LIFE Strategies TODAY

December 2012

Market Update

(As at late November 2012)

After peaking at 4600 the All Ordinaries Index slipped back about 5% to 4360. In the last two weeks it has recovered to 4500 as lower interest rates have made shares more attractive.

It seems that once the US election was out of the way the market took a reality check. Suddenly there was an obsession with the US "fiscal cliff", a combination of spending cuts and tax rises to try and get the deficit to a sustainable level. More importantly, however, companies in the US reported lower than expected earnings, taking the heat of the market which was threatening to breach its all time high set in November 2007.

In the last two weeks the fears have abated and the fiscal cliff has been put in perspective. It is a political, not an economic issue. In addition the resolve to keep Greece afloat was also demonstrated with Europe's leaders releasing further funds to roll maturing Greek debt.

In October the RBA eased rates but kept them on hold in November. The RBA has a history of overshooting on interest rates – normally it keeps them too high for too long. It eased this week and cash is now at its lowest rate since the depths of the GFC. Wayne Swan thinks that is a good thing but the rest of us think otherwise. For those of us with a mortgage it is nice to get further relief but we must keep the reasons at the forefront of our minds – cash rates are lower the east coast, and perhaps soon the west coast of Australia is in the economic doldrums. The RBA must think things are really desperate to ease rates this week – it is not a generally benign institution when it comes to providing rate relief.

The lower rates have provided the share market with some traction. Term deposits and cash have been the favoured investments for many in the last couple of years. Cash has dropped from 4.75% to 3.00% in the last year. Term deposits have dropped by over 1%. High yielding shares are looking a lot more attractive now than they were. Telstra, the banks and Transurban have all increased.

Resources

It is clearly evident that the best of the mining boom is over. This has already impacted the resource sector and related companies, such as mining service companies. Any hint of a slowdown has resulted in these shares getting belted – look at UGL and Worley. Their latest results were good but both said the outlook was uncertain. They have fallen over 20%.

According to Bloomberg fund managers have turned bearish on commodities and are cutting net long positions. Many commodities are headed for their first annual loss since 2008. In the last three months copper has fallen 9.50%. Coal and Iron ore appear to have stabilised after heavy falls in July and August. Destocking in China appears to have slowed. There are some signs of growth emerging in China. The latest Purchasing Managers Index reading, a sign of growth or otherwise, was positive.

More seriously, the government is relying on the resource sector to deliver a budget surplus. It has already committed to spending the money it's not going to raise. There is no way Wayne Swan can deliver a surplus without fiddling the books, as he did when he delivered the MYEFO statement last month.

Australia has been largely immune from the global economic shocks of the last few years, largely because of the resource boom. Once the boom is over, and for now it looks like it is, the investment in the resources sector will falter. It is the investment in large projects which has resulted in Australia's relatively strong economic growth. If that stops, our two speed economy slows down to a one speed economy. Unfortunately Australia is becoming increasingly uncompetitive and productivity has slipped in the last few years.

Michael Chaney, the Chairman of Woodside and NAB, has said that the Australia is likely to fall off a "growth cliff" unless we can become more competitive. Woodside will soon make a decision whether the Browse project, estimated to cost $40 billion will proceed. Chevron's Gorgon project has cost $20 billion more than expected. There is a real risk that these large projects will not proceed. Our labour costs far exceed those of our competitors. Business leaders attribute our lack of productivity and high labour costs to Fair Work Australia, which empowered unions, resulting in a less flexible labour force.

Homes Put At Risk by Income Protection Gap

A new survey by CommInsure has found that over 50% of Australians do not hold income protection cover, with many preferring to risk the family home in the event of a three-month loss of income.

According to CommInsure's 2012 Life Risk Survey, 39% of Australians would mortgage or re-mortgage their home if faced with the inability to earn an income for over three months. Similarly, 32% said they would have to 'downsize' their home, and 28% were prepared to move in with family or friends to make ends meet.

Of the 34% of people who said they did hold income protection cover, over half said it was within their super fund. Less than 20% said they had topped their cover up.

A further 11% of Australians admitted to not being sure if they had income protection or not.

CommInsure's General Manager - Retail Advice, **Tim Browne**, said: "We're certainly seeing a savings culture amongst Australians right now, but a major illness, injury or the loss of a breadwinner would challenge any 'rainy day' savings and put many families at risk of losing their home."

This savings culture was evidenced by a question in the survey which asked what people would be most likely to do with a $1,500 windfall. The $1,500 amount was chosen as it illustrates the average annual insurance premium for a 40-year old male, non-smoker with $1 million worth of life cover. 39% of respondents said they would put it towards their savings, and 37% said it would be used to pay off bills. Only 2% said they would use it to take out insurance, and just 1% said they would top up their existing cover.

Many people seem to be taking a set and forget approach when it comes to insurance - holding cover in their super, typically not topping it up, and not seeking advice. This can create a false sense of security that the insurance is taken care of, but a worst case scenario can leave many families ill-prepared and facing significant lifestyle adjustments.

Self-insurance is also an option many people take - although more due to lack of action rather than conscious choice or decision making. This means choosing to take on the financial risk and consequences yourself, should something bad happen such as the premature death or serious injury or sickness of a family member or business owner who brings in the income.

We believe your decision should be based on an educated choice. Do you know what it would cost for you to shift that risk to you or your family's financial security onto an insurance company?

If you would like to review your life insurances to ensure you and your family's lifestyle is well protected against risks such as death, serious illness or injury, then please make an appointment to discuss your personal needs with us.

Should you have any friends or family members that you feel would benefit from such a review, then as always we would certainly value your referrals.

MORTGAGE BROKING
NEWS FROM ONE10

Self employed? How lenders calculate the amount you can borrow for a Residential loan

Most banks calculate the average income based over the last 2 years and if your tax returns show more than 20% variance between the years, then generally speaking, income from the "lower year" is used in servicing the loan, which could affect the amount you can borrow.

One 10 have identified a loan that requires just the most recent year's tax returns

Commercial Loans

Loans for the purchase or refinance of commercial property including Owner Occupied and Investment properties are often more expensive than residential property loans – again One 10 have identified a commercial loan with rates more competitive with residential loans if certain requirements are met which include;

- Maximum lending up to 75% of the property value.
- Very low rate and establishment fees
- NIL ongoing fees
- Variable rate: 6.68% - approx 1-2% less than the major banks
- Fixed rate: 6.50% for 5 years and 6.25% for 3 years

Some current offers on the market

A number of the lenders are currently offering rebates of $700-$1,000 for loans that settle before the end of February 2013.

We continue to see record low fixed rates amongst most of the major lenders.

Some standouts are:

St George Bank	5.29% fixed for 2 years
ANZ	5.39% fixed for 3 years
CBA	5.69% fixed for 5 years

Please don't hesitate to contact us for more information about your lending requirements and/or these offers!

Mid Year Economic and Fiscal Outlook

Relevant changes of interest

To SMSF Trustees and Members

The SMSF supervisory levy will increase by more than a third from July 1, 2013. After the levy was reduced from $200 to $191 as recently as this year, the government announced that it would hike it up to $259 as part of the 2012-13 "Mid-Year Economic and Fiscal Outlook" report.

The government justified the increase by saying there had been a "shortfall of SMSF levy revenue compared to the costs of regulating the sector".

The ATO will collect the levy during the course of a financial year instead of waiting until SMSF trustees submit their tax returns, which is typically up to 11 months after the end of a financial year. We will have to wait to see how they will administer this and let you know once it has been decided.

The government has also provided some clarity on self managed superannuation fund (SMSF) death benefits after a long period of uncertainty.

In welcome news for the many retirees who are taking pensions from their SMSF, super death benefits will now be spared the prospect of being doubly taxed where a benefit must be paid from a fund on the death of a member.

This means the tax exemption on investment earnings that support a pension can continue to apply following the death of a member until the member's benefits have been paid out, even if there if no reversionary pension recipient nominated. In other words, the pension of a fund member who dies will continue to be viewed as a pension for tax purposes until the death benefits are paid to beneficiaries. This will need to be achieved however as soon as practicable after death of the member.

This change will benefit the beneficiaries of deceased estates by allowing superannuation fund trustees to dispose of pension assets on a tax-free basis to fund the payment of death benefits.

We are able to assist you with estate planning advice http://lifestrategies.net.au/our-services/estate-planning.

We will consider estate planning considerations in assisting you to manage your SMSF including the most tax advantageous way to pay pensions from your fund for your beneficiaries ensuring appropriate beneficiary nominations are in place so please do not hesitate to contact either Sharni or Barbara at the office if you have any queries on these issues.

Medical expenses: What you can and cannot claim from July 1, 2012

With all the changes to health-related financial matters this year, it will certainly pay to stay healthy going forward. Apart from already high private health insurance premiums, individuals have to deal with the means-tested private health insurance rebate, a higher threshold before being able to claim the Net Medical Expenses Tax Offset (NMETO) and a halving of the amount that can be claimed once that threshold is achieved.

All three measures were effective from July 1, 2012 but with the furore surrounding the means test on the private health insurance rebate, many have forgotten about the changes to the NMETO.

What is the NMETO? It provides taxpayers with a non-refundable tax offset for out-of-pocket medical expenses (that is, medical expenses minus any reimbursements paid by private health insurance or Medicare). The table below summarises the key features of the new law and the previous law regarding the NMETO:

Previous law	**New law**
• The threshold above which one could claim the NMETO for out-of-pocket expenses was only $2,000. • An individual could claim the NME-TO for the total of the out-of-pocket expenses they incurred for themselves and their dependants. • Individuals at all taxable income levels could receive the NMETO at a rate of 20% of their out-of-pocket medical expenses above the out-of-pocket expense threshold.	For individuals with an adjusted taxable income above $84,000 for singles or $168,000 for a couple or family in 2012-13, the threshold above which one can claim the NMETO for out-of-pocket expenses will be increased to $5,000 – a figure that will be indexed annually. • Where the individual has more than one dependent child, the threshold is increased by $1,500 for each dependent child after the first. • In further bad news for individuals who earn above that threshold, the NMETO rate will be reduced to 10% for the amount of out-of-pocket expenses greater than $5,000. • Individuals with an adjusted taxable income below these thresholds ($84,000 and $168,000 respectively) will be unaffected. These individuals will continue to be able to claim a reimbursement of 20% for net medical expenses over the 2012-13 figure of $2,120 when they lodge their tax return.

Who is covered for claims

The tax offset can only be claimed for:

- you, your spouse or de facto
- children up to age 21, including adopted and stepchildren, regardless of their income; also other under-21-year-olds under some circumstances child-housekeeper, invalid relative, parent or spouse's parent, but only if you can claim a tax offset for them.

Expenses that are eligible for the offset

The medical expenses that are covered include those made:

- to a medical practitioner, nurse or chemist, or a public or private hospital, in respect of an illness or operation
- for dental services or treatment, supply, alteration or repair of artificial teeth
- for therapeutic treatment by referral from a medical practitioner (such as physiotherapist, speech therapist)
- for the purchase or repair of an artificial limb, artificial eye, or hearing aid
- for the purchase or repair of prescribed medical aids
- for the testing of eyes, the prescribing of lenses, or for the supply or repair of spectacles
- to a person who looks after someone who is blind, or confined to bed or wheelchair
- to keep a trained guide dog to assist a blind person, the hearing impaired or other disabled individuals
- reconstructive surgery following an accident or operation

payments made to nursing homes or hostels for permanent or respite care if the payments were for personal or nursing care, not just for accommodation.

Expenses that are not eligible for the offset

Some popular treatments, procedures or situations do not fall within the offset's ambit, including:

- healing and curing therapy
- procedures that are solely for cosmetic or beauty purposes that alter a person superficially
- vaccinations before travelling overseas
- medical examinations for life insurance- although insurance companies generally pay for these
- chemist-type items, such as tablets for pain relief
- non-prescribed vitamins or health foods
- accommodation or transit expenses associated with medical treatment
- contributions to a private health fund
- ambulance charges and subscriptions, and

funeral expenses.

Recent Training Attended

Our team regularly attend Professional Development sessions offered in relation to their work. These are some of the courses attended/ completed in the last quarter.

Sharni

- FPSA Professional Development Day & FPSA Annual Conference in Vietnam
- PIMCO Conference—inflation adjusted bonds
- MLC technical training on SMSF property investments
- ETF Masterclass for exchange traded funds
- Netwealth—Shifting the Investment Paradigm

Michael

- Attended the FPSA Professional Development day
- MLC technical training on SMSF property investments

Barbara

- Barb attends BGL update courses regularly to assist with changes to the software we use, to allow for changes to tax, legislation and to improve efficiencies in preparing SMSF accounts.
- She also attended an Estate Planning 1 day course – incorporating SMSFs.

Christmas Break

Life Strategies will be closed from Thursday, 20th December 2012 to Monday, 14th January 2013 for the Christmas holidays.

Please note that if you need to contact any of the staff during this time we will continue to monitor our main email yourfinancialcoach@lifestrategies.net.au and phone messages and will respond as soon as we can.

Life Strategies wishes you a happy and safe festive season and we look forward to working with you in the New Year.

Download the QR code application on your smartphone then scan this code and it will take you directly to our website!

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Please feel free to forward our newsletter to them if there are items you think would be relevant and could benefit them.

If you require extra copies please do not hesitate to contact our office.