

QUARTERLY NEWSLETTER

Issue 16
June 2008

Director's Fore

As we speed through another year we are heading toward several key junctures in the lives of many of us:

1. How has your footy team started the season?
2. Winter is nearing which spells snow fields, for some fanatics like me !!
3. **And for EVERYBODY the end of the Financial Year – what tax deductions are you able to claim and what tax planning have you implemented to minimise this?**

Lakeside can't assist too much with the first 2 points but certainly can with point 3 – if you would like to save on your tax bill then speak with your Lakeside advisor today!!

Other areas that we are working on feverishly:

Charity Life – this unique product providing a donation to partner charities via life insurance is being well received. To date \$5,300,000 has been pledged to our charity partners. Whilst going well, we continue to ask for your help by contacting Lakeside to learn more about the product for you, your family and friends (and of course the charities).

Under-insurance amongst women – This quarter we are focussing on getting the word out to all women (and their spouses) on the importance of cover on female lives.

We find it astonishing that of all risk insurance policies, ONLY 15 – 20% are taken out by WOMEN. (Source: *Australians At Risk* - IFSA, 2006)

This doesn't make sense given the amount of women now in the workforce, and apart from this, their contribution to the family and household.

It is important that breadwinners ensure their spouse is adequately covered, so that he/she is not compromised should anything happen to his/her partner. Please read more on page 2.

We hope you enjoy the contents of our 2nd newsletter for 2008.

Best Wishes

Ross Hennig
Managing Director

NEWSFLASH:

INSURANCE

Women, and the value on what you do, not just at work but at home – page 2.

FINANCIAL PLANNING

Self Managed Super Funds– page 3.

FINANCE

Do you cash offset – page 4.

LEGAL

Superannuation - Who Inherits your Nest Egg – pages 5 & 6.

Looking for a new challenge or career?

Lakeside Consultants currently has employment opportunities for enthusiastic, self motivated people looking for a rewarding future in the financial services industry. If this sounds appealing please forward your résumé to gary@lakesideconsultants.com.au

Currently we have vacancies for:

- Financial Planner
(minimum 3 years advising experience)
- Junior Administration Assistant (entry level)
- Sales Trainee—Insurance

Insurance – Women, and the value on what you do, not just at work but at home

Getting the right insurance cover is never more important than when others are depending on you.

There was a time when you only took out insurance on the husband. But not only does this ignore the value of what women do, both at work and at home, it doesn't reflect the changing nature of the Australian family.

Women now earn 92% of male salaries. And despite making up 45% of the workforce, females represent only 15 – 20% of all insured incomes. (Source: *Australian Social Trends* - ABS, 2005)

The lack of insurance for women doesn't make sense – particularly when you consider how much more vulnerable women are financially.

This vulnerability stems from less time in the workforce, with women often assuming the role of primary carer of children and/or elderly relatives.

As a result, women typically have less savings and less superannuation than men, and considering that women will statistically live longer, they can ill-afford extra setbacks.

Add illness or injury to the mix, and women can find it incredibly hard to recover financially should something unexpected happen to them. That is where insurance becomes so valuable.

We urge all women, particularly those with a family and or a mortgage, to review their insurance needs regularly with our Insurance Advisors. Your cover has to keep up with your changing circumstances. Our advisors are experienced in advising the best cover for you, and the most cost-effective way for it to be structured.

The Cancer Council of NSW estimates a woman with breast cancer can be faced with over \$40,000 in lost productivity and out-of-pocket expenses.

To protect yourself financially against diseases like cancer, you can take out Recovery (also known as Trauma) insurance. It pays a lump sum on diagnosis, helping you replace your income and assist in covering the costs associated with treatment.

How much does it actually cost?

An example – a 35 year old female teacher who earns \$60,000 per annum. She takes out:

a Life policy to cover her mortgage and other debt (e.g. \$500,000), and an extra \$250,000 in Recovery (Trauma) cover.

Her total premium is approximately \$800. At around \$15.00 per week, that's the equivalent of one take-away meal each week. (Source – Asteron Life Limited, based on a non-smoker taking out Life Cover and Recovery Plus, both with stepped premiums paid annually).

You can't always prevent diseases like cancer, but you can certainly prepare yourself financially by taking out insurance, so that if you ever get sick, all you have to worry about is getting better.

If you would like any more information, please contact Lakeside Consultants on (03) 9510 0788, or email info@lakesideconsultants.com.au

LAKESIDE helps Charity



The Charity Life team were out door knocking in May to help the Salvation Army raise funds for their annual Red Shield Appeal.

Senior advisor Brendan Murphy (middle of photo) said *"its not just about Charity Life donating to our charity partners, its about getting involved as a group in as many ways as possible"*. L - R , also pictured are Gareth Daniels and Hayden Kerdel from Lakeside.

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SELF MANAGED SUPER FUNDS

ITS reported that up to two out of three people in self-managed super funds risk prosecution and even jail because they do not know the basics of how to run their super fund properly. (Source: *Your Money* - Herald Sun, March 2008)

The government recently stepped up plans to more closely monitor the self-managed super sector as concerns grow about unskilled people trying to manage their retirement savings.

The survey also found that more than 30 percent of new trustees could not provide an explanation of the **sole purpose test** and more than 15 per cent did not have an **investment strategy**, as required by law. (Source: *Your Money* - Herald Sun, March 2008)

In addition, 25 percent of trustees did not know the restrictions on types of assets that can be acquired from related parties of a self-managed super fund.

“The latest data shows a significant overweighting of SMSF investments in cash, debt, securities and term deposits, many in excess of 35 percent of their total assets, well beyond the norm for a long-term diversified investment strategy”, Superannuation and Financial Services Minister Senator Nick Sherry said.

According to Mercer Investment partner David Knox, the problem of trustees not being aware of their responsibilities was growing - “There are many SMSFs run by small business owners where the super fund is providing loans or equity back to the business, that is not a good idea”.

Call Lakeside Consultants today to ensure you as trustee and your fund are compliant and across all the new options that have presented due to the massive changes in legislation.

As of last year, **super funds can borrow money** to buy investment properties and shares using a debt instrument known as an ‘installment warrant’. The loan made under the arrangement must be limited recourse, meaning the lender only has rights relating to the asset financed, and not other assets of the fund, in the event of default by the superannuation fund.



Lenders have begun releasing new packaged installment warrants for SMSFs which increasingly are being marketed by brokers and loan originators.

There are only a couple of lenders in the market at the moment that are geared up for self managed super funds, but there will be more very soon.

The important point is that the lender’s rights in event of default are limited to rights relating to the asset financed by the arrangement.

This ability to borrow within a fund provides significant opportunities that until now, may have been unattainable, i.e. buying a commercial property for your own business to lease from your super fund.

Lakeside Consultants can assist you with such decision making.

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Finance – Do you Cash Offset?

The Finance broking market is flooded with brokers and in-house bankers. The key is not to necessarily focus on just the rate and fees, although this is important.

The single most important cog in a finance transaction is to ensure that the loans are properly structured from a taxation view point. Tax comes into lending for two reasons:

Capital Gains Tax
Interest and Expense Deductibility

If you are buying a house to live in (i.e. principal place of residence) there is NO Capital Gains Tax payable when you sell. Additionally, you are not allowed a tax deduction for any borrowing costs.

If you are buying an Investment property, the interest IS tax deductible and there IS Capital Gains Tax payable on the capital growth.

So WHAT IF you buy your own house, then after say 10 years, change it to an investment property?

Herein lies the problem!

Say you purchase your first home for \$500k, and have a loan of approx. \$400k - over the next 10 years you proceed to pay down this debt, and end up with \$0 debt, but you have a redraw facility of \$400k.

At this time, you decide to purchase a bigger family home to live in for say, \$1.2 mil, and turn your original property into an investment property. You now have \$400k in redraw available which you use to purchase your next home, and set up another facility of \$400k to aid with the outstanding balance required. The next step is to consider whether the interest on the \$400k redrawn debt is a deductible expense or not.

You can be forgiven for thinking it would be deductible as it is drawn up against the Investment Property. However it is actually not deductible due to the fact that you cannot simply redraw up debt which has been extinguished.

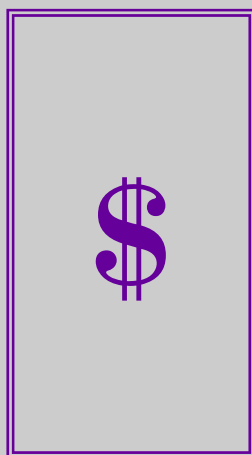
You can only draw deductible debt back up for capital improvements of a property. In this example, the **PURPOSE** of the \$400k redrawn funds has been used to purchase an owner-occupied property, which means that the funds are non-deductible.

Therefore you are left with \$800k of non-deductible debt, and \$0 of deductible debt.

Had a cash-offset account been utilised, the desired result could be achieved - \$400k of geared deductible loan, and \$400k less non-deductible debt.

Phone us today for a finance review — 9510 0788

MARKET WATCH



Market Watch

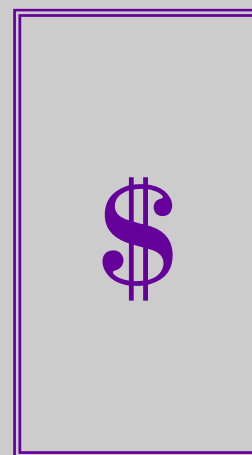
Basic Variable loan 8.82% - loans over \$50,000
(Comparison rate 8.12%)

Professional Package Standard Variable Rate 8.74%
(Loans over \$250,000)

Professional Package 3 Year Fixed Rate 8.79%
(Loans over \$150,000)

Professional Package 5 Year Fixed Rate 8.95%
(Loans over \$150,000)

(Comparison Rates do not apply to Professional Package loans)



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Unless you act positively, people other than your nearest and dearest could decide after your death how to distribute your superannuation death benefits.

There is a saying that “where there is a Will, there are also relatives”, and in these modern times the same can certainly be said for superannuation death benefits.

For most people, superannuation is something put aside during their working lives to live on in retirement, but far too few of us go on to properly consider the question of who else deserves to benefit from the fruits of your labours if you happen to die prematurely.

The sheer volume of money now being put aside into superannuation funds, when considered in the light of family members (often adult children) being unaware until after the death of a parent that a superannuation account exists in the estate, means that there have recently been a growing number of complaints (particularly from those same adult children – who are often non-dependants) about the manner in which death benefits are paid in the absence of direction from the deceased.

Often an adult child from, e.g. a first or prior marriage will say: “Dad or Mum would have wanted **all** their children to receive equally”, but that is not necessarily what the deceased would have wanted, and it is also probably not what a superannuation fund trustee is looking at when a determination is to be made at a time when clear instructions have not been provided by the deceased during their lifetime.

It is fair to say that superannuation is for those people who had a legal or moral right to look to the deceased for financial support, and it is in this light that it is not always easy for adult children to see that they are not automatically entitled.

How then can one plan one’s affairs to reduce the angst of the various family members who are left to administer one’s estate?

First, if you sincerely care what happens when you die, you will want to make sure that your hard-earned

cash finishes up in the right hands and not in government (tax) coffers. A valid binding nomination can do that. Unfortunately, it may be just the start of the process, because once you have made a nomination you have to review it every three years.

The exceptions to the rule may be those who run their own superannuation fund or those who sign a “non-lapsing” nomination. If the Trust Deed so allows, self managed super fund members may be able to make binding nominations that are perpetual.



With non-lapsing nominations, the devil may be in the detail, e.g. if there is a change in your circumstances, then the nomination may no longer be valid. Given the growing size of people’s retirement savings, it is, perhaps, not too surprising that the number of aspirants (predators?) to the money is also on the rise.

As far as nominations are concerned, there are basically “binding” and “non-binding” forms (although not every member of a superannuation fund has the choice of which type to sign). Superannuation funds are not **required** to offer a binding nomination, and many

instead have what is called a “preferential” or “non-binding” form of nomination which usually leaves it up to the trustees of the relevant superannuation fund to make the decision. Unfortunately, they may not always have your family’s best interests at heart.

If the binding option is available, a person can nominate precisely which of their dependants should receive superannuation benefits when they die, and there is little discretion remaining in the hands of the trustees of the superannuation fund.

The important thing is that the nomination has to comply with the rules set out in superannuation legislation, failing which it may be ineffective altogether (or become non-binding) which means that the trustee of the superannuation fund will still decide who receives the benefits.

There are limited numbers of people who can participate in the distribution of super – they include a spouse (including a defacto or “partner”), adult or infant children, somebody who is financially dependent or the executor/trustee of your Will. The somewhat limited list of possible beneficiaries is in direct proportion to the ultimate purpose of super (which is to fund one’s retirement).

Difficulties often arise when people nominate their brothers, uncles and other people who are not within the contemplated categories and so make the nomination invalid from the outset.

It should be noted that binding nominations can be particularly useful where the preferred recipient might, in the eyes of the trustee of the superannuation fund, be thought to have a lower priority than other potential recipients, e.g. children from a first marriage of the superannuation fund member, rather than a second spouse.

Most importantly, make sure that you have a full and proper Will which is prepared by a professional who understands the nature and effect of the rules relating to superannuation.

Prudent investors who have money in superannuation funds will update their binding nomination at the same time as they revise their Will, because this sends a clear message to a trustee of a superannuation fund that the investor renewed his views in the context of his Will (which helps to reduce confusion).

In a Will, it is certainly possible to include directions as to the payment of superannuation death benefits, but often people may want to be more strategic about who gets what, and it is often the case that keeping the destination of superannuation death benefit payments outside of a Will can also speed up the ultimate payment of those benefits.

In other words, if superannuation death benefits are left “outside” a Will, and a binding nomination has been completed, if a successful challenge is mounted to distribution provisions specified in the Will, the superannuation payment is not effected.

It should be noted, however, that a binding nomination can be a bit like having a two-edged sword in that if one’s choice of beneficiary becomes inappropriate without the nomination being updated, then the trustee of one’s superannuation fund is stuck with the instructions which he has in writing, e.g. if a spouse is nominated, and that spouse becomes a former spouse by the time one dies, then

that spouse may **still** be within the class of people eligible for benefits if new instructions have not been recorded.

As always, there is no substitute for paying close and regular attention to one’s business affairs, and seeking the advice of qualified professionals as often as possible.





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.

You are currently listed on our mailing list as a willing recipient. *If you wish to stop receiving information from LAKESIDE CONSULTANTS PTY LTD, please use the link in the footer below to "Unsubscribe" (remove your name) from this service.* If you do not reply to this message, your email address will remain active on our mailing list, and this will be taken as implied consent to receive email.

All future emails from LAKESIDE CONSULTANTS PTY LTD will include a functional unsubscribe facility, including email, phone, and fax to allow the communication of your wish to cease receiving correspondence from us. Any request to be removed from our mail list will be acted on within 24 hours of receipt of that advice.

Kind regards,

Ross Hennig

Managing Director

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