Version 1.1

Reference Guide
Financial Planning Fundamentals

What this document is about

This document is an information reference to be used in conjunction with your Statement of Advice, Product Disclosure Statements (PDSs) and research materials provided.

It contains information about our recommendations that you should read and understand. Further and more expansive information on any product recommended is available in the Product Disclosure Statements and research material provided with your Statement of Advice or Record of Advice.

This document does not contain financial advice and does not make recommendations for your specific financial situation and current circumstances. Information provided is general or factual in nature and should be read with consideration of your personal situation, needs and objectives.

Health Super Financial Services

Australian Financial Services Licensee (No. 240019)

Table of Contents

Section 1 - Income and Cash Flow Management 4
1:1 Salary Packaging 4
Section 2 – Debt Management 5
2:1 Debt Types 5
2:2 Mortgage Offset 5
Section 3 - Superannuation and Retirement 6
3.1 Superannuation Overview 6
3:2 Concessional Superannuation Contributions 8
3:3 Non Concessional Superannuation Contributions 11
3:4 Re-Contribution Strategy 13
3:5 Transition to Retirement Pensions 14
3:6 Account Based Pensions 16
3:7 Lump Sum Withdrawals 18
3:8 Nominating Beneficiaries for your Superannuation 18
Section 4 – Investment Fundamentals 19
4.1 Investment Fundamentals 19
4:2 Asset Classes 20
4:3 Risk Profiles and Benchmark Asset Allocations 21
4.4 Risk Types 22
4:5 Dealing with Negative Returns 23

Section 1 - Income and Cash Flow Management

1:1 Salary Packaging

Salary packaging occurs when you and your employer enter into a remuneration agreement where you elect to receive some of your remuneration in the form of a designated spending purpose (including non-cash benefits). These purposes can range from cars to laptops and can even include everyday expenses such as mortgage or rent payments or meal and entertainment costs.

It is important that the nominated salary packaging amount be fully utilised for the designated purpose to avoid Fringe Benefit Tax implications.

Fringe Benefit Tax (FBT)

Any items provided by your employer which are not in the form of your normal salary are known as fringe benefits. Legally, they are still considered types of income and they incur a tax known as FBT, or Fringe Benefits Tax.

Only a handful of items actually attract FBT, and only a portion of the item value is taxed. Often the income tax savings outweigh the Fringe Benefits Tax on that item.

Non-cash benefits are generally subject to fringe benefits tax (FBT) of 46.5% as opposed to being taxed at your marginal rate of income tax and your employer is liable to pay the FBT. In practice however, the cost of the benefit and any FBT paid by your employer will be deducted from your remuneration package.

If the total taxable value of the benefits you receive exceeds $2,000 then the grossed up value of those benefits will generally be included on your payment summary (group certificate). This requirement applies even if your employer is not liable to pay FBT or is eligible for FBT concessions.

Public Benevolent Institutions (PBIs)

Some organisations do not have to pay FBT on certain items. These are public hospitals, private not-for-profit hospitals and Public Benevolent Institutes(PBIs) (which include some community care organisations, charities or medical research institutes).

PBIs are allowed to package certain items up to a capped dollar figure without incurring FBT.

A different tax year is used to record fringe benefits. Benefits received from 1 April to 31 March will be included on your group certificate for the financial year ended 30 June.

Although these reportable fringe benefits are not taxed, they are taken into account to:

- Calculate your eligibility to make personal deductible superannuation contributions under the **10% rule (see 1:2:4)**
- Determine whether you are liable to pay the Medicare levy surcharge.
- Determine your eligibility for the **Government Co-contribution (see 1:3:2).**

Section 2 – Debt Management

2:1 Debt Types

There are two forms of debt that an individual can incur.

Non-Deductible Debt

This is personal debt that is incurred to purchase an item that is not income producing. Owing to the fact that the debt incurred is not for the purposes of generating assessable income, the interest expense incurred on this type of debt is not tax deductible to the individual.

Tax Deductible Debt

This is primarily personal debt that is incurred to purchase an item with the intention of generating assessable income from the item purchased. Owing to the fact that the income generated from the asset purchased is to be taxed at the individual's Marginal Tax Rate, the interest expense incurred on this type of debt is tax deductible to the individual.

Wealth creation strategies will generally include a plan to pay off any existing non-deductible debt prior to considering other investment options. Once non-deductible debts are eliminated, your surplus cash flow is available to invest in either superannuation or non-superannuation investments.

2:2 Mortgage Offset

A mortgage offset account is a separate savings account where the funds you deposit are offset daily against the loan. The funds can be accessed at any time and the return on investment is equivalent to the interest you save on the loan.

Generally the interest rates applicable to debt are higher than cash savings rates, therefore this can potentially be a beneficial strategy. The possibility and cost of using an offset account needs to be discussed with an appropriately licensed professional who holds a National Credit License.

Section 3 - Superannuation and Retirement

3.1 Superannuation Overview

Superannuation is a concessionally taxed retirement savings vehicle that can assist you to build wealth and provide you with a tax effective lump sum or income stream to fund your retirement.

3:1:1 Preservation of Superannuation Benefits

Preserved Benefits

All superannuation contributions made after 1 July 1999 and earnings accrued after 1 July 1999 are preserved until preservation age, except in limited circumstances. Benefits that were not preserved as at 1 July 1999 remain non-preserved.

Unrestricted Non-Preserved Benefits

Unrestricted non-preserved benefits may be cashed in at any time, in whole or in part, by way of lump-sum, pension or the purchase of an annuity and do not require a condition of release to be met.

Restricted Non-Preserved Benefits

Restricted non-preserved benefits may not be accessed until the member terminates employment in an employer superannuation scheme.

Preservation rules apply to preserved components and you must meet a **Condition of Release (see 3:1:3)** in order to access your superannuation.

3:1:2 Preservation Rules

Access to your super will depend largely on your age, working status and personal circumstances.

Superannuation is subject to preservation rules. Unless special circumstances apply, you will first need to reach your superannuation preservation age before you can access your super.

Your Date of Birth	Superannuation Preservation Age
before 1July1960	55
1 July 1960 - 30 June 1961	56
1 July 1961 - 30 June 1962	57
1 July 1962 - 30 June 1963	58
1 July 1963 - 30 June 1964	59
Born after 30 June 1964	60

The general rule for a preserved benefit is that it must be retained within a regulated superannuation fund until the member's 'retirement' on or after reaching their preservation age. If a person aged under preservation age terminates employment, preserved benefits cannot be paid to them. There are certain limited circumstances when a preserved benefit can be accessed, such as permanent invalidity, compassionate grounds, and severe financial difficulty **(See 3:1:3)**.

3:1:3 Conditions of Release

Type of access	When does the benefit become payable	What benefit is payable
Retirement	Upon permanent retirement from the workforce on reaching your preservation age.	Up to all of your account balance less applicable tax.
Age 65	Upon reaching age 65.	Up to all of your account balance less applicable tax.
Having a service break from age 60.	If you have a service break (e.g. cease employment) after age 60 you may access your accumulated super, even if you return to work for a new employer.	You may access your accumulated benefits, however you may not access any benefits accumulated from new employment until full retirement or age 65.
Reaching your preservation age and still working	You can access some of your super as a pre-retirement Transition to Retirement (TTR) Pension regardless of whether you have actually retired.	A percentage of your account balance via regular pension payments (less applicable tax), subject to a Government mandatory minimum and maximum limits.
Death	On death.	Account balance and death insurance benefit (if applicable). Less applicable tax.
Permanent incapacity	On becoming permanently incapacitated as determined by the Trustee, taking into account Insurer's assessment of total and permanent disablement in relation to any insurance cover.	Account balance and Total and Permanent Disability benefit (if relevant). Less applicable tax.
Terminal medical condition	On acceptance of terminal illness diagnosis by Trustee.	Account balance (tax-free)
Low account balance	If your balance is below $200, you may be able to withdraw your funds at any time provided you have ceased employment with your contributing employer.	Your account balance less applicable tax.
Severe financial hardship	You have been receiving Commonwealth income support payments for a prescribed period and meet other legislative conditions.	Up to $10,000 (in a 12 month period) depending on your circumstances less applicable tax.
Compassionate Grounds	You may have your super released early to pay for approved specified grounds. ***Please note that applications for Compassionate Grounds must be approved by Australian Prudential Regulation Authority (APRA).***	Your account balance depending on your circumstances. Less applicable tax.

3:1:4 Contribution Eligibility

The eligibility of an individual to make additional voluntary contributions into their superannuation depends on their age and working status.

Under Age 65

Members of a superannuation fund under the age of 65 are able to make additional contributions to their superannuation regardless of if they are working or not.

Over Age 65

Members over the age of 65 are required to pass a 'work test' to be eligible to contribute voluntary contributions to their superannuation. Current rules state that voluntary contributions cannot be made after you reach 75 years of age.

The work test requires individuals aged 65 and over to be gainfully employed and satisfy working 40 hours in 30 consecutive days within the financial year that they wish to make a voluntary contribution. The individual is only required to satisfy the work test once in the financial year they wish to contribute and they will be eligible for the entirety of that year.

Should they wish to contribute again in the next financial year, they will be required to satisfy the work test for the new financial year.

3:1:5 Cashing of Benefits

Members can continue to accumulate benefits in a superannuation fund for as long as they wish. However, unless a pension is commenced, investment returns will continue to be taxed.

3:1:6 Benefits Withdrawn by Temporary Residents

People who enter Australia on an eligible temporary resident visa, and who later permanently leave the country can withdraw any superannuation benefits which they have accumulated.

Please refer to the Australian Taxation Office for further details and any tax that may be applied to this payment.

3:2 Concessional Superannuation Contributions

Concessional contributions are contributions made to superannuation that receive concessional tax treatment within superannuation. A flat 15% contributions tax is applicable upon the contribution being received by the superannuation fund. Concessional contribution caps apply and breaching these caps will cause additional penalty tax to be incurred.

Amounts that count towards the Concessional Contribution cap include:

- Employer contributions; including Superannuation Guarantee (SG) and salary sacrifice.
- Personal contributions for which the individual validly claims a tax deduction (personal deductible or self-employed contributions).
- Amount of Directed Termination Payments representing post-June 83 service in excess of $1 million.
- Certain amounts allocated from a reserve unless the allocation meets one of the specific exemptions.

3:2:1 Concessional Contribution Caps

Currently the concessional contributions cap limit is $25,000 p.a. for those under the age of 50. For those above the age of 50, an increased transitional limit of $50,000 p.a. applies until 30 June 2012, as illustrated in the table below:

Current Contribution Limits:

Financial Year	Under age 50	Over age 50
To 30 June 2012	$25,000	$50,000
From 1 July 2012	$25,000	$25,000

Current legislation will see the transitional contributions cap for those over the age of 50 cease as at 30 June 2012, and from 1 July 2012 all contributions will be subject to the $25,000 p.a. cap. This cap will be indexed.

Concessional contributions in excess of the concessional contribution cap incur additional tax of 31.5% payable directly by the individual and are counted towards the individual's Non-Concessional contribution cap, as these excess contributions stay within superannuation.

Concessional contribution caps are set at the discretion of the Federal government and are subject to legislative change.

Proposed Changes (not legislated):

A proposal has been made to permanently increase the concessional contributions cap for individuals over the age of 50. The proposal suggests a higher concessional contributions cap of $50,000 for individuals who are 50 years old or over and have total super balances below $500,000 in the year they make the contributions.

<table>
<tr><th>Financial Year</th><th>Concessional Contribution Cap
Under age 50</th><th>Concessional Contribution Cap
Over age 50</th></tr>
<tr><td>To 30 June 2012</td><td>$25,000</td><td>$50,000</td></tr>
<tr><td rowspan="2">From 1 July 2012</td><td rowspan="2">$25,000</td><td>$50,000
(if super balance below $500,000)</td></tr>
<tr><td>$25,000
(if super balance above $500,000)</td></tr>
</table>

Please note that these are proposed changes only; the proposal has not been passed by parliament and is not currently legislated as law.

3:2:2 Superannuation Guarantee (SG)

Superannuation Guarantee (SG) requires employers to contribute to super for their employees. A current minimum of 9% of an eligible employee's earnings (standardised to ordinary time earnings) must be contributed to a complying super fund or retirement savings account (RSA) by employers.

Contributions need to be made at least every quarter.

Maximum Superannuation Guarantee Contribution Base

The maximum super contribution base is used to determine the maximum limit on any individual employee's earnings base for each quarter of any financial year. Minimum support does not need to be provided for the part of earnings above this limit.

Current maximum contribution bases are as illustrated below:

Financial Year	Per Quarter
2010 / 2011	$42,220
2009 / 2010	$40,170

A Proposal has also been made to gradually increase the superannuation guarantee (SG) rate to 12%

This proposal suggests that the SG rate be increased gradually from its current rate of 9% with initial increments of 0.25% on 1 July 2013 and on 1 July 2014. Further increments of 0.5% are to apply annually up to 2019/20, when the SG rate will be set at 12 per cent as outlined in the proposal table below.

Financial Year	SG Rate (%)
2009 to 2013	9.00%
2013 / 2014	9.25%
2014 / 2015	9.50%
2015 / 2016	10.00%
2016 / 2017	10.50%
2017 / 2018	11.00%
2018 / 2019	11.50%
2019 / 2020	12.00%

Please note that these are proposed changes only; the proposal has not been passed by parliament and is not currently legislated as law.

Should the proposal become law, salary sacrifice arrangements and concessional contribution strategies will need to be reviewed in light of the increases to ensure the concessional contribution caps are not breached.

Please note that **Concessional Contribution Caps (see 3:2:1)** apply; exceeding the caps can result in the application of penalty tax rates.

3:2:3 Salary Sacrifice Contributions

Salary sacrificing is an effective agreement made between you and your employer that directs your employer to contribute a portion of your 'before tax' salary into superannuation rather than paying it to you as an income. As the contributions are made from your gross salary and are deducted before income tax is calculated, the total amount of income tax you pay may be reduced. This makes salary sacrifice a tax effective strategy to top up your superannuation.

Please note that **Concessional Contribution Caps (see 3:2:1)** apply; exceeding the caps can result in the application of penalty tax rates.

3:2:4 Personal Deductible Contributions

Self-employed and/or substantially self employed persons may be eligible to make personal deductible contributions into superannuation and claim a personal tax deduction on the contributions made, up to the concessional contributions cap.

You can be considered to be self-employed if you have not engaged in any activities that would make you an employee for Superannuation Guarantee purposes. You are considered to be 'substantially self-employed' if you have engaged in employment activities however less than 10% of your total assessable income is received as salary or fringe benefits from an employer. This is known as the 10% rule.

Satisfying the '10%' Rule

Any benefits that are provided by way of salary sacrifice or salary packaging are not considered 'exempt' income and continue to be assessable to you for the purposes of the '10% Rule'.

The 10% rule is not relevant to an individual who is completely self-employed or not working at all. It only applies where a person is an employee under an employment arrangement and derives other income.

Self employed people are subject to individual marginal tax rates so personal contributions which are claimed as deductions against individual incomes (otherwise known as 'Concessional' contributions) can derive a tax benefit as they are only subject to 15% contribution tax upon receipt by the superannuation fund.

Failure to send a notice to the trustee of the superannuation fund indicating your intention to claim part or all of the contributions as a tax deduction for the year of income, may result in the contribution being treated as an 'after tax' contribution.

Please note that **Concessional Contributions Caps (see 1:2:1)** apply; exceeding the caps can result in the application of penalty tax rates.

3:3 Non Concessional Superannuation Contributions

Non-concessional contributions are contributions made from after tax money and are therefore not subject to contributions tax.

Please note that non-concessional contribution caps apply.

3:3:1 Non-Concessional Contribution Caps

Individuals are eligible to contribute non-concessional contributions up to $150,000 per financial year.

'Bring Forward' provisions exist for individuals under 65 years of age to contribute up to $450,000 in one financial year, although they are then not able to make non-concessional contributions in each of the following two years.

Individuals aged 65 and above can only make non-concessional contributions during a financial year providing they satisfy the work test. The work test requires the individual to be gainfully employed for at least 40 hours within a consecutive 30-day period within the financial year that they wish to contribute.

Contributions that count towards the non-concessional cap include:

- Personal (after tax) contributions.
- Spouse contributions.
- Amount of a payment vested to the client from an overseas superannuation fund which is not taxable to the Australian Superannuation Fund.
- Excess concessional (before tax) contributions above the concessional contributions cap.

3:3:2 Government Co-Contribution

By making a non-concessional contribution you may be eligible to receive a Government Co-Contribution, where the government matches up to $1,000 of your superannuation contribution.

In order to be eligible for the Government Co-contribution you must meet the following criteria:

- Make a non-concessional (personal, after tax) contribution into a complying superannuation fund or retirement savings account by 30 June each year.
- Total assessable income (including salary sacrifice) and reportable fringe benefits must be less than $61,920 (2011/12 financial year).
- 10% or more of your total income is from eligible employment, running a business or a combination of both.
- Be under 71 years of age at the end of the financial year.
- Provide your superannuation fund with your Tax File Number.
- Lodge an income tax return.
- Be a permanent resident of Australia.

The maximum co-contribution for the 2011/12 financial year is $1,000 and is available to persons with total assessable income plus reportable fringe benefits under $31,920 (2011/12 financial year) who make a $1,000 personal contribution and satisfies the above eligibility criteria. The maximum co-contribution will then reduce by 3.33 cents for every dollar of income over $31,920 up to the threshold of $61,920 p.a.

Any government co-contribution entitlement is paid directly into your superannuation account once your superannuation fund has reported your non-concessional contribution and once you have lodged your income tax return. The government co-contribution is not subject to contributions tax and does not count towards the non-concessional contributions cap. In addition the government co-contribution is not included as income in your tax return.

3:3:3 Spouse Contributions to Superannuation

The spouse contribution is a government incentive whereby the contributing spouse may receive a tax offset for making contributions on behalf of non-working or low income-earning spouses into a complying superannuation fund or Retirement Savings Account (RSA).

Eligible spouse contributions are classified as non-concessional contributions and count towards the receiving spouses non-concessional contributions cap. Earnings on the spouse contributions will form part of the spouse's taxable component.

Eligible spouse contributions may be accepted if:

- The receiving spouse is under 65 years of age, or
- The receiving spouse is between 65 and 74 (inclusive) and gainfully employed for at least 40 hours in any 30 day consecutive period during a financial year.

There are no age limits or employment tests for the individual making the spouse contribution.

To be eligible for a tax offset of up to $540 p.a. (maximum), the following criteria must be satisfied:

- Satisfy the definition of a spouse (refer below)
- You must not claim a tax deduction for the contributions
- Your spouse's assessable income and reportable fringe benefits must be less than $10,800 p.a. for the full offset and less than the $13,800 p.a. threshold for a partial offset
- Both you and your spouse must be Australian residents when making the contributions
- At the time of making the contribution, you and your spouse must not be living separately and apart on a permanent basis
- The Contribution is made to a complying superannuation fund or Retirement Savings Account (RSA)

Definition of a spouse for Spouse Contributions

A 'spouse' includes a legal marriage and a de facto husband or wife. A de facto spouse is described as one who lives with the person making the contribution on a genuine domestic basis as a husband or wife. From July 1 2008 the definition of 'spouse' in the 'SIS Act' and other super legislation has been extended to include same-sex partners.

How much is the Spouse Contribution Offset?

The tax offset is claimed through your tax return. To be eligible to claim the maximum tax offset, your spouse's assessable income and reportable fringe benefits must be $10,800 p.a. or less. A reduced tax offset may be payable if your spouse's assessable income and reportable fringe benefits is between $10,801 and $13,800 p.a. No tax offset is available if your spouse earns more than $13,800 p.a.

Spouse's assessable income	Tax offset allowable
Up to $10,800 p.a.	18% of the lesser of: • the contributions made • $3,000 (maximum tax offset of $540)
Between $10,801 and $13,800 p.a.	18% of the lesser of: • the contributions made • $3,000 reduced by $1 for each $1 that the receiving spouse's assessable income exceeds $10,800 p.a.
Greater than $13,800 p.a.	No tax offset is available

Assessable income for the purposes of the spouse rebate includes the assessable portion of superannuation pensions less any deductible amount, grossed up franked dividends, reportable fringe benefits and any other taxable income.

3:4 Re-Contribution Strategy

A re-contribution strategy involves withdrawing money from your superannuation and re-contributing the funds back into your superannuation account as a non-concessional (after tax) contribution. This strategy offers two potential benefits in retirement. Firstly, it increases the tax-free component of the income stream from an Account Based Pension for individuals under age 60. Secondly, it increases the tax-free component of superannuation assets and will therefore reduce the tax payable by non-financial adult dependants for Estate Planning purposes. Any taxable component remaining within your superannuation that is paid to non-financial adult dependants is currently taxed at 15% plus Medicare Levy.

A re-contribution strategy can potentially hedge against future legislative change to the tax-free nature of superannuation income streams for individuals over the age of 60.

Individuals aged 55-59, are eligible to withdraw the first $165,000 (2011/12 financial year) of the taxable component tax-free. Amounts above this threshold are taxed at 16.5% (including the Medicare Levy). Please note, when making withdrawals, the tax-free and taxable components will be withdrawn proportionally.

Individuals aged 60 and above are able to withdraw funds from superannuation tax-free upon retirement and are able to make superannuation contributions without having to meet the 'work-test' prior to age 65 **(See 3:3:1).**

Please note, limits apply on the amount of non-concessional contributions that can be made towards superannuation. Non-concessional contributions exceeding the limit will incur a penalty tax of 46.5% (including the Medicare Levy). (See 3:3:1)

Implementation of this strategy should be done only with the assistance of your financial planner. Failure to time the implementation of the strategy carefully can result in penalty tax on excess contributions, or ineligibility to re-contribute the funds to superannuation.

3:5 Transition to Retirement Pensions

A Transition to Retirement (TTR) Pension is a regular income stream from superannuation that allows people who have reached preservation age **(see 3:1:2)** and are still working to draw pension payments from their superannuation fund. Lump sum withdrawals are generally not allowed until a condition of release is met e.g. permanently retiring from the workforce or attaining age 65.

The Transition to Retirement Pension account is invested in an investment option of your choice and is subject to market fluctuations.

Mandatory Pension Drawdown

The level of income paid each year must meet prescribed minimum and maximum income limits. These limits are set at the discretion of the Federal government and are subject to legislative change.

The mandatory limits require annual pension payments to be equal to at least a minimum amount calculated as a percentage of the account balance based on the pensioner's age.

The 2011 Federal budget proposed a phase out of the 2010/11 financial year reduced minimums, gradually increasing to the full minimums in the 2012/13 financial year as illustrated below:

Age at start of pension (and 1 July each year)	In 2010/11	In 2011/12	In 2012/13
Under 65	2%	3%	4%
65 – 74	2.5%	3.75%	5%
75 – 79	3%	4.5%	6%
80 – 84	3.5%	5.25%	7%
85 –89	4.5%	6.75%	9%
90 – 94	5.5%	8.25%	11%
95 +	7%	10.5%	14%

Please note that these are proposed changes only; the legislation has not been passed by parliament and is not currently law.

Maximum limits equal to 10% of the account balance apply to Transition to Retirement Pensions. The level of pension payment can be nominated and altered within the required minimum and maximum limits upon request.

Does the TTR Pension fund pay tax?

There is no tax payable on the investment income within a TTR Pension. This includes all forms of investment income such as interest, dividends and realised capital gains. In fact, the pension may receive a refund from the tax office for any imputation credits it receives from Australian share investments.

How are pension payments taxed?

For individuals less than 60 years of age, income sourced from a superannuation income stream can be taxable, depending on the components of the individual's account:

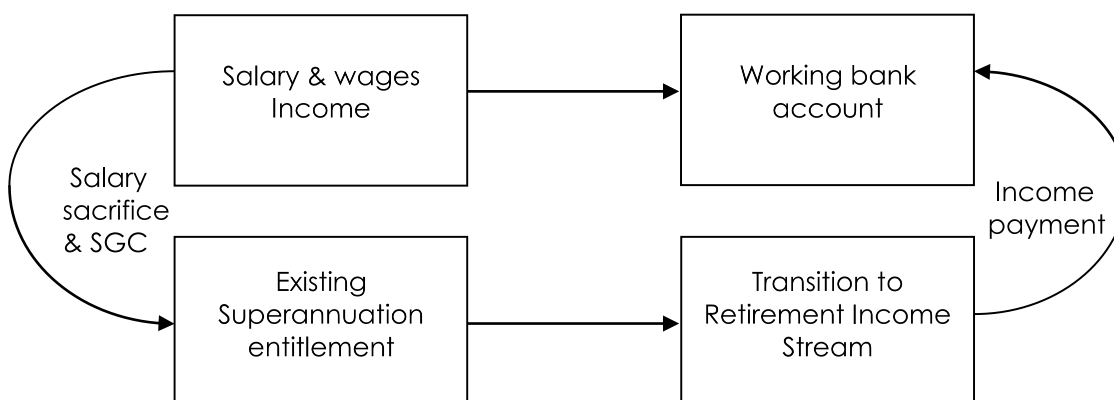
- Income sourced from the tax-free component is paid tax-free
- Income sourced from the taxable component is taxable at the individual's marginal tax rate; however a 15% pension rebate is generally available on the tax paid.

Pension income paid to someone over 60 years of age is tax free, regardless of the components as illustrated in the table below:

Pension Income	Under Age 60	Over Age 60
Taxable Component	Taxable at Marginal Tax Rate 15% pension rebate may apply.	Tax Free
Tax Free Component	Tax Free	Tax Free

Transition to Retirement Strategy

A Transition to Retirement strategy can be illustrated as follows:



If the TTR pension commencement is part of a Transition to Retirement / salary sacrifice strategy it is important that you complete the entire strategy. By not implementing the salary sacrifice contribution part of the strategy with your employer your superannuation will be negatively affected over time.

Tax Treatment of Death Benefits – Reversionary Pension

A reversionary beneficiary option is available for Transition to Retirement Pensions. This allows your pension income to continue to be paid as an income stream to your beneficiary for the life of the pension (instead of reverting automatically to a lump sum payment). Please note that a pension is only able to revert to a dependant (i.e. spouse, child under 25, financial dependant or interdependent).

A reversionary pension will be paid tax free to a dependent where:

- The dependent is at least 60 years of age when the benefit is received, or
- The deceased was over 60 years of age at the time of death

A reversionary pension will be liable for tax on any taxable component where:

- Both the deceased and the dependent are under 60 at the time of death

Where both the deceased and the dependant beneficiary are under 60 years of age, tax will be payable at the beneficiary's marginal tax rate (plus Medicare levy) on any part of the pension sourced from a taxable component, but the dependant is entitled to a tax offset equal to 15% of the taxable component. Upon the beneficiary reaching age 60, the pension will be tax free.

A death benefit paid in the form of a pension to a child of the deceased must be cashed as a lump sum no later than at the time the child turns 25 years of age unless the child has a permanent disability. The lump sum received in this circumstance is tax free. Independent tax advice should be sought.

3:6 Account Based Pensions

An Account Based Pension is a regular income stream from superannuation that allows retirees who have reached their preservation age **(see 3:1:2)** or people aged 65 and still working to draw pension payments from their superannuation fund.

In addition to an income stream, lump sum withdrawals can be made upon written request.

The Account Based Pension is invested in accordance to your investment choice and is subject to market fluctuations.

Mandatory Pension Drawdown

The level of income paid each year must meet prescribed minimum income limits. These limits are set at the discretion of the Federal government and are subject to legislative change.

The mandatory limits require annual pension payments to be equal to at least a minimum amount calculated as a percentage of the account balance based on the pensioner's age.

The 2011 Federal budget proposed a phase out of the 2010/11 financial year reduced minimums, gradually increasing to the full minimums in the 2012/13 financial year as illustrated below:

Age at start of pension (and 1 July each year)	In 2010/11	In 2011/12	In 2012/13
Under 65	2%	3%	4%
65 – 74	2.5%	3.75%	5%
75 – 79	3%	4.5%	6%
80 – 84	3.5%	5.25%	7%
85 –89	4.5%	6.75%	9%
90 – 94	5.5%	8.25%	11%
95 +	7%	10.5%	14%

Please note that these are proposed changes only; the proposal has not been passed by parliament and is not currently legislated as law.

The level of pension payment can be nominated and altered subject to the required minimum limits upon request.

Does the Account Based Pension pay tax?

There is no tax payable on the investment earnings within an Account Based Pension. This includes all forms of investment income such as interest, dividends and realised capital gains. In fact, the pension may receive a refund from the tax office for any imputation credits it receives from Australian share investments.

How are pension payments taxed?

For individuals less than 60 years of age, income sourced from a superannuation income stream can be taxable, depending on the components of the individual's account:

- Income sourced from the tax-free component is paid tax-free
- Income sourced from the taxable component is taxable at the individual's marginal tax rate; however a 15% pension rebate is generally available on the tax paid.

Pension income paid to someone over 60 years of age is tax free, regardless of the components as illustrated in the table below:

Pension Income	Under Age 60	Over Age 60
Taxable Component	Taxable at Marginal Tax Rate 15% pension rebate may apply.	Tax Free
Tax Free Component	Tax Free	Tax Free

How do Centrelink and the Department of Veterans Affairs (DVA) assess Account Based Pensions?

The account balance of your Account Based Pension will be fully assessed under the assets test for Centrelink and DVA purposes. Under the income test, Centrelink and DVA allow for a "Deductible Amount" which is not assessed as income.

This deductible amount is calculated as "Pension Purchase Price ÷ Your Life Expectancy at commencement".

Should you choose to have a reversionary beneficiary for your Account Based Pension, the deductible amount will be calculated as "Pension Purchase Price ÷ the Higher Life expectancy of pension owner or reversionary beneficiary at commencement".

Only the pension income received above this amount will be assessed under the income test. Therefore if the minimum pension is drawn, usually very little, or no, income will be assessable under the income test.

Tax Treatment of Death Benefits – Reversionary Pension

A reversionary beneficiary option is available for Account Based Pensions. This allows your pension income to continue to be paid as an income stream to your beneficiary for the life of the pension (instead of reverting automatically to a lump sum payment). Please note that a pension is only able to revert to a dependant (i.e. spouse, child under 25, financial dependant or interdependent).

A reversionary pension will be paid tax free to a dependent where:

- The dependent is at least 60 years of age when the benefit is received, or
- The deceased was over 60 years of age at the time of death

A reversionary pension will be liable for tax on any taxable component where:

- Both the deceased and the dependent are under 60 at the time of death

Where both the deceased and the dependant beneficiary are under 60 years of age, tax will be payable at the beneficiary's marginal tax rate (plus Medicare levy) on any part of the pension sourced from a taxable component, but the dependant is entitled to a tax offset equal to 15% of the taxable component. Upon the beneficiary reaching age 60, the pension will be tax free.

A death benefit paid in the form of a pension to a child of the deceased must be cashed as a lump sum no later than at the time the child turns 25 years of age unless the child has a permanent disability. The lump sum received in this circumstance is tax free. Independent tax advice should be sought.

3:7 Lump Sum Withdrawals

When a lump sum payment from superannuation is made, the benefits may consist of tax free and/or taxable components, with the relevant portions of each representing that of the whole balance. This will apply to:

- lump sums at the time immediately before the payment; and
- income stream at the time immediately before the income stream commences.

The tax liability on lump sum benefits taken before age 60 is as follows:

Component	Tax if Benefit Received	
	Under Age 55	**Between 55 and 59**
Tax Free component	Tax Free	Tax Free
Taxable component	20% plus Medicare Levy	First $165,000# tax free Excess at 15% plus Medicare Levy

indexed each year in $5,000 increments.

3:8 Nominating Beneficiaries for your Superannuation

Your superannuation is an asset that does not generally form part of your estate. This is due to the fact that the Trustee of the superannuation fund is required to distribute your superannuation monies in accordance with the Trust Deed.

You are able nominate beneficiaries to receive your superannuation funds when you die. Should no nomination be made, the ultimate decision-maker of how your funds are distributed after your death is the trustee of your superannuation fund.

Nominating a beneficiary for your superannuation helps your estate planning objectives to be designed with greater certainty. If you do not nominate someone specifically, the funds may form part of your estate to be divided according to the instructions in your will.

We recommend you ensure that your nomination of beneficiaries of your superannuation monies is current. It is important for you to nominate the beneficiaries of your superannuation fund in accordance with the procedures of the Trustee. Maintaining current nominations of beneficiaries will ensure that the Trustee of your superannuation fund will consider your wishes when determining the distribution of your superannuation monies in the event of your death.

When nominating your beneficiaries it is important to consider who is a dependant under the tax legislation in order for the benefits to be distributed tax efficiently.

3:8:1 Preferred Nomination (Non-Binding)

When a preferred nomination is made the trustee of the superannuation fund holds the final decision and discretion as to who the payment is made to, as a result the fund has a responsibility to contact all possible beneficiaries and manage any claim upon the funds contrary to your preferred nomination. As a result the process can take up to six months from time of death until the funds are distributed and your nominated beneficiary can be overturned where it is seen in the best interest of your dependents.

3:8:2 Binding Nominations

You may consider making a Binding Nomination. A binding nomination is only valid for as long as the Trust Deed stipulates (commonly three years) and should be regularly reviewed and/or renewed, as your personal circumstances may change. This is a nomination that the trustee is obligated to follow and, in some circumstances, can significantly reduce the amount of time required to pay out your benefit. A binding nomination also needs to be witnessed by two persons who are not beneficiaries.

Please note that valid beneficiaries nominated under a binding nomination must be financially dependent on you or be your Legal Personal Representative.

Section 4 – Investment Fundamentals

4.1 Investment Fundamentals

Investment Time Frame

Different investments have different time frames. Some are designed to provide investment returns in the short-term, whilst others are designed to provide long-term capital growth. If you withdraw your money from an investment before its recommended investment period, you may not receive the returns you expected or the value of your investments may be less than what was originally invested.

Usually, your age and proximity to retirement will determine whether you are investing for the:

- Short term (1 to 3 years)
- Medium term (3 to 7 years)
- Long term (more than 7 years)

Investment markets move up and down over time, as will the value of your investment. If you have many years to invest, you may be prepared to take on more risk in your investment portfolio. In this situation, you may have time to ride out any short-term fluctuations in investment returns and benefit from the higher expected returns offered by growth investments such as equities (shares).

If you have only a couple of years to invest, capital protection may be more important than higher returns. Therefore you might consider a greater emphasis on placing your investments in short-term, more secure assets, such as cash and fixed interest.

Investment Risk

Investment risk refers to the likelihood of volatility or fluctuation in investment returns. This may include a potential loss of some of your capital.

For example, risk can mean:

- Your investment might increase or decrease in value due to a drop in market value
- Your capital does not grow enough to keep pace with inflation
- You won't have enough money to draw a reasonable income when you retire

Your age, current financial situation and length of time to retirement could all be factors that influence your risk profile.

Diversification

Diversification refers to spreading your money across a range of different investments in order to reduce your overall level of risk. If one investment does not perform well, the impact on your investment portfolio can be reduced by the positive performance of your other investments. This helps to make the overall return from your portfolio more consistent.

What is dollar cost averaging?

Dollar cost averaging is an approach to investing within managed investments which involves investing a set amount of money at regular intervals rather than a larger lump sum at one time. By investing this way you are not attempting to pick the highs and lows of the market but rather the cost of your investment is 'averaged' over many periods.

4:2 Asset Classes

Asset classes are broadly defined categories of financial assets that are based on their level of exposure to possible investment risks and return. Four common asset classes are outlined below. These should be considered when determining your investment strategy.

The mix of asset classes you will be exposed to depends on the investment options you select and the level of risk you're willing to take.

Cash

Cash is the generally the most secure asset sector because whilst interest rates may vary, the value of the capital amount invested will not. Security of capital is dependent upon the quality of the financial institution with which funds are placed, and the risks are usually very low. The trade-off for the security of cash is that historically it has offered lower returns than other investment sectors in the medium to longer term. Cash does not offer any tax advantages or a hedge against inflation because all income is fully taxable. Also, there is no capital growth, only compounding interest.

Fixed Interest

To raise money, the government and many statutory authorities issue bonds. A fixed interest investment is a form of loan where the issuer of the bond pays a rate of interest, which is specified when the bond is first sold and the amount paid for the bond (or principal) is repaid at a specified maturity date. Like cash, bonds are a very secure form of investment because the interest payable and the amount to be repaid upon maturity are preset. The interest income from a fixed interest investment is fully taxable and does not provide any hedge against inflation. Any capital gains are also fully taxable.

Property

There are a number of property investments available to an investor. Most common is direct property investment, be it residential or commercial. It is also possible to invest in property via pooled investments such as listed/unlisted property trusts. A characteristic of property is that it can provide both rental income and potential for capital growth. The risk of property investment is the associated liquidity risk.

Shares

Buying shares means purchasing a portion of ownership in a company. In return for buying shares and taking an ownership stake, investors participate in the success or failure of the company by:

- Receiving dividends which are paid out of profits; and
- Selling their shares on the stock market to other investors who will be prepared to pay a higher or lower price for the shares depending on how the company is performing.

Deciding which companies to invest in requires extensive research. For this reason you may want to consider investing in equity (or share) trusts rather than investing directly in the stock market, so that you can participate in a large, well diversified and professionally managed portfolio of shares. Shares are the most volatile asset sector as share prices vary constantly and are valued constantly. Shares offer a combined return from income (dividends) and capital growth and can provide the potential for greater returns than the other asset sectors discussed, particularly over the longer term. As a trade-off for the potentially greater returns, shares also have a higher level of short term volatility.

These asset classes can be described in various ways by different investment product providers and there may be other assets (e.g. non-traditional assets such as private equity, infrastructure and hedge funds) used in an investment option.

The table below highlights the characteristics, risk and return for the four common asset classes.

Asset Class	Characteristics	Risk	Potential Return
Cash	Lowest level of risk and lowest level of return of all asset classes. Suitable for investors who have a low tolerance to risk.	Low	Low
Fixed interest	Fixed Interest is more volatile than cash, but can still be a relatively stable asset class.	Low / Moderate	Moderate
Property	Has a higher risk than fixed interest but less risk than equities (shares).	Moderate / High	Moderate / High
Equities (Shares)	A volatile asset class, but over long periods of time have achieved on average higher levels of return.	High	High

Investment sectors can include Australian and international equities.

4:3 Risk Profiles and Benchmark Asset Allocations

Assumed Returns for Investment Profiles					
Investment Profile	**Total Return**	**Growth**	**Income**	**Franking**	
Defensive	5.50%	0.00%	5.50%	0.00%	
Conservative	6.83%	1.65%	5.18%	5.41%	
Balanced	7.60%	2.80%	4.80%	10.21%	
Growth	8.33%	3.95%	4.38%	15.98%	
High Growth	9.12%	5.25%	3.87%	25.32%	
Benchmark Asset Allocations					
Asset Class	**Defensive**	**Conservative**	**Balanced**	**Growth**	**High**
Domestic Equity	0.00%	10.00%	17.50%	25.00%	35.00%
International Equity	0.00%	10.00%	17.50%	25.00%	35.00%
Domestic Property	0.00%	5.00%	7.50%	10.00%	10.00%
International Property	0.00%	5.00%	7.50%	10.00%	10.00%
Domestic Fixed Interest	0.00%	25.00%	20.00%	10.00%	0.00%
International Fixed Interest	0.00%	25.00%	20.00%	10.00%	0.00%
Domestic Cash	100.00%	20.00%	10.00%	10.00%	10.00%
International Cash	0.00%	0.00%	0.00%	0.00%	0.00%

4.4 Risk Types

The following table breaks down the different types of risk.

Type of Risk	Explanation
Business	The risk that investment returns are poor or less than expected. Factors influencing Business Risk relate to poor business management, changes to that particular industry, government legislation, business cycles, interest rates etc.
Financial	The risk of losing some or all of your invested capital through a failed investment. E.g. a company becomes insolvent or financially unsound.
Market	The risk of losing your invested capital through adverse changes in market cycles such as those experienced in a share market crash.
Information	The risk that information, which impacts the value of your investment is incorrect, incomplete or misleading and has an adverse effect on the value of your invested capital.
Economic	The risk that relates to issues such as interest rates, inflation rates etc which impact the value of your invested capital.
Political	The risk that changes relating to government policies, spending, legislation etc affect the value of your invested capital.
Re-Investment	The risk that when an investment nears maturity and you are unable to rollover or re-invest your capital at the same level of return as previously experienced.
Management	The risk that relates to the quality and skill of the manager to produce a capital gain or capital loss through their investment activities.
Mismatch	The risk that the investment selected is not suitable for individual needs and/or circumstances.
Inflation	The risk that the value of invested capital does not keep pace with inflation (i.e. the purchasing power of money loses its value).
Interest Rate	The risk that your funds may be locked into an investment and missing the opportunity to generate higher returns or the risk of unable to re-invest your funds at a similar or higher interest rate (also see Re-investment Risk).
Market Timing	The risk of timing when to be in, or not to be in the market. Generally, market timing is based on timing market cycles.
Risk of not Diversifying	The risk of investing in one investment or strategy and missing the opportunity to spread your capital across other investments, or having all your capital in one investment which performs poorly.
Liquidity	The risk that you are unable to access your funds when required at little or no cost to you.
Credit	The risk that the investment selected is unable to repay invested capital.
Legislative	The risk the investment and investment strategies are adversely affected by changes in legislation (also see Political Risk).

4:5 Dealing with Negative Returns

Why do negative returns occur?

Some investments, like cash and term deposits with banks, never fall in dollar value. However, over the medium to long-term they produce only modest returns with no capital growth or tax effectiveness. The purchasing power of these investments decreases in real terms over time (once the effects of inflation are taken into account).

In order to achieve higher returns and better tax effectiveness, it is generally necessary to take some risk through exposure to 'growth' investments such as shares and property.

The reason that these growth assets produce better returns over time is that the underlying investments are the drivers of the economy. As long as the economy as a whole continues to grow, companies generally increase in real value and pay increasing dividends. Of course, growth, especially in specific markets, is uncertain and uneven. All market sectors will occasionally produce negative returns. Most will recover, but there is always the risk that some will not. Such market volatility can be managed by diversification **(see 2:1)**.

It would be good to receive 'high and safe returns' but unfortunately, investment markets generally do not work that way. Even government bonds rise and fall in value as interest rates change. Generally speaking, the higher the potential return, the higher the risk.

How can I cope with negative returns?

There has been a lot of research on the psychology of investing and it has shown that the joy of high returns is more than outweighed by the pain of negative returns. This helps to explain why many people panic when investment markets decline, even though they knew it would happen.

There is a natural human tendency to be worried when your investment portfolio falls in value. No one likes to lose money, particularly in retirement or where you are unable go back to work to replace lost funds.

The most important thing to remember is that you must not let your emotions get in the way of a carefully planned long-term strategy. It is often said that the share market exists to transfer wealth from the impatient to the patient. Too many people go into markets for the wrong reasons and get out of them at the wrong time. Seek guidance from your Financial Planner prior to making any decision in regards to your investments.

Can negative returns be a positive?

Some investors see downturns in markets as a positive opportunity to make more money. Because a lot of people allow their emotions to override their common sense, some great buying opportunities arise when markets fall. This is particularly the case if buying from a distressed seller as opposed to one who doesn't need to sell.

By putting in place an appropriate long-term asset allocation and reviewing it on a regular basis, you may capitalise on your investment when markets fall as well as profit from market rises. A long-term investment timeframe can therefore turn a negative market into a positive when looking at your overall financial position.

Notes: