Personal Wealth

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A Quarterly Newsletter for **Lifespan Clients**

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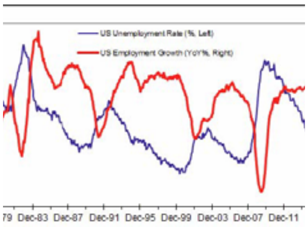

Upcoming Changes to Centrelink for Retirees

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Investment Markets

Recent History

Equity markets have been characterised by a lack of volatility and have slowly drifted upwards for most of this year. In recent weeks we have had a pullback on concerns that Russian troops massed on the Ukrainian border might invade that country. The shooting down of a civilian airliner by Russian supporters has also spooked investors. Markets seem to have settled down but the situation could easily flare up and impact markets.

The major feature of markets continues to be a rally in higher yielding sectors with Australian listed property and utilities up 9.9% and 9.0% in price terms in the year to date (August 8). The Australian 10 year government bond yield has fallen from 4.2% to 3.4% because investors chasing security have pushed up bond prices. Global bonds have also rallied with the German 10 year government bond yield trading at 1.05% and the US 10 year yield trading at about 2.4%. Given the chase for higher yields the Australian dollar has risen 4% to 92.8 US cents since January which has hurt the return of overseas assets such as global equities. The Australian dollar has actually come back recently from over 94 cents on the back of some weaker employment data.

The Australian share market (ASX200) returned 3.5% for the 3 months to the end of July while Australian Small Cap Equities had a rare period of outperformance with a return of 3.8%. Australian shares actually returned 4.4% in the month of July (before retracing) which was higher than the return for the previous 6 months.

Developed market global equities returned 2.4% over the period while Emerging market equities went against the recent trend by outperforming developed market equities with a return of 8.1%.

The fall in Australian bond yields caused by investors pushing up the prices of bonds resulted in a healthy return of 2.5% for the fixed interest benchmark for the 3 months to the end of July made up mostly of capital growth. Over the same period Cash returned 0.68% with the cash rate currently stuck at 2.5%. Falling bond yields also contributed to a strong 8.6% return for Listed Australian property over the same period and a 12 month return of 17.5%. Most of this return was capital growth caused by investors seeking higher income yields.

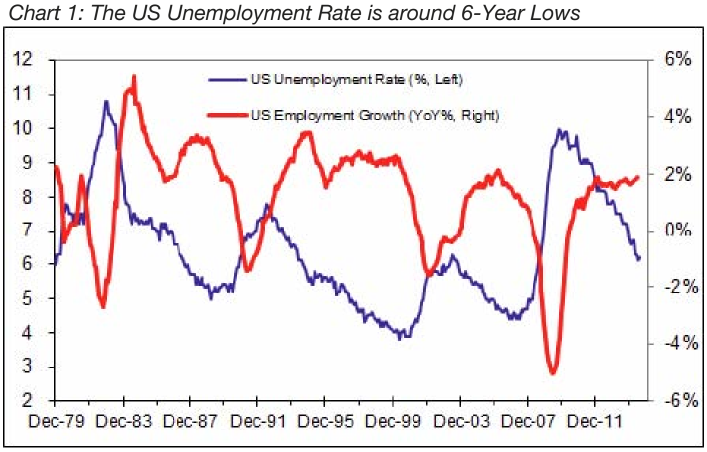
Markets and Economy

Some of the concerns facing markets are the Ukrainian situation as well as the economic weakness in Europe and the US ending Quantitative Easing (money printing) and raising interest rates. Not only is there the possibility of an escalation of the Ukrainian conflict but economic sanctions could impact Europe which is already weak. Also Italy has gone back into recession and low European inflation numbers point to a sickly economy.

One of the reasons European interest rates are so low is that there is speculation of even easier monetary policy including the possibility of money printing to combat low inflation and weak growth. This is helping to drive down other global bond yields and we are of the view that that they are probably too low and are not attractive long term. Given this we would still maintain an underweight to fixed interests. However it is a fine balancing act with the Reserve Bank of Australia likely to maintain interest rates at a low 2.5% into 2015.

Many economic indicators in the US such as capacity utilisation and the unemployment rate (Chart 1) are at around their long term average levels. This makes it likely that short term interest rates will have to rise from zero in the near term.

Chart 1: The US Unemployment Rate is around 6-Year Lows



Source: Bloomberg, MSWM Research

We continue to prefer equities to bonds but equities are now no longer cheap. Shares in the US and Australia are trading at about their long term average PE multiples. We think that gains will be lower than last year and should depend on the level of earnings growth. We believe earnings growth this year will be around the 7% mark for both the Australian and the US equity markets. Global equities are still trading at a lower PE than the long term average for that market so would seem to be better relative value than Australian shares. We believe investors can also justify an overweight to global shares simply as diversification away from banks and resources which dominate our market.

Emerging market equities are still cheap on a long term PE basis although they have done much better this year compared to last year. For those with a longer view we would look to accumulate emerging market equities on weakness on the basis of relative valuation to global shares.

To sum up, most markets have had a good run lately but we would not be aggressively allocating to shares right now. We would rather be looking to accumulate on any pullbacks. We would also be cautious in allocating to fixed interest as we believe there is not much value post the recent rally. One of the concerns in markets is how little volatility there has been lately and investors may have become a little complacent.

Over the longer term we would expect volatility to rise from here and this should provide opportunities for nimble investors.

Chart 2: Investment Returns to 31 July 2014 (% p.a.)

Asset Class	1 month	3 months	1 Year	3 Years	5 Years
Australian Shares	4.40	3.54	16.54	13.50	10.59
Global Shares	0.29	2.44	11.89	16.72	9.62
Listed Property	5.00	8.56	17.54	19.86	14.89
Fixed Interest	0.29	2.49	5.49	6.54	6.88

Important Changes to Centrelink Rules for Retirees

There are some significant changes coming in the new year that will affect many who receive the Age Pension. New rules, which take effect from 1 January 2015 could result in lower Age Pension benefits being paid to many older Australians.

This article outlines what's changing, and what can be done to minimise the effect of the changes, both right away, and in the future.

What's Changing?

From next year, Centrelink will use a different method to calculate the income received from Account Based Pensions, when applying the Income Test for the Age Pension.

The current Centrelink Income Test treats a portion of the annual payments from an Account Based Pension as a withdrawal of capital from the fund. The amount which is treated as a capital withdrawal is called the **Deductible Amount**. Only the amount of the payment which is greater than this Deductible Amount is counted as income against the Centrelink Income Test.

If the payments from an Account Based Pension are less than the Deductible Amount, then Centrelink does not treat any of the payment from the Account Based Pension as income.

From next year, Centrelink will no longer use this method to assess how much Account Based Pension income will be counted for the Income Test.

Instead, Centrelink will treat Account Based Pensions as a **Financial Asset**, and apply its **Deeming** rules on the assets of the Account Based Pension.

Under the Deeming rules, it does not matter how much income is actually taken as a payment from an Account Based Pension. Centrelink will deem the income according to their Deeming Rates.

This is likely to result in lower Age Pension payments for anyone who waits until after 1 January 2015 to commence (or substantially alter) an Account Based Pension.

Deeming rates for single and coupled pensioners

Single	Couple	Rate
First $48,000	First $79,600	2.0%
Over $48,000	Over $79,600	3.5%

It will be retirees with fewer assets who will be most impacted by the changes. Non-homeowners will also be more likely to be disadvantaged compared to homeowners.

Case study (Example)

Eloise (age 65) is a single pensioner who owns her home, has $5,000 in personal assets and $200,000 in an Account Based Pension, drawing income of $10,000 (deductible amount of $9,250). Under current rules, she is eligible for a part Age Pension of $21,796 per annum as a result of the Assets Test.

However, if her account based pension is deemed as a financial asset, her Age Pension will reduce to $20,853, which is a reduction of $943 per annum.

If deeming rates increase to 3% and 4.5% in future, Eloise's Age Pension will reduce by $1,943 per annum to $19,853. This highlights the significance of deeming rates, particularly for those who do not have a significant level of assets.

Who Will Be Affected?

The good news for existing Age Pension recipients is that the old rules will still apply, as long as a Centrelink benefit continues to be paid, and no significant changes are made to the existing Account Based Pension.

Those who stand to be affected by the changes are those that:

- Are in receipt of Age Pension, and make any changes to an Account Based Pension after 1 January 2015;
- Have superannuation, and plan to receive the Age Pension after 1 January 2015;

- Do not receive any Centrelink Benefit, but are likely to enter Aged Care after 1 January 2015;
- Are a member of a couple, where at least one person receives payments from an Account Based Pension, and the ongoing payment to the spouse is not guaranteed if the recipient dies.

Steps to Take Now

It is important to be aware of the upcoming changes, and take action now to ensure that the new Centrelink rules have a minimum effect on you, even if a change to circumstances is still some time away.

Commencing (or re-commencing) an Account Based Pension before 1 January 2015 will lock in any new Account Based Pension under the old Centrelink Rules, with the maximum Deductible Amount.

Taking advantage of the existing rules to qualify for at least minimum Age Pension before 1 January 2015 will reduce future Aged Care costs, under the recently changed Aged Care rules.

Making Account Based Pension death benefits "Reversionary" will ensure that if a spouse passes away in future, the Age Pension amount is not affected by the new Deeming rules.

It is important to remember that advice should be sought and any appropriate action needs to have been implemented before 1 January 2015.

Your Lifespan adviser can review your circumstances, and facilitate changes which will reduce the impact of the new Centrelink rules, both now, and in the years to come.

Superannuation Contributions Thresholds

Superannuation helps you save for your future retirement in a tax efficient manner by way of are tax concessions. In order to take advantage of the tax concessions various conditions must be met. These include, but not limited to, your eligibility to contribute, preservation conditions and contribution limits (caps). Contributions can be divided between compulsory and voluntary.

Compulsory Contributions

Superannuation Guarantee (SG)

Compulsory contributions or SG paid to your nominated super fund and administered by the Australian Tax Office (ATO), are an obligation for employers to provide a minimum level of superannuation support to their employees.

From 1 July 2014 the amount your employer has to contribute to your super is 9.50% of your earnings base to a maximum of $18,255 for someone earning $192,160 in the current financial year.

As an example, if an employee's annual earnings base is $65,000 the employer's obligation under the SG will amount to $6,175 (9.50%) before tax.

Description	Amount
SG	9.50%
Maximum annual contribution base	$192,160
Maximum SG based on the above annual contribution base	$18,255

Voluntary Contributions

Concessional Contribution (CC) Caps

Voluntary contributions allow you to make your own concessional contributions (CC) either by salary sacrifice (directing more of your taxable income to super contributions) or directly if you are self-employed. This type of contribution is taxed at 15% by the fund and is not assessable to the individual. The maximum CC available depends on the age you were at 30 June in the previous financial year as listed in the following table.

Description	Amount
Aged under 49 in the previous financial year, including 9.50% SG	$30,000
Aged 49 or over in the previous financial year, including 9.50% SG	$35,000

Non-concessional Contribution (NCC) Caps

Voluntary contributions made from "after tax" money such as your take home pay and personal savings, known as non-concessional contributions (NCC), allow members to contribute after tax amounts of up to $180,000 per financial year or $540,000 over any 3 financial year period as listed in the table below.

Description	Amount
In a single Year	$180,000
Under the Bring-Forward Rule	$540,000

Co-contribution

Within the voluntary contribution the Government will, under certain conditions, match a non-concessional contribution made by an eligible member up to $500.

Description	Amount
Lower income threshold	$34,488
Cut-off threshold	$49,488
Co-Contribution Limit	$500

For further information, please consult your Lifespan adviser.

Lifespan FINANCIAL PLANNING

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