

Quarterly Newsletter

Issue 12
August 2007

Director's Fore

With one eye on the snowfields and another on the finishing line of June 30th, I am pleased to see one has passed and the other is still to come.

This year seems to be one of the "big dump" – not only on the snowfields but also into people's Superannuation accounts. We have never before experienced the inflow of monies into Superannuation as we have in the last financial year just gone.

Lakeside Consultants continues to grow, with a recent business acquisition in Adelaide. We welcome Ken Ashby and Michelle Cafasso to our group and we hope that this is the first step in what may become more of a national presence for our group.

In addition, we have 5 new staff members who recently commenced, as we continually seek to improve our offering.

Happy skiing & best wishes
Ross Hennig
Managing Director

NEWSFLASH:

INSURANCE

Restrictions on Life Insurance under super dropped! – page 2.

FINANCIAL PLANNING "Accumulation" or "Pension" phase"? – page 3.

FINANCE

Getting the right loan for your new home/ investment! – page 4.

LEGAL

"Keep tax payments to a minimum" – page 5.

Insurance – What is it for?

Insurance is for life's unforeseen events. We sincerely hope you never fall into any of the categories below but how will you or your family cope if...?

RECENT CLAIMS

Male 46 y.o.	Death overseas	Life Cover	\$1,500,000
Male 30 y.o.	Broken arm	Income Protection	Fractures Benefit
Male 31 y.o.	Football injury	Income Protection	Fractures Benefit Hospital Benefit*
Male 37 y.o.	Knee Surgery	Income Protection	Hospital Benefit* Payment of time unable to work (after qualifying waiting period)
Female 29 y.o.	Stomach Surgery	Income Protection	Hospital Benefit* Payment of time unable to work (after qualifying waiting period)
Female 53 y.o.	Back Surgery	Income Protection	Hospital Benefit* Payment of time unable to work (after qualifying waiting period)

* Any time spent in hospital, in excess of 3 days (72 hours) is paid for at the daily rate of cover insured.

Insurance – Restrictions on Life Insurance under super dropped...

With the abolition of Reasonable Benefit Limits effective 1st July 2007, no restrictions apply on how much life insurance cover can be held through a superannuation fund.

Generally it is tax-effective and cost-effective to buy life insurance through Super as the money used to pay the premiums comes from pre-tax monies.

Each of the insurance companies has its own Super fund (for holding Life insurance only) and membership of these is a simple exercise. In being a member, it does not require anything apart from payment of your premium. Your investment Super stays at its present home.

There are several strategies which increase the attractiveness of insurance inside superannuation, including:

- Salary sacrifice into superannuation to cover the premiums.
- Pay for cover from an existing Super balance (no impact on your cash flow).
- Make after-tax contributions into superannuation and claim the Government co-contribution to help pay for premiums.

For example, if a 38-year old male on a 41.5% marginal tax rate requires \$1,000 in pre-tax income to purchase life insurance, and the life cover was purchased outside Super, there would be \$585 available to pay the premium and this could buy about **\$800,000** worth of cover.

However, if the \$1,000 were salary sacrificed into Super, the full \$1,000 could be used to pay for the insurance **because life insurance premiums are tax-deductible for the Super fund.** This would provide life cover of about **\$1,500,000.**

Therefore it is possible to maximize cover by buying the life insurance through superannuation. Death benefits to dependants are also received tax-free. In saying this, there are estate planning issues to consider when deciding whether to have insurance inside or outside the superannuation environment.

Estate planning involves the development and implementation of specific strategies that are designed to manage your assets in the future should you die. If you have dependants, the way in which your financial affairs are structured may have an impact upon the benefits your dependants are entitled to receive. For example, there may be taxation implications if death

benefit payments are to be made to nondependent adult children.

Specifically, life insurance within your superannuation fund would pass to dependant beneficiaries, such as your spouse or children, without tax, but would be taxed at 16.5% if passed on to non-dependant beneficiaries such as adult children.

Life insurance benefits received directly by your estate pass to any beneficiary without tax. It is important to review your superannuation structure and life insurance protection with your financial adviser, to ensure the strategies and structures you have in place are appropriate to your needs and familial commitments.

Please contact your adviser for further information, or to arrange a comprehensive review of your life insurance and superannuation requirements.

ATTENTION – Your Tax File Number

Please remember to provide your Insurer Super Fund with your TFN if applicable.

You should have received a letter from your Insurer by now, requesting this number.

Failure to provide the insurer with this number will mean that any future premiums cannot be applied to your policy, or that you may be required to pay tax on the premiums.

Don't hesitate to contact us if you have any queries.



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Financial Planning – “Accumulation” or “Pension” phase?”

Within Superannuation there are 2 distinct phases – **Accumulation** and **Pension**. As the names suggest, the former is one for when you are stacking monies into Super and the latter is for when you are withdrawing monies from Super, normally to maintain lifestyle in retirement.

Don't assume that just because you are working and have good cash flow that it is not appropriate for you to be in “Pension” phase. Similarly, don't assume just because you are not retired that you cannot be in pension phase.

There are some significant **benefits to being in “Pension” phase**. Please see below a brief summary and a case study to highlight.

Accumulation Phase

- Employer Concessional Contributions are taxed at 15%.
- Cash / Non-Concessional (non-deductible) contributions are not taxed on entry to a fund.
- A 15% TAX on Earnings applies to your Super Fund.
- Capital Gains are TAXED at 10% if held for greater than 12 months.

Pension Phase

- Employer Concessional Contributions are taxed at 15%.
- Cash / Non-Concessional (non-deductible) contributions are not taxed on entry to a fund.
- NO TAX on Earnings generated by capital.
- NO TAX on Capital Gains realised. **This is a BIG BENEFIT if you have substantial Gains to be realised.**
- From 1st July 2007 for people age 60+ all Lump Sum withdrawals and Income Streams drawn from superannuation are 100% TAX FREE.
- For people aged 55-59 Lump Sums and Income Streams will be taxed, however at a concessional rate – the first \$140,000 of taxable component withdrawn as a lump sum is tax free and you will receive a 15% rebate on the taxable component of your income stream.
- Income streams must be drawn down at a rate of at least 4% of your account balance, and as from the 1st July 2007 there are no maximum pension levels, except for Transition to Retirement Pensions which have a maximum 10% draw down level.
- Surplus pension income is not a problem - you may be able to re-contribute this back into your Super fund as a non-concessional (after tax) contribution.

- All Franking Credits are refunded as additional income to the Super fund as you are in a NIL TAX Environment.

Example

Geoff is single, aged 62 and is still working full-time. He has an Accumulation Fund worth approximately \$500,000 within a Self Managed Super Fund (SMSF). Within his account he has a holding of 10,000 BHP shares which he purchased for a cost base of \$20 per share some ten years ago. Today they are valued at \$38 per share. He is currently sitting on an unrealised capital gain of around \$180,000.

BHP Shares

\$200,000	Cost Base
<u>\$380,000</u>	Today's Value

\$180,000 Un-Realised Capital Gain

Geoff has decided that BHP has performed quite well and he would like to lock in his gains by selling down his holding and diversify across a more balanced portfolio to also reduce his level of risk.

If Geoff was to sell down the holding whilst in the **Accumulation Phase** the tax payable at Super fund level would be:

$$\$180,000 \times 10\% = \mathbf{\$18,000 \text{ in tax payable.}}$$

If Geoff was to sell down the holding whilst in the **Pension Phase** the tax payable at super fund level would be:

$$\$180,000 \times 0\% = \mathbf{\$0 \text{ in tax payable.}}$$

Furthermore, as Geoff is over aged 60, the minimum pension he would need to draw down would be \$20,000 for the year. This would be totally tax free and he could contribute it back to Super by opening a new accumulation account within his SMSF and making a Non-Concessional contribution.

The overall outcome being **NIL TAX on Pension income** and a **saving of \$18,000 on the sale of the BHP share holding**.

Where to from here?... Contact LAKESIDE

Please allow one of our experienced Planners review your affairs and make comment, so as to better improve your financial world.

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Finance – Getting the right loan for your home or investment!

With respect to obtaining property finance, there are 2 key issues which we address for our clients.

The first of these relates to the **right loan structure**. When considering a new loan, there are a number of different loan structures available including:

- basic variable
- standard variable
- professional packaged loans
- interest only repayments
- principal and interest repayments
- fixed interest rates
- variable interest rates
- split loan facilities
- interest in advance
- interest in arrears, and
- offset loans.

In addition to the above loan options, it is imperative to consider the difference between the implications of 'GOOD DEBT' or 'BAD DEBT'. By this we mean that the loan interest being paid is either tax deductible (good) or not tax deductible (bad). When considering what YOUR interest costs are, you need to ask the question – **WHAT was the initial purpose of the borrowings??** Most people are aware that the interest that relates to their own home is not tax deductible – sadly though many people never plan for this and never receive **ADVICE** on **HOW** to best accommodate this major cost. **With some Financial Planning advice AND a properly structured loan, you can potentially save tens of thousands of dollars in tax.**

Unfortunately in the current market, the probability of the average borrower selecting an inadequate lending structure is quite high. This is one of the main reasons why we introduce the **know-your-client** rule. By understanding our clients' family, business and lifestyle goals, we have the ability to select the optimum loan structure for our clients. The selected loan structure will aim to offer flexibility should any of our clients' goals change over time.

The second key issue relates to ensuring that our clients are getting the **best price, the most suitable loan features, and the right lender** with the particular lending structure in mind.

Once we have factored in these considerations, we know with confidence that we have established the correct foundations for our clients' finance structure and it is only then a matter of facilitating it. It is important that this structure is reviewed annually and amended if necessary with a major review conducted every 4 years, due to market changes.

By following the above process we ensure that our clients have the very best loan solutions available given their individual financial circumstances.



MARKET WATCH



Basic Variable loan *7.20% – loans over \$200,000
(over 30 years)
*Comparison Rate 7.2630%

Standard Variable Rate Loan with Offset 7.27%
(Loans over \$250,000)

3 Year Fixed Rate Loan 7.54%
(Loans over \$250,000)



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Wills and Superannuation Benefits

Most of us will by now be familiar with the changes to tax regulations governing superannuation which were announced in last year’s Federal Budget, but now that we have moved into July (meaning the changes have now taken effect), it is a good opportunity for us to consider one further element relating to this new set of circumstances which has made superannuation a very significant factor in saving tax and building wealth for retirement.

Not only have changes been made to the rules relating to superannuation, but so also has the law which surrounds the inheritance of superannuation, and we all need to understand the manner in which we should set up a Will (or estate plan) for our children so that their needs are satisfied in the most tax-effective manner possible.

While the issues relating to superannuation benefits passing to non-dependants e.g. adult children, are complex, in an effort to simplify things, let’s assume that you have \$2.5 million in superannuation. In addition, you have a post-June 1983 eligible service date (i.e. there are no other tax-free eligible termination payment components in your fund). About \$1 million of your \$2.5 million is from your own contributions, and about \$1 million is from employer contributions with the balance being money earned from investments while it has been in the fund.

You officially retired at the start of this month i.e. 1 July, and you will now start to draw down a pension from the fund.

The \$1 million that you contributed is called “non-concessional”. Until the law changed as of the start of the month, this was the maximum tax-free amount that you could receive, or that your adult children could receive on your death.

Let’s further assume that by the time you die, the fund has continued to earn investment income and has now grown to a total of \$3 million.

Previously, your children would have obtained a tax-free inheritance of \$1 million (your contributions), and then they would have had to pay 16.5% tax on the balance of \$2 million.

Accordingly, your children would have received a total of \$2,670,000 inheritance after paying \$330,000 tax.

By contrast, after 1 July, the tax-free component on inherited superannuation is based on a percentage rather than on a “dollar” amount, ie with the same \$3 million balance when you die, the proportion that your adult children can claim tax-free is no longer based on the concessional amount which you contribute. Instead, the tax-free proportion is based on the percentage which your contribution represented at the time when you started to draw down a pension.

So, if you contributed \$1 million to the fund and commenced a pension when the balance of the fund was \$2.5 million, then your non-concessional (or tax-free) amount is set at forty percent. (Your \$1 million is forty percent of the total \$2.5 million which you had when your pension began).

When you die, your children will receive forty percent of the fund tax-free.

As a contrast to the previous example, let’s say your fund has now built up again to be \$3 million when you die. Instead of receiving \$1 million tax-free, your adult children will now receive \$1.2 million tax-free (forty percent), and will only pay 16.5% tax on the \$1.8 million balance.

The overall result is that they will inherit \$2,703,000 after paying tax of \$297,000 – which all means that they will have \$33,000 more in their pockets under the new rules.

Just to add one further item, the issue has yet more complexity when you use your superannuation money to live on in retirement. Naturally, there will be less in the kitty for inheritance if the superannuation has been drawn down during retirement – whether to live on or simply to enjoy while traveling the world!

If we assume for the moment that you are fortunate enough to have accumulated your employer contributions on the one hand, and your personal contributions on the other, in separate funds, then you are in a position to maximise those benefits in retirement and on death.

One of the ways to quarantine the tax-free component of your superannuation so that you can leave a bigger slice for the children is to only draw down on the **taxable** part of the money, and you can achieve this by maintaining two funds in your retirement. One fund contains the employer contributions (which is the amount that will be taxed on death), and the other fund will contain the non-employer contributions which are not taxed on death.

The superannuation then primarily draws down from the employer contribution fund, and only takes a minimum from the tax-free portion thereby leaving the maximum amount possible for his beneficiaries.

As always, it is still going to be prudent, and a vital part of retirement planning, for you to take advice from your accountant or financial adviser **and** your legal adviser before you put in place a Will and supporting estate plan. This will ensure that the efforts which you have made during your working life are “rounded off” after your retirement in such a manner that your superannuation “nest-egg” passes to your beneficiaries without the tax man taking more than his fair share.





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Murray Hennig

Phone: (03) 5568-2641

Contact: info@entertainingcomputers.com



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for Lakeside client's discount.
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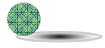
Murray is an accredited workplace assessor and trainer. His business [entertaining computers](#) delivers individually tailored on-site training to the community. Murray's specialised training is tailored to the trainees' environment and covers the use and setup of the PC, Internet and Microsoft applications.

Murray is known for his patience whilst instructing students who find computers a little intimidating or scary at first. Murray's easygoing, friendly approachable nature is a valuable asset as an effective trainer in this sometimes confronting area.

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LAKESIDE CONSULTANTS PTY LTD

INSURANCE & FINANCIAL CONSULTANTS

(Authorised Representatives of Guardianfp Ltd trading as Guardian Financial Planning)

IMPORTANT INFORMATION:

UPDATE — Lakeside Consultants Email Policy

Dear Clients,

Australia's new SPAM act came into effect on 10th April 2004 regulating the sending of email, SMS and other electronic messages of a commercial nature with Australian Internet links.

The SPAM Act regulates commercial electronic messages by providing that, subject to limited exceptions, they must not be sent without prior consent of the recipient. (That consent may be express or implied 'reasonably inferred' from the conduct, business and other relationships of the person or organisation concerned); must contain a functional unsubscribe facility; and must accurately identify the sender of the message.

PLEASE NOTE: **LAKESIDE CONSULTANTS PTY LTD** does not send any unsolicited email. We respect your privacy and only use your email address to contact you about products or services that are of interest and value to you.

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Kind regards,
Ross Hennig
Managing Director

LAKESIDE CONSULTANTS PTY LTD

ph: 9510 0788
fax: 9510 0799

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