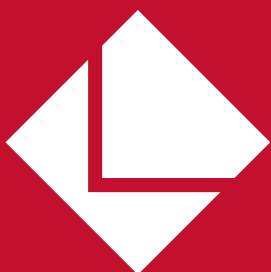


# FINANCIALLY SPEAKING

A SEASONAL NEWSLETTER FROM LONSDALE FINANCIAL GROUP LIMITED



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**LONSDALE**

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## < Overview of 2007/08 Federal Budget

While the 2007/08 Federal Budget didn't provide a raft of changes as was the case last year, the Government has introduced some new provisions that will be beneficial to many taxpayers. These include changes to personal income tax rates, increases in certain tax offsets, a superannuation co-contribution bonus and other bonus payments.

### Personal income tax savings

Yet again, the Government has announced personal tax savings for individuals. These tax savings are achieved through an increase in the taxable income thresholds, with savings to be implemented across two financial years as outlined in **Tables 1 and 2**.

**TABLE 1**

Proposed tax rate changes shown in bold from 1 July 2007

Taxable income	Tax rate
\$0 – \$6,000	Nil
\$6,001 – <b>\$30,000</b>	Nil + 15% on balance > \$6,000
<b>\$30,001</b> – \$75,000	\$3,600 + 30% on balance > \$30,000
\$75,001 – \$150,000	\$17,100 + 40% on balance > \$75,000
\$150,001 +	\$47,100 + 45% on balance > \$150,000

**TABLE 2**

Proposed tax rate changes shown in bold from 1 July 2008

Taxable income	Tax rate
\$0 – \$6,000	Nil
\$6,001 – \$30,000	Nil + 15% on balance > \$6,000
\$30,001 – <b>\$80,000</b>	\$3,600 + 30% on balance > \$30,000
<b>\$80,001</b> – \$180,000	\$18,600 + 40% on balance > \$80,000
<b>\$180,001</b> +	\$58,600 + 45% on balance > \$180,000

TABLE 3

TAXABLE INCOME	TAX PAYABLE IN 2006/07	TAX PAYABLE IN 2007/08	TAX SAVING from 2006/07	TAX PAYABLE IN 2008/09	TAX SAVING from 2006/07
\$20,000	\$1,500*	\$1,350*	\$150	\$1,350*	\$150
\$40,000	\$7,350	\$6,250*	\$1,100	\$6,250*	\$1,100
\$60,000	\$13,350	\$12,600	\$750	\$12,600	\$750
\$80,000	\$19,850	\$19,100	\$750	\$18,600	\$1,250
\$100,000	\$27,850	\$27,100	\$750	\$26,600	\$1,250
\$200,000	\$70,350	\$69,600	\$750	\$67,600	\$2,750

\* Includes low income tax offset and Medicare Levy.

How much extra will individuals pocket from these proposed changes? **Table 3** compares the income tax payable per annum in 2006/07 to that payable in 2007/08 and 2008/09 for various income levels. The table also illustrates the resulting savings from the proposed changes.

While the tax savings may not appear to be significant, this still provides an increase in disposable income that can be put to good use to:

- ◆ reduce debt
- ◆ boost savings
- ◆ make other lifestyle improvements.

Regardless of how you decide to use your tax saving, it's important to make a conscious decision to make the most of these additional funds.

### Increases in tax offsets

A tax offset is a Government concession that reduces personal income tax payable. This reduction also translates into increased disposable income. This year's Federal Budget includes increases to two tax offsets – the Senior Australians Tax Offset (SATO) and Low Income Earners Tax Offset (LITO).

SATO – Eligible seniors will be able to earn more income before paying tax and the Medicare levy compared to other taxpayers. The effect of the proposed tax changes will be to increase the SATO income thresholds. From 1 July 2007, the income thresholds for SATO increase to \$25,867 for singles and \$43,360 for couples.

The Medicare levy thresholds that apply to senior Australians will also increase to ensure that the levy only kicks in when income tax becomes payable.

LITO – A tax offset available to low-income earners, will increase from \$600 to \$750 per year. In addition, the income threshold at which this tax offset begins to reduce will increase to \$30,000. The amount of the tax offset will gradually reduce once income exceeds \$30,000 and it reduces to zero once an individual's income reaches \$48,750.

### Co-contribution bonus

The co-contribution scheme is an incentive for individuals to contribute after-tax savings into superannuation. Under this scheme, if a person makes an after-tax contribution to superannuation, the Government will match the contributions up to a maximum of \$1,500. Eligibility for the co-contribution is based on a number of factors including income and age.

Additionally, the Government has passed legislation to pay an additional one-off payment of the superannuation co-contribution to individuals who were eligible for the co-contribution for the 2005/06 financial year. This effectively doubles the co-contribution paid for that financial year.

If you were eligible for the co-contribution in 2005/06, an additional payment should have already been deposited into your superannuation account by the Government.

### One-off bonus payments

As in previous Federal Budgets, the Government has announced one-off lump sum payments to certain individuals. Two of these payments are:

#### Carer bonus

This is a one-off, tax-free bonus that will be paid to recipients of the Carer Payment and the Carer Allowance. A lump sum payment of \$1,000 will be made to people who receive the Carer Payment, while those receiving the Carer Allowance will receive \$500. If you receive both payments, then you will receive both bonus payments.

#### Seniors bonus payment

Individuals of age pension or service pension age who were receiving the Utilities Allowance or Seniors Concession Allowance on Budget night will receive a one-off payment of \$500.

For more information on how this year's Federal Budget may impact you and your family, contact your Financial Planner.

NOTE: At the time of writing on the legislation to pay the additional co-contribution and personal tax rate reductions had passed. Other legislation has been introduced to support the remaining measures but has not completed progress through Parliament.

SOURCE: ZURICH AUSTRALIA LIMITED

## < How much is enough?

Whether you're close to retirement, or have plenty of time ahead of you, it's never too early to start thinking about, and planning, your retirement lifestyle.

But how much is really enough? Or, to put it another way, how much do you need to have saved by the time you retire to have the retirement lifestyle you want?

It's time for you to hop into the driver's seat and take control of your superannuation savings. This means your financial future, because the type of retirement you will enjoy is determined by some of the decisions you make right now.

Your superannuation will grow during your working life, based upon the amount contributed to superannuation, and on your investment decisions.

Once you reach retirement, say age 64, you will need to withdraw your money to fund the cost of your retirement.

The amount you, as an individual, will need depends on three key things:

### 1 When do you plan to retire?

Clearly, your age at retirement will affect the amount you will need to have saved. If you plan to retire at age 55, you are going to need to have saved a lot more than if you plan to retire at age 65 or older.

You might be interested to know that the average life expectancy of an Australian male is the third highest in the world, at 79 years. And we're fourth in the world with the average female life expectancy of 83 years<sup>1</sup>. So you may be retired for quite a long period of time.

### 2 How much will it cost you to live in retirement?

How much will you need to pay your bills and expenses each year? Remember that someone who lives modestly on \$30,000 a year will obviously need less retirement savings than someone whose lifestyle and commitments cost them \$50,000 a year.

A recent industry survey concluded that a couple living together would need at least \$23,500 after-tax each year, to lead a 'modest' lifestyle<sup>2</sup>. If you want some extra trimmings you would need a little (and maybe even a lot) more.

The best way to determine what you will need is to go through the exercise of identifying all your expenses. Preparing a household budget is the best way to gather that information. You will then see what bills you will have to continue paying when you retire, plus any new ones – for example, fees to join a new club.

Your Financial Planner should be able to assist you with this.

### 3 What type of investor are you?

Generally, investors fall into three broad categories:

- ◆ Defensive
- ◆ Balanced
- ◆ Growth

Let's have a quick look at the characteristics of each of these types of investors.

**Defensive investors** – generally try to avoid risk as much as possible to avoid losses. They are more comfortable with stable investments that may produce lower, but more consistent, returns.

**Balanced investors** – generally are concerned about risk because they aren't overly comfortable with the possibility of receiving short-term losses. They are willing to settle for slightly less growth to achieve more stable returns.

**Growth investors** – look for growth, recognising that while high growth investments may fluctuate significantly from one year to the next and produce investment losses, they are also more likely to produce higher long-term returns.

Generally speaking, the greater the level of risk you are prepared to take, the greater your chance of achieving higher returns *over the long-term*.



<sup>1</sup> Report of the New South Wales Chief Health Officer, NSW Department of Health, 2005  
<sup>2</sup> Putting a price on comfort, *The Age*, 4/2/04

# ◀ How much is enough? CONTINUED



## Make your money work for you

At age 25 retirement seems a long way off. Why start saving for it? What's the harm in spending now and saving for retirement a little later?

Let's look at an example to show the benefits of starting sooner rather than later.

MR EARLY		
<b>Age 20–60</b> Saved \$852 per year	<b>\$34,080</b> Total contributions by age 60	<b>\$250,000</b> Value at age 60
MS LATE		
<b>Age 40–60</b> Saved \$5,052 per year	<b>\$101,040</b> Total contributions by age 60	<b>\$250,000</b> Value at age 60

These are additional personal contributions and do not include the compulsory SG contributions. Interest is at 8% pa and amounts do not include fees.

Here we have two workmates. Mr Early has decided to plan for his future early in his working life by putting \$852 away starting from age 20. Ms Late is currently 'living for the moment' and doesn't start to save for retirement until she reaches 40 years of age when she begins to contribute \$5,052 per year for 20 years.

Although Mr Early contributes for twice as many years as Ms Late, the amount he contributes is much smaller. However, Mr Early and Ms Late end up with the same amount.

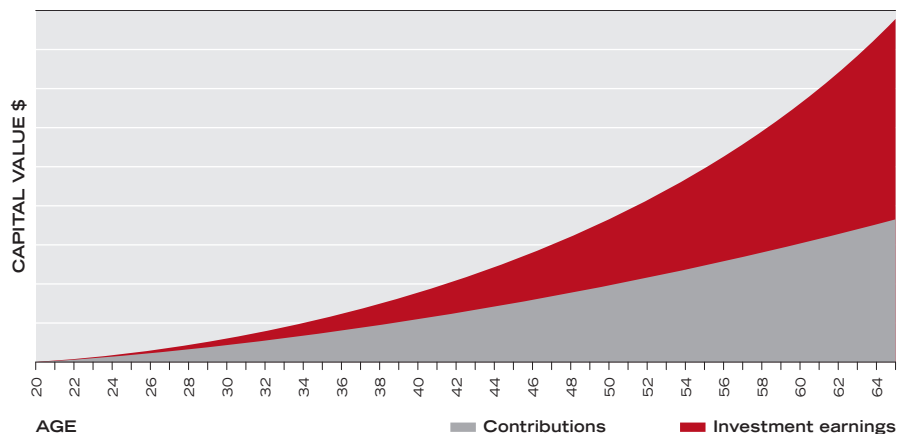
By starting early, Mr Early has taken advantage of compounding interest so that his investment grows at a faster rate than Ms Late. And he contributed less than half of Ms Late's total additional contributions.

## Compound interest

Compound interest is where your interest gets added to your balance. So you earn interest on your interest, without any extra effort on your part.

If we look at how your superannuation grows during your working life, we can see how much difference compound interest can actually make to your final super balance.

FIGURE 1.1



This graph is for illustrative purposes only.

## Maximise your earnings

You can maximise your superannuation earnings in two key ways:

- ◆ Starting early to use the power of compound interest and time
- ◆ Selecting an investment that is expected to achieve better returns over time.

Let's have a quick look at that last point.

When choosing an investment the expected return is important, but it's also imperative to look at the risks involved.

You may be familiar with the Risk and Return graph (see Figure 1.2), which simply reminds us that shares have the highest expected investment return in comparison to the other major asset classes. However, to get that higher return you need to be prepared to accept the higher level of risk associated with shares. In other words, growth investments on the right hand side of the graph, such as shares and property, tend to be more suitable to a more balanced or growth style of investor.

On the other hand, more defensive investors tend to favour investments on the left hand side of the graph, such as cash and fixed interest investments, known as income assets.

## Next steps

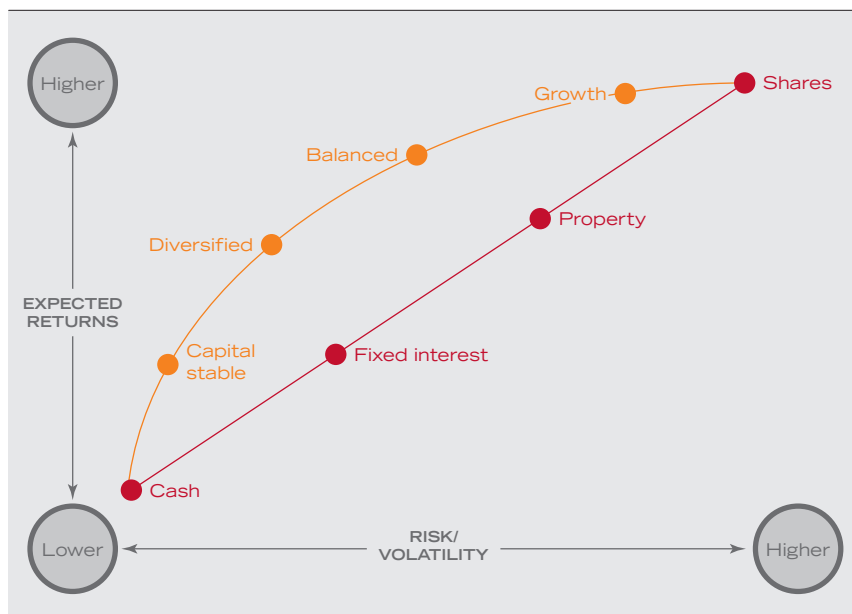
Want more information about retirement savings and investments including the type of investor you are?

Speak with your Financial Planner. They can create a financial plan suited to your individual needs and help you adequately prepare for your retirement.

Don't forget you'll need to review your position from time to time to make sure you stay on track and don't be afraid to ask questions and keep learning along the way.

SOURCE: RUSSELL INVESTMENT GROUP

**FIGURE 1.2**



## ◀ Investing through platforms

We are currently experiencing a platform boom, with over \$170 billion invested in Australia alone<sup>1</sup>. So what are platforms and why are they so popular?

In simple terms, a platform is an administration service for your investments.

Many people invest in a number of managed funds, resulting in a deluge of paperwork. To simplify the management of multiple managed funds in your portfolio, you can use an Investor Directed Portfolio Service (IDPS) or a wrap account. As administrative structures, both IDPS and wrap accounts fall under the term 'platforms'.

Investing through a platform allows you to savour a smorgasbord of investment options, without being inundated with the multiple administrative tasks associated with each investment.

### How do they work?

Like an investment supermarket, a platform can provide you with access to an extensive list of managed funds normally at wholesale prices under a single administration facility.

The key added benefit of platforms, however, is that they allow you to construct and manage your own portfolio without the substantial administrative, record keeping and reporting burden usually associated when investing in managed funds directly. As long as your money remains invested through the platform, you can switch investments or change your strategy at any time by instructing your planner, or even online or over the phone.

Because of these added services and functionalities, you may incur an administration fee for using the platform.



### Why invest through a platform?

Some additional advantages of platforms include the following:

- ◆ Diversity and choice: platforms allow you to spread the risk, investing in a range of asset classes through a variety of managed funds – with some platforms also offering direct shares insurance, and margin lending (gearing). Depending on the complexity of the platform, this could give you access from 20 to over 80 fund managers, each providing a range of products.
- ◆ Your investments are in the one place: without compromising on diversity, platforms can combine your investments under a single administration facility. You receive consolidated reports (simplifying your tax reporting), regular updates, and often 24 hour online access to your portfolio. In addition, the use of a consistent reporting style enables you to compare 'apples with apples' when analysing how various investments are performing.
- ◆ Access to specialist and/or wholesale funds which would otherwise be outside your reach. For example, many wholesale funds have lower management fees but higher entry levels, such as a minimum investment of \$500,000. This puts the fund out of the reach of most individual investors, but not if accessed via a platform.
- ◆ Flexible fees: some platforms provide flexible fee structures and certain fees may even be tax deductible within particular platforms.

From a financial planner's perspective, platforms streamline the demands of monitoring and reviewing clients' investment portfolios. Rather than being encumbered by multiple administrative processes (e.g. filling in forms and creating reports), the administrative burden is carried by the platform and planners are able to focus on the provision of quality financial service and advice.

### Selecting the right fund

If you're thinking about investing through a platform, it's important to consider your unique circumstances. In terms of the fees/benefits trade-off, are you better using a platform or investing directly in the individual funds?

### Seek professional advice

Your needs are unique and constantly evolving. And with a wide range of platforms available in the marketplace, it's best to seek professional advice before making a final decision. Your financial planner can provide you with detailed information about how an investment platform may help you achieve your financial goals.

<sup>1</sup> Assirt Research as quoted in 'Are you on the right platform?', The Age, 5 June 2004

## < The outlook for investment markets

Asset class	Short-term prospects
Listed property	Listed property trusts have fluctuated in recent months as investors have digested new equity issuance, renewed concerns over rising interest rates and global share market volatility. However, the rising leverage and property development risk in this sector don't make it quite the safe haven it once was. With a yield of just 5.8%, below the risk free bank bill rate, the sector is also expensive. Property trusts which have transformed themselves into fund managers, such as Centro Properties and Macquarie Goodman, are particularly richly priced and their share prices now depend on ongoing growth. As always there remain attractive pockets in the market; out of favour overseas trusts listed in the Australian market and the office sector remain relatively attractive and trade on higher prospective yields and closer to their asset backing. Some of the better small cap LPT stocks also offer good value.
Residential property	Residential property remains sluggish after the exhaustion of the housing bubble and the impact of rising interest rates as the economy approaches full capacity. Zurich continues to expect house prices to remain sluggish as the 'irrational exuberance' of recent years and high house-price to disposable-income ratios continue to make their inevitable adjustment. With the east coast market having peaked in 2004, the market in Western Australia is now at record levels on the back of the mining boom.
Cash	Cash yields have improved with interest rate rises in the last year, with the prospect of even higher yields from another one or two rate hikes towards the end of this year.
Bonds Australian and international fixed interest	Bonds have been poor investments in the last year, with low yields offering little running yield for investors. These yields were reduced further from capital losses associated with higher interest rates (and falling bond prices). With bond yields still inverted (below the cash rate), and with the prospect of further rate hikes, we continue to view this asset class as offering inferior yields to cash with the risk of some further capital loss.
Australian shares	<p>The Australian sharemarket continues to be buoyed by ongoing strength in commodity prices, private equity activity, superannuation inflows, M&amp;A and capital management. Whilst these factors should continue to provide support for the market through to the end of the year, the sharemarket remains fully valued to expensive on a medium term basis.</p> <p>Mining stocks continue to trade on low price earnings multiples, but earnings are predicated on record spot prices for commodities. Given the high correlation of these stocks to spot prices, any downturn in the outlook for commodities, coupled with expensive valuations for industrials ex banks, makes us wary of the attractiveness of this sector outside of the supporting factors described above.</p> <p>Banks however, particularly Westpac and ANZ, are trading at reasonable valuations again.</p>
International shares	<p>Global equities remain a preferred asset class. Global equities continue to trade on the lowest price earnings ratios since the early 1990s and in most sectors are now cheaper than Australian stocks (normally Australian stocks are traditionally 20% cheaper than their global counterparts).</p> <p>Whilst US equities remain the most expensive of all the markets, high returns on equity and capital management continue to provide strong support to the market there, as does private equity. Financial stocks, under pressure from the unfolding sub-prime loan problems, face the greatest pressure. Unusually, large cap stocks offer some of the best value, with the P/E on the Dow below that of the S&amp;P 500.</p> <p>The European economies continue to surprise on the upside, although stockmarkets there have run hard and valuations are not as cheap as they were. The UK remains relatively better value. Japan's economic recovery continues to consolidate and shares there remain well below their all time highs of 17 years ago. The sustained recovery in Japan and profit outlook bodes well for the country's equity markets in the short to mid term. Considerable value can also be unlocked from better capital management in Japan, where activist investors are currently pressuring management. Finally, the Australian dollar remains at the upper end of its 20 year range, making it more likely to enhance, rather than harm, returns for investors over the next three to five years.</p>

## ◀ Trauma insurance – a helping hand when you need it most

No one likes to imagine a tragic event happening to themselves or their loved ones. But trauma is an unfortunate reality for many Australians. Conditions such as cancer or stroke, and tragic events like major head injury and the loss of limbs, can befall any of us and alter our lives forever.

The expenses associated with such trauma can cause additional problems that compound the situation. While there is not a great deal that can be done to prevent the initial emotional and physical shock, a Trauma Recovery Insurance Plan can ensure you and your family are financially secure.

### Underinsured and under-prepared

As a nation, it has been well documented that Australians are not well covered. In fact, only 22 per cent of us have life insurance<sup>1</sup>. When it comes to trauma insurance, the statistics are worse, with only two per cent of Australians actually owning cover<sup>2</sup>. This statistic is particularly low when you consider that in the UK, the provision against trauma is taken up by between 12 and 15 per cent of the population<sup>3</sup>.

So, why is it that Australians seem unprepared for the possible financial burden of trauma? The answer is multi-faceted: some people miscalculate their insurance coverage and others tend to view it a luxury. Interestingly, it has been shown that once people understand the true nature of this risk they are keen to insure themselves adequately<sup>4</sup>.

### The right protection for you

Trauma insurance is one of the many personal insurance plans available, including life insurance, income protection, total and permanent disability (TPD) insurance, and business expenses insurance. While there is some crossover between products, each is designed to mitigate certain happenings.

Trauma Recovery insurance provides a lump sum in the event you suffer from a defined traumatic event, such as cancer, heart attack or major head injury. It is designed specifically to help cover the expenses associated with such events. It can assist in paying for expensive recovery and rehabilitation costs, pay to refit your home with wheelchair access, enable your

partner or family member to reduce their work hours to care for you or pay a professional carer or can be used to provide an ongoing income stream for you in the future.

Thanks to modern medicine there is no doubt that people are living much longer, even upon diagnosis of a 'life-threatening illness' or after having been involved in a traumatic accident. More than 80 per cent of heart attack sufferers will survive and 50 per cent of people diagnosed with cancer are expected to live longer than five years<sup>5</sup>. But, while patients and victims are clearly benefiting from the advancements in medical technology, it is often their financial situation that suffers irreparably.

Speak to your Financial Planner or Risk Specialist to learn more about establishing or updating your Trauma Recover Insurance Plan.

- 1 'Estimates of the extent of under insurance in Australia', (DEXX&R research, commissioned by AXA Australia, 3rd edition, June 2005).
- 2 'A matter of life and death', ([www.moneymanagement.com.au](http://www.moneymanagement.com.au), 27 October 2005)
- 3 'Taking the risk with insurance', ([www.moneymanagement.com.au](http://www.moneymanagement.com.au), 15 November 2004)
- 4 'Delivering what they need: A research report on consumer attitudes toward insurance and financial advice' (Blacksheep Research, commissioned by AXA Australia, May 2005).
- 5 National Report on Health Sector Performance Indicators 2003 (Australian Institute of Health and Welfare, Australian Government).

SOURCE: AXA AUSTRALIA

### Contributors

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