Robertson | deRooy
associates
FINANCIAL SERVICES

May
2016

Client Briefing Invitation

Thursday, 9 June 2016
9.45am for 10am start
Wallis Lake Room
CLUB FORSTER

A World of Opportunities

Our guest speaker, **Ben Moore from Alliance Bernstein**, will provide us with an update on global and domestic markets and what are expected to be the key drivers over the next few years.

Alliance Bernstein provides diversified investment management services worldwide to institutional, high-net-worth and retail investors. They manage approximately $479 billion of client assets and have offices in 21 countries.

Ben is the Director of the Australian Client Group and is responsible for managing Alliance Bernstein's retail relationships in Australia. With the resources of Alliance Bernstein and Ben's experience in the industry he is well placed to provide a truly global perspective on the world financial markets.

The Federal Budget handed down on 3 May was a precursor to the upcoming Federal Election on 2 July. We take a closer look at how some of the announcements may impact you – particularly in the area of superannuation.

We will also briefly revisit the major changes to the legislated Centrelink Assets Test commencing on 1 January 2017 – demonstrated with some practical examples.

The briefing will run for 2 hours and will include a break for light refreshments—as always please feel free to bring a friend along. To assist in our planning please advise if you will attend by phoning us on 6555 6433 or emailing us at adviser@robertsonderooy.com.au by **5pm Monday, 6 June 2016**.

We hope you can join us

Economic Snapshot May 2016

In summary

April was a particularly good month for rebounding commodity markets around the world amidst the influence of better economic data from China and continued hopes for a deal to stabilise the oil market. However, it appears there is still some way to go before there is any certainty on this with the meeting of oil producing nations held in Doha on 17 April breaking up without an agreement after Iran refused to attend. The bounce is indicative of sentiment more than fact at present but remains encouraging. Oil had an outstanding return of nearly 20% in the month – volatility personified.

US economic data continued with its recent history of mixed messages but overall showed the economy continuing on a path of moderate growth and low inflation. 'Moderate growth' is a statement used by economists regularly now and is indicative of future expectations more than anything else. The Federal Reserve reiterated its cautious view on lifting interest rates which prompted further US dollar weakness and renewed pressure on the central banks of other nations to take offsetting actions.

Amongst the big news in Australia in April was the surprisingly low reading for inflation in the March quarter. This immediately ignited debate about the need for further interest rate cuts and knocked the A$ down a couple of cents. At its meeting on 3 May, the Board of the Reserve Bank reinforced this by cutting the cash rate by 0.25% to 1.75%. This increasingly makes cash and term deposits less interesting for investors while the yield gap from blue chip shares will widen - albeit some dividends will reduce (BHP and ANZ Bank being the notable ones to date).

Australia - *Weak inflation is prompting expectations of more rate cuts from the RBA*

The March quarter inflation results in Australia surprised the markets by coming in below expectations. Headline inflation fell 0.1% in the quarter while core inflation rose by 0.2%.

Over the year to the March quarter both measures of inflation came in below the bottom of the Reserve Banks target range. The March quarter was the lowest reading for the core inflation rate since the series has been calculated. Specific sectors within the CPI contributed to the soft March quarter result, including food, clothing and footwear, transport and communication.

At a broader level, the decline in the oil price will also have contributed. Commentators presented a range of interpretations of what these figures might mean for the Reserve Bank. On the one hand, some suggested the result was driven by too many special factors which the RBA should not respond to. They also cited the fact that the labour market remains in a relatively good shape with the unemployment rate steady at 5.7% in March. However, others suggested the weakness of inflation signals a broader underlying softness in the economy and that, despite the improvement in the labour market, wages growth remains very subdued. Whatever the view of the economists, financial markets immediately priced in expectations of a 0.25% rate cut and the A$ fell from around US$0.78 to just under US$0.76 and has continued with the downward trend through early May.

USA

In the USA, the key manufacturing index slipped a bit in April but still came in above forecast. There was muddled data from the housing market with starts falling by nearly 9% in March, but existing home sales rising by over 5% in the same month. The overall supply-demand balance of the housing market remains favourable with inventories below long run average levels. Consumer confidence slipped a bit but the labour market in the USA remains in good shape with the unemployment rate around its lowest levels in eight years. National accounts figures for the first quarter confirmed the weak performance of the economy with real GDP growth of only 0.5%

China

In China the authorities' stimulus program is bearing fruit. The manufacturing index was relatively steady in April compared to the previous month. The non-manufacturing index was also steady in March and both these outcomes are assisting confidence. Currency depreciation is also providing support for growth of China's exports. Improvements were also evident in data for the construction and retail sectors in March. The People's Bank of China has eased monetary conditions significantly in recent months and credit growth has picked up. The effects of this will flow through into the economy for a while longer, but there have been warnings that the authorities should not let credit growth get out of control and risk the stability of the financial system. Concerns such as this, combined with the seasonal pattern for demand for steel in China, have led some commentators to suggest the recent strong rally in the iron ore price will not be sustained in coming months. Since this has been one of the factors helping to drive up the A$, any retracement would help bring the currency back down again.

2016 Federal Budget—3 May 2016

In the lead up to the recent Federal Budget, there was ongoing debate and speculation about the measures the government might take to manage the deficit.

Issues previously regarded as being untouchable such as negative gearing, dividend imputation and the GST, were again thrown into the mix. However, no changes have been announced to any of these areas, with superannuation gaining most of the attention. As usual the devil is quite often in the detail, and this year that was certainly the case.

In reading the following **please be aware that none of the measures are as yet law**, and of course the current government will need to be returned before we even get that far. Even then further changes may occur in order to pass the Senate.

Superannuation
Superannuation tax concessions have been heavily tightened, with existing limits reduced and new caps introduced.

In particular, there will be a:

- $1.6 million superannuation transfer balance cap, limiting the amount that can be transferred to the pension phase;
- Lowering of the concessional contributions cap to $25,000 from 1 July 2017;
- Limiting of the non-concessional contributions through a lifetime cap for non-concessional contributions of $500,000 - including contributions from 2007.
- The tax exemption for earnings on assets supporting 'transition to retirement' income streams will be removed;
- The anti-detriment payment will be abolished; and
- A reduction in the income threshold from which an extra 15% tax applies on contribution to super- from $300,000 to $250,000.

There are measures to help low-income earners and those with low superannuation balances. For example, a Low Income Superannuation Tax Offset (LISTO) will be introduced to reduce the effective tax rates on concessional contributions to super for individuals with incomes under $37,000. And individuals with super balances under $500,000 will be able to rollover their unused concessional contributions cap from previous years.

An unexpected and positive change is that individuals will be able to claim a deduction for personal contributions to superannuation, regardless of their employment status. Currently, the deduction is limited to the unemployed, self-employed or 'substantially self-employed'.

Personal Tax
On the personal tax front, as expected, the $80,000 threshold will be raised to $87,000.

Small Business and Companies
There were also big changes for small and medium business, with the thresholds to access certain concessions raised substantially. The tax rate will reduce from 28.5% to 27.5% from 1 July 2016 for businesses with turnover of less than $10M (previously $2M).

Beyond just small and medium businesses, all companies will eventually face a reduced company tax rate, with the rate gliding down to 25% over ten years.

We will be taking a closer look at the more relevant announcements at the Client Briefing.

Changes to Centrelink Asset Test Thresholds from 1 January 2017

Since the announcement of the changes to the Centrelink Assets Test Thresholds in the 2015 Federal Budget – which were subsequently legislated without change, the current thresholds have continued to be indexed, whilst the thresholds to commence on 1 January 2017 have not.

The following table details the relevant thresholds:

	Assets Test Threshold for full pension (20 March 2016)	Assets Test Threshold for full pension (1 January 2017)	Asset Test Threshold for part pension (20 March 2016)	Assets Test Threshold for part pension (1 January 2017)
Single, homeowner	$205,500	$250,000	$788,250	$547,000
Single, non-homeowner	$354,500	$450,000	$937,250	$747,000
Couple, homeowner	$291,500	$375,000	$1,170,000	$823,000
Couple, non-homeowner	$440,500	$575,000	$1,319,000	$1,023,000

From 1 January 2017, the Assets Test taper rate will increase from $1.50 to $3.00, effectively reversing the 2007 decision to halve the taper rate at that time. The taper rate governs how much of the fortnightly pension payment is lost for each additional $1,000 of assets above the lower threshold.

Entitlements are calculated under both the Asset Test and the Income Test - with the rate payable being the LOWER of the two.

Pensioners who lose their pension entitlement on 1 January 2017 as a result of these changes will automatically be issued with a Commonwealth Seniors Health Card or a Health Care Card (for those under Age Pension age).

What is a "Normal" Retirement Age?

The Australian Bureau of Statistics (ABS) recently released its latest Retirement and retirement intentions report showing that of the people in the workforce aged 45 or over:

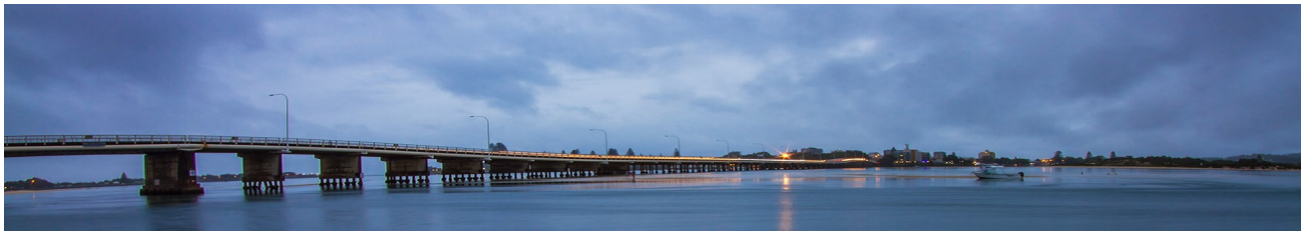
- 80 per cent of workers intend to retire at some stage. (Almost half of these intending retirees aim to stop work between ages 65-69 yet almost a quarter intend to keep working until age 70 or older.)
- 8 per cent of workers haven't made up their minds whether or not to eventually retire.
- 12 per cent of workers intend to never retire.

There are those who completely stop work around their 65th birthday and live until their life expectancy, having progressively moved through typical stages of retirement of being active, more sedentary and then frail. And then there are those, of course, who work until well past conventional retirement ages and who may remain extremely active long after retiring (if they ever do retire).

For instance, Catherine Hamlin, an Australian obstetrician and gynaecologist, is still operating at age 92 with the Addis Ababa Fistula Hospital in Ethiopia. Dr Hamlin and late husband, Dr Reg Hamlin, founded the hospital 42 years ago. And then there is the former Australian soap opera actor, politician and farmer Elisabeth Kirkby, 95, who won her doctorate from the University of Sydney at 93 years of age. (Perhaps you may be old enough to remember her as Lucy Sutcliffe in a top-rating serial of the seventies, Number 96?) Lis Kirkby served on the NSW legislative council until past her 77th birthday and ran a wheat and sheep farm until reaching almost her 90th year. Hamlin and Kirkby represent a perhaps surprising proportion of older people who intend to keep working and remaining active into old age, sometimes very old age.

It just goes to show that there is more than one path in life. Sound financial planning involves having flexibility to follow different paths.

We trust that you have found our Newsletter informative. Should you have any questions regarding the content or would like see anything of financial interest covered in future editions, please call or email us.



For further information about our team as well as the latest news, market updates, financial calculators and previous newsletters visit our website at ***www.robertsonderooy.com.au.***

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