This is in stark contrast to last year's projected surplus of $1.5 billion. But rather than cut to the bone or adopt European-style austerity, Treasurer Wayne Swan has outlined a middle course to restore the budget to balance by 2015–16, and back to surplus the year after.

Households who were bracing for big cuts to tax concessions and superannuation can rest a little easier for another year. By resisting savage cuts and charting a middle course towards a gradual return to surplus over the next few years, the government has been able to fully fund education, disability and infrastructure spending for the next decade. It has also minimised the risk of damage to overall economic growth and employment.

The focus of this election-year budget is on jobs and sustainable growth. Major spending initiatives are confined to three big ticket items which are fully funded for the next 10 years:

*DisabilityCare, *the Gonski Education Package, and a *$24 billion investment in new road and rail infrastructure projects.

## For those nearing retirement

### Increasing the concessional cap for certain superannuation members

The current concessional contributions cap is $25,000 for individuals of all ages. If you contribute more than this cap, you may have to pay extra tax.

This cap is proposed to increase to $35,000 (unindexed) for those:

- aged 60 and over from 1 July 2013, and
- aged 50 and over from 1 July 2014.

Concessional contributions include employer contributions, salary sacrifice contributions and personal contributions where a tax deduction has been allowed.

If you are aged 59 or more on 30 June 2013 you can take advantage of the higher cap by making concessional contributions up to $35,000 during the 2013-14 financial year.

### Change to excess contributions tax system

Amounts contributed to a superannuation fund in excess of the concessional contributions cap are currently taxed at 46.5 per cent.

Excess concessional contributions made from 1 July 2013 will be taxed at your marginal tax rate (MTR), plus an interest charge to recognise that tax on excess contributions is collected at a later date than normal income tax. You will also be able to withdraw the excess contribution from your superannuation fund.

## For those in retirement

### Deeming of account-based pensions from 1 January 2015

For Centrelink and Department of Veterans Affairs (DVA) Income Test purposes, superannuation account based pensions are treated favourably as a 'deductible amount' that reduces the amount of income assessed. This concession will continue indefinitely for existing pensions.

For new superannuation account-based pensions that commence on or after 1 January 2015, the Government proposes to assess these under Centrelink deeming arrangements that apply to other financial investments such as bank deposits, shares and managed funds.

If you are looking to retire at or around 1 January 2015, it is important to work through your circumstances with your financial adviser to see whether there is a financial benefit by commencing an account-based pension before or after 1 January 2015.

### Pension earnings above $100,000 to be taxed at 15%

The Government proposes that from 1 July 2014, all earnings on assets supporting income streams will be tax-free only up to $100,000 per year. Earnings above $100,000 per year will be taxed at a rate of 15 per cent.

This measure will primarily affect members with very large superannuation balances as it is based on the earnings in the fund. For example, if your superannuation income stream is earning 5%, you would need an account balance of $2 million to generate earnings of $100,000.

### Housing Help for Seniors

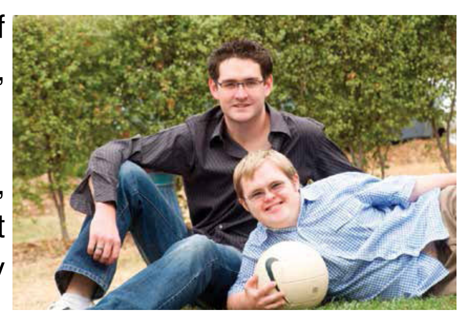
The Government will trial a program from 1 July 2014 to 1 July 2017, to help older Australians down-size their family home and move to more suitable housing without adversely affecting their Age Pension. This will be achieved by providing a means test exemption on the excess proceeds under certain conditions.

The family home must have been owned for at least 25 years with at least 80 per cent of excess proceeds from the sale (up to $200,000) to be deposited into a special account by an authorised deposit-taking institution. These funds (plus earned interest) will be exempt from pension means testing for up to 10 years provided there are no withdrawals during the life of the account.

The exemption will also be accessible to individuals assessed as home owners who move into a retirement village or granny flat. It will not be available to individuals moving into residential aged care.

### Other measures that may be relevant to you

- The Medicare Levy will increase from 1.5 % to 2 % as of July 2014 to fund the national disability insurance scheme, to be known as 'DisabilityCare Australia'.



- The net medical tax offset will be phased out. Importantly, the offset will continue to be available for out of pocket medical expenses relating to aged care fees until 1 July 2019.

## Allocated Pension Income Streams- Minimum pension payments

The government sets an annual 'minimum amount' that must be paid from an account-based pension in order for the earnings to be tax free. The government announced in last year's Federal Budget (May 2012) that the minimum pension percentage factors would revert back to normal from 1 July 2013 following the discounting which occurred due to the GFC.

The following table reflects the normal minimum payment factors to resume from 1 July2013.

| Age of Beneficiary | Percentage factor |
|---|---|
| Under age 65 | 4% |
| 65 – 74 | 5% |
| 75 – 79 | 6% |
| 80 – 84 | 7% |
| 85 – 89 | 9% |
| 90 – 94 | 11% |
| 95 or more | 14% |

If you receive a Centrelink allowance/pension, this may impact your entitlement as it could mean that your entitlement under the income test. Should you require clarification as to the impact on your entitlement, please contact us.

## Centrelink

As you may be aware, Centrelink is now referred to as the Department of Human Services.

Many of our clients have met, or enjoyed Brian Turner (Financial Information Services Officer) present at many of our client briefings. Brian has now retired and we would like to take this opportunity of wishing him all the best for a long and healthy retirement, and sincerely thank him for the assistance he has provided both us and our many clients over the last 10 or so years.

We have had the pleasure of meeting Simon Brislane - a local who is now in the role of Financial Information Services Officer and he has indicated his willingness to continue being available to our clients. He will be working at the Tuncurry Office on Mondays and Fridays and will spend Tuesday, Wednesday and Thursdays each week in Taree, and is available for appointments.

Should you require his contact details please call our office.

Australian Government
Department of Human Services

## Current Assets and Income test Thresholds

Assets test

| Family situation | For Homeowner | | For Non-Homeowner | |
|---|---|---|---|---|
| | Full Pension | Cut out | Full Pension | Cut Out |
| **Single** | $192,500 | $731,500 | $332,000 | $871,000 |
| **Couple (combined)** | $273,000 | $1,086,000 | $412,500 | $1,225,500 |
| **Illness separated (couple combined)** | $273,000 | $1,351,000 | $412,500 | $1,490,500 |

For pensions, assets over these amounts reduce pension by $1.50 per fortnight for every $1,000 above the amount (single and couple combined).

Income Test (Per Fortnight)

| Family situation | Full Pension | Cut Out | |
|---|---|---|---|
| **Single** | $152 | $1,768 | Reduces at 0.50 cents each dollar over $152 |
| **Couple (combined)** | $268 | $2,705 | Reduces at 0.50 cents each dollar over $268 |
| **Illness separated** | $268 | $3,501 | Reduces at 0.40 cents each dollar over $268 |

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Send us a quick email and let us know what you think of our website.

Suite 11 Forster Arcade
41 Wharf Street, FORSTER NSW 2428
Phone: 6555 6433
Fax: 6555 3022
Email: adviser@robertsonderooy.com.au