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AUTUMN NEWSLETTER 2004

Welcome to the second newsletter for 2004.

In this newsletter we highlight some of the changes that will have an impact on future retirees, warn about risky investments, and provide food for thought regarding listed investment companies. We also highlight a useful website that provides a wealth of information on retirement village options. As always we value your comments and feedback.

Proposed changes to superannuation.

The government has announced a number of proposed changes to the superannuation system that have been long overdue. Many in the superannuation industry have been lobbying for years to make the superannuation system more flexible and adaptable. The most significant changes are:

1. From the 1st of July 2005 taxpayers who have reached their "preservation age" will be able to draw down part or all of their superannuation benefit as a non-commutable income stream without resigning from their current employer. The preservation age for people born before July 1960 is 55, and it rises in steps to age 60 (for those born after June 1964). A non-commutable income stream refers to a pension or annuity that cannot be converted back into a lump sum.

2. From the 20th of September 2004 the definition of a "complying pension" will be expanded to include "growth" pensions. Pensioners will be required to draw down a set proportion of their account balance based on their life expectancy. This simply means that we will see a new style allocated pension that will meet the stringent complying pension rules. Complying pensions are of particular relevance to taxpayers who arrange their financial affairs to take advantage of the higher pension Reasonable Benefit Limits (RBL's), and those who want to take advantage of the exemption available to age and service pensioners (see comment below for a change in this area). At present complying pensions do not invest in shares and therefore the returns do not effectively include a growth element. The new growth pensions will invest part of the portfolio in shares.

3. From the 20th of September 2004, age and service pensioners who invest in a complying pension will face a reduced assets test exemption regime. Currently, the "exemption rules" totally exempt a complying pension, but will be amended to provide that only 50% of a "new" complying pension will be exempt.

We welcome these changes because they will enable clients to develop more flexible ways of retiring. The ability to keep working while drawing additional income from superannuation will appeal to many people. There will be a change in the way employers think about retaining older workers, but it may take time to implement change. The ability to start a small business will also become a realistic option for some people.

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How much income do you need to generate to support a comfortable retirement?

New research commissioned by Westpac bank and the Association of Superannuation Funds of Australia (ASFA) has come up with a benchmark approach to providing a realistic guide to how Australians live in retirement. The figures for retirees who live in the capital cities are as follows;

Lifestyle	Couple	Single
Comfortable	$43,350	$32,800
Very Modest	$23,550	$16,930

These figures will be indexed quarterly to reflect inflation. Living in small towns and some regional centres is generally cheaper than living in a capital city.

Having trouble getting information on retirement villages?

Recently we became involved in a sad situation involving an elderly couple that moved into a retirement village without understanding the financial implications. The whole subject of retirement villages is complex and it involves regulations that often vary from State to State. There can be tax implications to consider, Centrelink implications, and a range of financial planning issues.

The following website is worth examining if you become involved in this subject:

www.itsyourlife.com.au

We understand that the Council of The Ageing has favourably reviewed the site. It has a searchable directory of retirement villages, useful information on departure fees (including an interactive departure fee calculator) and a Resource Centre. A Retirement Village Handbook is available for sale. We always recommend independent legal advice before anyone signs a contract to enter a retirement village.

Have you considered investing in a listed investment company?

A Listed Investment Company (LIC) is a company listed on the Australian Stock Exchange. They offer investors a low cost way of gaining exposure to a portfolio of shares. Investors can invest directly or via an investment facility such as the BT Wrap service that we use.

The benefits of a LIC include;

- Ease of buying and selling
- Ease of valuation
- Generally lower administration fees compared to other managed funds

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The negative side of investing in a LIC is that the market valuation of a particular LIC may not always reflect the true value of the underlying investments. The share price may reflect a discount or a premium to the underlying investment portfolio.

We tend to suggest using LIC's as part of a longer term "set and forget" style retirement portfolio. The better - known LIC's are Argo Investments and Australian Foundation Investment Company. We personally have shares in Argo Investments as part of our own superannuation plan.

Warnings from the regulator

The Australian Superannuation and Investment Commission (ASIC) issue investment warnings from time to time, aimed at alerting the community to scams and high - risk investment offerings. Late last year ASIC issued warnings relating to No Deposit Property Loans, and Vendor finance arrangements.

No Deposit Property Loans have been aggressively marketed, and in some cases the special conditions will include;

- Higher interest rates
- Additional fees including a "risk fee"
- Additional security including, perhaps, the borrower's car
- Mortgage insurance
- The use of deposit bonds that protect the seller of the property, not the consumer, if something goes wrong

Vendor finance agreements can also be risky. These agreements give the property purchasers few rights and little protection because the ownership of the property does not pass to the purchaser until all the money owing to the vendor is paid in full. Consumers who cannot keep up the repayments lose possession of the property. In addition they lose all of the payments already made, and any money spent on rates, renovations and improvements

Personal injury settlements

Personal injury settlements can often involve substantial sums of money, and the government has for some time been concerned that bad management and poor advice has led to people losing money. This leads to individuals relying on government disability pensions.

The concept of "Structured Settlements" has been introduced in an attempt to encourage people to invest in a qualifying lifetime annuity. The carrot offered by the government is that the income from the annuity is tax free. We strongly recommend getting advice before becoming involved in this form of investment. There are alternative strategies that can be just as tax effective.

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Quote

"There is no passion to be found in playing small – in settling for a life that is less than the one you are capable of living"

Nelson Mandela, Former President of South Africa

How does a rising Australian dollar affect your investments?

Local investors who invest in "unhedged" international shares and managed funds will feel the most direct impact of a rising Australian dollar. Hedging is a technique used primarily by fund managers to reduce the impact of currency movements. The practice comes at a cost and therefore it is not uncommon to find fund managers hedging only part of their portfolios.

If an Australian investor holds an overseas investment and does not use hedging, the value of the overseas investment will fall as the currency rises (ignoring any stockmarket fluctuation in the share price). We refer to this as the see - saw effect, and the reverse applies when the currency falls.

Many investors are exposed to international investments through their superannuation funds, and other types of managed funds. Most Balanced and Growth style managed funds typically have an exposure to international investments. Over the past few years as the value of the Australian dollar has risen significantly, many investors have seen a decline in the value of their investments.

The big question now: is the time right to make new international investments? There are two issues to consider. Firstly, you need to form a view on whether the Australian dollar will continue to rise against the major currencies. Secondly, you need to identify good quality international investment opportunities. Our study of the underlying investment cycles suggests that we are approaching a period when international investment will again be a rewarding strategy. Many clients will have seen our chart on the wall that forecasts the rise and fall of the American Dow Jones index. The period we are about to enter according to the chart, will favour international investment.

Disclaimer

This newsletter is for general information only. Tax, Social Security and Investment Laws change frequently and may affect different persons in different ways. You should not act solely on information in this newsletter.