

# Insights

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# Welcome

*Insights*  
*Spring 2014*

Do you receive an income support payment from Centrelink? If so, you may be interested to know about the upcoming changes that take effect from 1 January 2015 and how the changes may impact your income support payment.

In this edition we also identify five key learning's from the Global Financial Crisis (GFC) more than 5 years on.

Our regular feature sees Piers Bolger, Head of Research & Strategy at BT Financial Group, delve into investment sentiment in markets.

Finally, we take a look at ways to assist women with small businesses develop their long-term financial health.

Until next time – happy reading.



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# Market update

The interlinked nature between geopolitics and financial markets has been a mainstay of investing through every investment cycle, with recent market volatility highlighting this fact. Recent geopolitical issues, particularly in Eastern Europe and the Middle East could further destabilise the economic recovery, particularly in Europe. However, while geopolitical tensions continue to cause a level of concern across financial markets we continue to believe that the broader economic recovery remains in place.

The US recovery continues to build momentum and increasingly the outlook for the UK also remains sound. Additionally, on the back of any improvement in developed market economies this also has the ability to further support emerging markets growth, albeit any improvement across emerging markets regions is unlikely to be uniform.

In the US, the Fed has maintained its easing approach to its Quantitative Easing (QE) program, reducing monthly purchases by a further US\$10bn per month to US\$25bn, with expectations that the program will be wound up by October 2014. While the jobless rate has fallen to 6.1%, Fed Chair Janet Yellen has again reiterated the view that the link between jobs growth/unemployment rate and the cash rate is not the only focus of the Fed. While we see US cash rates moving higher in time, the accommodative monetary policy stance that has underpinned in improving economy will remain in place into 2015.

While growth in Europe has improved, more recent data in Germany, the region's main economy points to a slowdown, highlighted by a decline in factory orders as well as business conditions (via PMI surveys). Additionally, economic conditions in France & Italy (Europe's 2nd and 3rd largest economies) continue to stagnate. The French government is having little impact in driving the necessary labour market and industrial reforms required to assist the growth outlook, while political indecision

in Italy is further hampering the recovery. While there has been some improvement in Spain, it is coming off a low base. Accordingly it is clear that the European Central Bank (ECB) will remain active in providing ongoing financial support not only low cash rates but with further asset purchase programs. In the UK growth has steadily picked up steam with both business conditions and economic productivity remaining robust. In our view the strength of the UK economy will see cash rates move higher through 2015 and possibly late 2014. However, with a benign inflationary outlook this affords the Bank of England a degree of flexibility in its decision.

Across Asia there continues to be a number of challenges. In China there were a number of reports pointing to an ongoing mixed outlook for the economy, although a recent pick up in steel demand points to improving industrial activity. While not as strong as previous periods, we feel this is consistent with our view of a broader slowdown in Chinese growth, but not one of significant proportions. Overall, we feel that the Chinese economy continues to tread water, but doing so in a stable manner. However in Japan the challenges facing the economy still remain. Although business conditions have improved with inflation now running above the Bank of Japan (BoJ) 2.0% target level, Japan's worsening trade and current account balance highlights some of the 'new' challenges facing the Japanese economy. To this end the stimulatory (QE) measures of the BoJ are set to continue for an extended period.

Back home in Australia, we remain of the view that the domestic economy is moderating and believe that year on year Growth Domestic Product (GDP) has peaked in the near term given the variable month on month economic data combined with a tightening of the country's fiscal position. This continues to highlight that the medium term outlook remains opaque and that investment market performance may remain quite choppy in the near term. While the housing market has improved over the last 12 month period, the RBA has maintained cash rates steady at 2.50%. In its commentary the Board has reiterated its view that growth continues at a moderate pace, although the most recent jobs data highlighted by the unemployment rate rising to 6.4% (its highest level since March 2002) points to an economy that is slowing. Accordingly, we expect that cash rates will remain at current levels for an extended period, particularly with inflation remaining within the Reserve Bank of Australia's (RBA) target band.



# Don't be caught out by new account based pension rules

Do you receive an income support payment from Centrelink? Then you need to know about changes that start from 1 January 2015 that have the potential to reduce your income support payments in the future. Let's take a look at what the changes are and who is affected.

In early April 2013 the previous Federal Government announced a number of changes to superannuation. You might have read about some of those changes, for instance there was an increase in the amount you can contribute to your super fund on a before-tax basis. But one of the other important measures announced at the same time hasn't received as much attention.

From 1 January 2015, new account based income streams (ABPs) – which allow retirees to receive an income from their super savings – will be treated differently by Centrelink to the way they are treated today. The change was made so that ABPs would be assessed in the same way as other financial investments such as shares, term deposits or bank accounts, to improve the fairness of the age pension income test.

From that date, there will be a change to the way Centrelink assesses new ABPs (and some annuities) under its income tests. It's important to note there is no change to superannuation rules or the way ABPs work. The change is only to social security assessment rules.

## The current deeming rules

Under the current deeming provisions, financial investments are assumed to earn a certain rate of income regardless of the actual return of the investment. The deeming rates, which are how Centrelink assesses the income various investments produce, are listed below. They are applied to the total market value of all of the financial investments someone who receives Centrelink benefits owns.

	Threshold	Deeming rate
Single person	Up to \$48,000	2.0%
	Over \$48,000	3.5%
Pensioner couple (combined)	Up to \$79,600	2.0%
	Over \$79,600	3.5%
Non – pensioner couple (each)	Up to \$39,800	2.0%
	Over \$39,800	3.5%

The idea behind the change is to encourage individuals to choose retirement investments based on the merit of the investment, rather than for the social security benefit that may be obtained by choosing an investment product.



*You could be affected if you start receiving income support payments from Centrelink from 1 January 2015 or if you start an ABP on or after this date.*

### What is the current treatment?

Currently, ABPs are assessed under the income test using a “deductible” amount methodology. Under these rules, the actual amount of income received is reduced by a “deductible” amount, with the net amount (if positive) being included under the income test. The deductible amount is determined by dividing the starting balance of the ABP by the recipient’s life expectancy at that time. It is possible under this formula that the deductible amount will at times exceed the actual income received, meaning no amount is assessed under the income test. Of course, the account balance is still assessable, something that’s not changing.

### Who is caught by these changes?

Many people who currently have an ABP won’t be affected. But you could be affected if you start receiving income support payments from Centrelink from 1 January 2015 or if you start an ABP on or after this date.

What this means is that there is still a window of opportunity to qualify for the existing treatment. The way the rules work right now, if you qualify for the existing treatment on an ABP it will continue until the ABP ceases.

It’s important to understand that if you do already qualify for the existing treatment, you need to take care to ensure you don’t inadvertently trigger a new Centrelink treatment of the ABP in the future. There are three major scenarios that could mean an existing ABP would be assessed under the new rather than existing rules. For instance, the new rules

will apply if you add new funds to an existing ABP or if you move your ABP to a new super fund provider. They will also apply if an existing recipient of an ABP dies and a beneficiary elects to continue to receive the death benefit in the form of an income stream.

In addition, it is important to think about how these changes could impact you if your Centrelink eligibility is currently assessed under the assets test. The new treatment could mean Centrelink uses the income test, rather than the assets test, to assess your eligibility, which could reduce your income support payments.

It’s essential to speak to your financial adviser if you’re worried you’ll be affected by these changes. There’s still time to take steps to reduce any negative impacts, so now’s the time to contact us to make sure you’re in the best position possible when the new rules take effect next year.



# Lessons from the financial crisis more than five years on

It's been more than five years since the worst of the Global Financial Crisis (GFC) hit equity and bond markets. While flow-on effects continue to affect financial markets, there are many lessons we have taken from the crisis that can be applied to wealth planning. Here are our top five lessons from the GFC to consider when making investment decisions.

## Cash needs careful consideration

When the financial crisis started many investors sold higher risk investments such as shares and increased cash holdings. While all investment portfolios should have some allocations to cash, having too much can reduce returns over time. If your investment portfolio is still substantially overweight to cash, now might be the time to consider whether taking this approach will allow you to meet your lifestyle needs in retirement.

## It's time in the markets that matters

It's difficult to pick market cycles. This is why investors benefit from taking a longer-term view to investing. Jumping in and out of the share market increases the risk you will miss the market's best performing days, which may have a substantial impact on your returns. Even

when market downturns occur, if you maintain your investment in shares your assets may increase in value over time.

## Diversification helps smooth out investment returns

The GFC was an enormously volatile time for share markets. In light of market volatility astute investors have been looking for ways to smooth out returns over time. One of the best ways is to ensure your portfolio includes a diverse array of different asset classes. Markets will always trade with some level of volatility, but taking this approach helps even out the highs and lows over time.

## Understand your risk appetite before investing

One of the biggest lessons learnt from the financial crisis is to understand your appetite for risk. History shows the returns from equities are considerably

more volatile than the returns from less risky asset classes such as cash or fixed income. Hence, if the bulk of your portfolio is held in shares, you need to be conscious that it's likely the value of your investment will rise and fall to a greater extent than if it was held in cash or fixed income.

## Advice matters

When markets are volatile it's easy to take kneejerk reactions and sell down investments that are underperforming at what could be the worst time to make such sales. Instead of taking short-term decisions about your investments, it's a better idea to develop long-term investment goals and objectives in line with your financial requirements.

We are always happy to help you understand the potential risks and rewards that come with investing. So why not contact us today to find out more about what we've learnt from the GFC?

# It's business time: helping small business women build a firm financial foundation

The number of women starting a business has risen rapidly in recent years, with research by the Australian Women Chamber of Commerce & Industry finding almost one million females now operate businesses in Australia.<sup>1</sup>

If you're a woman running a business, it's likely you're juggling many priorities. Which means time is one of the most precious resources you have. We understand it's all too easy to become caught up spending time running your business, without spending adequate time on your long-term financial health. But it doesn't have to be that way. So here are our tips to help Australia's small business women look after their financial future.

## 1. Follow business principles.

No matter if you're freelancing, doing contract work or working from home, it's essential to put in place the same disciplines as larger businesses. This starts with creating a business plan and reviewing it regularly. It also means paying careful attention to cash flow and putting money aside for the future.

## 2. Make regular tax deductible super contributions.

When you work for yourself it's easy to direct all available cash to building up the business. But it's also important to put a little aside for the future. So rather than wait until the end of the financial year to contribute to your super fund, why not try to make a contribution every quarter when you submit your Business Activity Statements (BAS)?

## 3. Don't miss out on government incentives.

If you earn less than \$49,488 a year, you might be eligible for the government co-contribution incentive. This is a scheme through which the government will contribute up to \$500 to your super fund if your income is below this threshold. It's a great way to make a guaranteed, tax-free 50% return on an investment.

## 4. Consider spouse contributions.

Another way to keep money coming into your super fund is through spouse super

contributions, which is a government program that allows spouses to make a contribution to the super funds of their low income-earning partners. It's especially useful during the early stages of your business, when your income has not yet reached \$13,800. An added bonus is that your spouse may also receive an 18% tax offset by making the contribution.

## 5. Pay less for life insurance through super.

Life and TPD insurance is generally tax deductible if it's paid for through your super fund. If you run an early-stage venture, it might make sense to put your life insurance in your super fund to take advantage of this benefit.

## 6. Think about how you own your business property.

There can be enormous tax savings from buying your business premises with your self-managed super fund. It's worth asking your financial adviser about this to see if it makes sense for you.

So focused on running your business you don't have time to concentrate on your wealth planning? We'd like to help. Contact us today to find out how we can help you strengthen your financial future and take advantage of all the incentives available to women like you.

1. <http://www.awcci.org.au/news/media-releases/12-media-release/81-new-business-report-regional-rural-businesses-outlive-metro.html>

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