Robertson deRooy associates FINANCIAL SERVICES

May 2017

Client Briefing Invitation

Friday 2 June 2017
9.45am until 12 noon
Wallis Lake Room
CLUB FORSTER

2017 sees the biggest changes to Superannuation & Centrelink rules in the past decade

2017 also marks 10 years since the start of the Global Financial Crisis

Join us as we navigate the Centrelink and Superannuation changes, and dissect the Federal Budget

We are also delighted to have Alan Pullen – Head Analyst of the Financials Team at Magellan Financial Group to discuss:

- **How the world economy and financial system is faring**
- **Whether we could have a Global Financial Crisis Mark II**
- **The outlook for financial institutions such as our big banks. Will they continue to deliver for investors?**

Magellan Financial Group is one of the most successful and highly regarded global asset managers in Australia. Prior to joining Magellan in 2012, Alan held the role as a Financial analyst and portfolio manager at Maple Brown Abbott. Alan also spent 6 years with the Reserve Bank of Australia as an economist and banking sector analyst.

Don't miss this opportunity to listen to a true expert in this area!

MFG MAGELLAN FINANCIAL GROUP LIMITED

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, 29 May 2017**.

Economic Snapshot

Share markets have performed well since the US election late last year and are proving remarkably resilient in the face of numerous geopolitical threats (Eurozone elections, Brexit, North Korea etc). The volatility on global share markets leading into the US election last year, has given way to relative stability, partly driven by improving business confidence and global growth.

Geopolitical risks have not proven to be as harmful to share markets as they may have been. Investors were 'relieved' at the outcome of the French Presidential election, but even the victory for Mr Macron over Ms Le Pen would likely lead to little in the way of necessary economic reform and it is this which determines long term outcomes. In the UK, Prime Minister May appears to be in a position to win a sufficient majority to manage the UK exit from Europe. Meanwhile in Asia, political pressure from the US may finally be leading the Chinese to mediate the North Koreans to modify their military aggressiveness with nuclear arms

Whilst President Trump has not really delivered anything of substance in the way of economic reform, markets believe that he is committed to his pro-business agenda which is good for business confidence and should be good for employment and growth. The official US unemployment rate is now at a decade low of 4.4%, and leading business indicators suggest that the global economy is the best it has been in years.

Following on from solid economic data, the US Federal Reserve increased its benchmark interest rates to between 0.75 and 1% at its latest meeting in March, and appears likely to raise rates two or three more times this year. This may take their policy rate above that in Australia for the first time since 2001.

The Reserve Bank of Australia left the official cash rate unchanged at a record low of 1.5%. With labour market indicators being mixed, and inflation expectations remaining low, it is unlikely the Australian Reserve Bank will be changing interest rates in the near future.

The Australian dollar has been on a wild ride against the USDollar over the last decade, driven by movements in commodity prices and interest rate differentials. As US interest rates rise, and the difference between US and Australian interest rates narrows, there may be further weakness in the Australian Dollar. Recent weakness in commodity prices, particularly Iron Ore, have seen further weakness against the USDollar.

The key question for investors of course, is where to from here?

Although uncertainty surrounds the Trump administration, and there are numerous major global events that will no doubt impact confidence during 2017, there are sufficient positive economic signs both in the US and elsewhere, that indicate growth should remain positive this year. Investors should focus on the longer term fundamentals rather than react to short term political events.

We look forward to hearing Alan's views at the Client Briefing.

2017 Federal Budget

The Federal Budget– handed down on 9 May, has been described as an "old fashioned tax and spend budget", with broad voter appeal, and one that may be softening voters for an early election. The budget focusses on nation building infrastructure projects, home affordability, health and education, addressing a large proportion of voters.

The government forecasts an underlying budget deficit of $26.1 billion this financial year, which is lower than previously forecast. The Treasurer Morrison stated that the budget is 'projected' to be back in the black in 2021.

The Government's estimates are based on economic growth 'rebounding' from 2.5% to 2.75% next year and 3% beyond that. Inflation is expected to hover around 2% while unemployment will reduce slightly to a forecast 5.75% in 2017-18, dropping to 5.5% in the next two years.

Multi-Billion Dollar Infrastructure Program

- $5.3 billion for the second Sydney airport at Badgerys Creek.
- $10 billion will go to a National Rail Program to fund urban and regional rail projects over the next 10 years.
- $8.4 billion on a Melbourne to Brisbane inland rail to allow freight to travel between the two cities in under 24 hours.

- State infrastructure projects including $1.6 billion to West Australia for road and rail projects, $844 million towards Queensland's Bruce Highway and $1 billion for regional rail upgrades in Victoria with a further $30 million for Tullamarine Airport rail planning.

Slugging the Banks

On the tax side of the equation, there will be a Levy on the big banks to raise around $6.2 billion. This will have an impact on the earnings of the major banks, and gives rise to the issue of whether the banks will somehow pass these costs on to consumers in the form of adjustments to mortgages and deposits, or possibly reduce dividend payouts to investors (including super funds) which would impact overall returns.

Superannuation

It wouldn't be a Federal Budget without changes relating to Superannuation.

- First home buyers get help to build a deposit with the introduction of a superannuation-style salary sacrifice savings account. From 1 July 2017, individuals can make voluntary contributions of up to $15,000 per year and $30,000 in total to their superannuation account.
- People over 65 are being encouraged to sell their large family homes, downsize to something smaller and put up to $300,000 into superannuation as a non-concessional (after tax) contribution. Whilst tax effective, the hoped for Centrelink Asset Test exemption on these funds did not eventuate.

Both members of a couple will be able to apply this measure allowing up to $600,000 per couple to be contributed to superannuation in addition to any other voluntary contributions a person is able to make under the existing contribution rules and caps. To facilitate this measure the Government will remove the existing contribution rules for those aged 65 and over making contributions under the new downsizing cap. It should be noted that these amounts would still be counted toward the Centrelink Assets Test thresholds so its important to discuss any planned strategy with us before proceeding.

Taxation

- From 1 July 2019, the Medicare levy will increase to 2.5% of taxable income– from the current 2%, effectively increasing the top marginal tax rate (which includes the fringe benefits tax rate) to 47.5%. The increase ensures the National Disability Insurance Scheme (NDIS) is fully funded. There is some protection for lower income earners from the increase to the Medicare Levy.
- From 1 July 2017 the Budget introduces integrity measures for deductions claimed by residential property investors including limiting depreciation deductions on plant and equipment and no longer allowing deductions for travel expenses related to inspecting, maintaining or collecting rent.

Social Security

The Government will reinstate the Pensioner Concession Card (PCC) for former pensioners who lost the Age Pension following the rebalancing of the Assets Test from 1 January 2017. These former pensioners will receive the PCC from 9 October 2017 and they will retain the Commonwealth Seniors Health Card to ensure they continue to receive the Energy Supplement. The Low Income Health Care Card will be deactivated.

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

Doing the sums on Solar Energy installation

Ever considered installing solar and wondered what the financial benefits might be?

Consider the following for a single age pensioner (Ted) who had his Centrelink Age Pension reduced on 1 January 2017 as a result of the Assets Test changes.

The cost of installing the solar system was $15,000 including a storage battery. He was paying a fixed electricity price of $120/mth. Systems are available for a lot less cost.

So what was the net result?

As the cost of the solar installation was on Ted's home– which is assets test exempt, his assessable assets were reduced by $15,000, serving to increase his age pension by $45/ft ($3 per for each $1,000 spent). That's a return of 7.8% on the sum outlaid.

He no longer pays the $120/mth as the new system is expected to more than cover his electricity needs. This equates to a saving of $1,440– or another 9.6% return.

So far that's a return of 17.4%. Ted will also be able to sell surplus electricity into the grid, and he will stay very warm this winter without thought to the cost of heating the house.

Just food for thought!!

Centrelink Asset Test Thresholds

The following table details the current Assets Test thresholds (post 1 January 2017) and reflects the indexation which occurred on 20 March 2017:

	Assets Test Threshold for full pension	Assets Test Threshold for part pension
Single, homeowner	$250,000	$546,250
Single, non-homeowner	$450,000	$746,250
Couple, homeowner	$375,000	$821,500
Couple, non-homeowner	$575,000	$1,021,500

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

Pensioners who lost their pension entitlement on 1 January 2017 as a result of these changes were automatically issued with a Commonwealth Seniors Health Card.

Ways to reduce assessable assets to gain a higher benefit include:

- *Correctly valuing assessable assets such as your car/s, van, boat and home contents*
- *Gifting up to $10,000 per annum (to a maximum of $30,000 over a five year period)*
- *Spending on home improvements (as the principle place of residence is assets test exempt)- take care not to over capitalise.*
- *Purchase a Funeral Bond*
- *Travel*

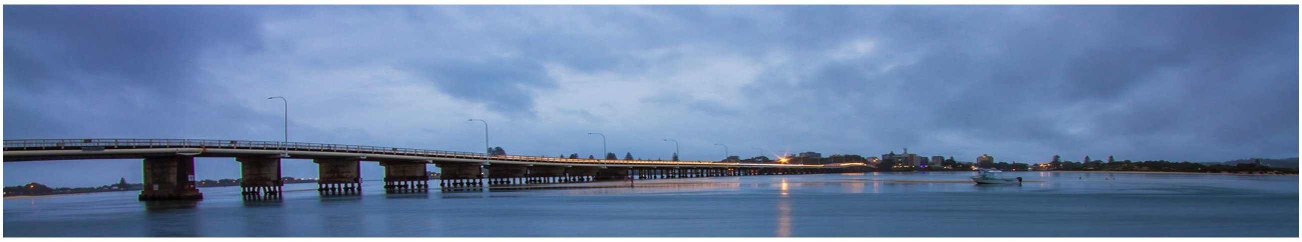
Care should be taken to not simply spend to gain a higher pension. Discuss this with your financial planner before making any moves.

National Medal Award received by Jeff de Rooy on Australia Day

Jeff (right in picture below) was the very proud recipient of the National Medal at the Australia Day Awards held at Club Forster. He received the Medal as an acknowledgment of his service to Surf Life Saving of which he has been a patrolling member of Cape Hawke Surf Club for the last 20 years. Jeff has also served on the Board of Directors at the Club when his sons were Nippers.

The National Medal was established on 14 February 1975 as one of the original elements of the distinctive Australian system of honours and awards. The Medal recognises diligent long service in organisations that protect life and property at some risk to their members. Many, but not all, eligible groups are uniformed. The Medal is awarded to persons for long service in eligible organisations which fulfil the 'primary function' of their organisation and meet other criteria.

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.***

Suite 11, 41 Wharf Street

Forster NSW 2428

Ph. 02 6555 6433

Fax. 02 6555 3022

Email: adviser@robertsonderooy.com.au