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Did You Know?

In the June 2006 quarter, the average Australian house price reached \$412,000, breaking the \$400,000 barrier for the first time.

The National increase for the quarter averaged 3.3%, the highest since the December 2003 quarter.

National average house prices have increased by 2% pa over the past 2 years.

Source: *Financial Demographics* – www.findem.com.au



Proposed Changes to Centrelink Benefits

When the Federal Budget was brought down on 9 May this year a lot of attention focussed on the proposed changes to superannuation. However, another significant element of the Budget related to proposed changes to Centrelink entitlements. In this edition of Timely Tips we will examine the impact of three important Centrelink changes.

1. Principal residence exclusion

Currently a person's principal residence is excluded from assessment under the Centrelink assets and income tests, however, where the land area on which the residence is located exceeds 2 hectares, only the value of the residence and the surrounding 2 hectares is excluded. The value of the land area exceeding 2 hectares is counted as an asset under the assets test.

From 1 January 2007, it is proposed that where the land area containing a principal residence exceeds 2 hectares, the entire property will be excluded from the assets test provided a number of conditions are satisfied.

These conditions include:

- The property has been held by the owner for at least 20 years;
- The land is covered by one title;
- The land is used for private purposes;
- The land can not reasonably be realised or used for commercial purposes;
- The owners are aged pensioners or of age service pension age.

2. Assets test exempt income streams

When a person invests in a complying pension or annuity, 50% of the amount invested may be excluded from the assets test. For complying pensions that commenced prior to 20 September 2004, 100% of the amount invested was assets test exempt.

A complying pension or annuity is one that has certain characteristics including its inability to be cashed out or commuted (converted to a lump sum).

From 20 September 2007, it has been proposed that complying pensions or annuities that are taken out after that date will no longer receive any exemption under the assets test. Where a complying pension or annuity is taken out before 20 September 2007, it will retain its current 50% assets test exemption (or 100% if taken out prior to 20 September 2004).

An opportunity exists for people who either are currently, or expect to be, affected by the assets test to invest in a complying pension or annuity prior to 20 September 2007 in order to gain access to the 50% assets test exemption.

As the capital invested in a complying pensions or annuity can not be accessed once the contract commences, they should be used with caution.

3. Change to assets test taper

The assets test may result in a person's Centrelink benefits being reduced where their assessable assets exceed a predetermined level. Assessable assets generally include investments, bank deposits, and personal property, whilst a principal residence, money invested in assets test exempt complying pensions and annuities, and superannuation savings for people under age pension age, may be excluded from the assets test, either in part or in full.

Once assessable assets exceed the assets test threshold, a person's pension entitlements reduce by \$3 per fortnight for every \$1,000 their assets exceed the assets test.

Currently, a couple who own their own home can have assessable assets of \$229,000 before their pension begins to reduce. Remember, their home is not included in this amount.

If we take a home-owning couple who have assessable assets of (say) \$300,000, their assets exceed the assets test threshold by \$71,000. This would have the effect of reducing their combined age pension by \$213 per fortnight.

Effective from 20 September 2007, it is proposed that the assets test taper, or reduction, will reduce from \$3 for each \$1,000 of excess assets, to \$1.50 per \$1,000. Referring back to the example in the preceding paragraph, instead of the age pension reducing by \$213 per fortnight, it will only reduce by \$106.50 per fortnight.



getting you from **a** to **b**

This proposed change will see an increase in the number of people being entitled to at least a partial age pension.

Centrelink have two tests that are applied, the assets test and an income test. The test that produces the lower income support benefit is the test that is applied. With the reduction of the assets test taper, in the future it is possible that more people may be affected by the income test.

As with many aspects of retirement planning, gaining access to government income support through Centrelink becomes an important consideration. However, structuring your financial affairs to gain access to such benefits can be complex. With this in mind, you are encouraged to speak with your financial adviser before making any investment decisions to ensure that you do not preclude yourself from income support you may otherwise be entitled to.

Source: Peter Kelly – Professional Investment Services

Life Insurance Cover Through Superannuation

Many people find it convenient to hold their life insurance cover through superannuation. That is, instead of taking out a life insurance policy in their own right and then paying premiums from their after-tax income, the life insurance cover is held through their superannuation fund which pays the premiums.

This can have a number of advantages. As it is the trustees of the superannuation fund that own the life insurance policy, premiums paid by the super fund trustee are treated as an expense of the fund and are therefore tax deductible to the fund.

The life insurance premium is paid out of the member's contributions paid to the super fund and in many cases these contributions may be tax deductible. A self employed person may claim a tax deduction for their personal contributions as may an employer who makes contributions on behalf of their employees. An unsupported person may also be entitled to claim a deduction for contributions made to a superannuation fund. An unsupported person is one who is not receiving superannuation support from an employer during a particular financial year.

Holding life insurance through superannuation can help with managing personal cash flow as it is the fund that pays the premium and not the member directly.

Many public superannuation funds include optional life insurance cover for members of the fund so it can be convenient to arrange the life insurance cover at the time of establishing the superannuation account.

An important point worthy of mention is that as the super fund owns the life insurance, the proceeds of a claim are paid to the superannuation fund which, in turn, generally transfers the benefit to the member's account. In the case of death, where a death benefit is paid directly to the spouse of the deceased, children under 18 years of age, or anyone else who meets the definition of "dependant", a benefit of up to the deceased members pension reasonable benefit limit (currently \$1,356,291, unless a higher transitional RBL applies) paid out tax-free. Any benefit in excess of the pension RBL will be taxed as an excessive benefit. This may be taxed at up to 46.5%.

With the proposed abolition of RBLs from 1 July 2007, there will be no limit of the amount of superannuation benefit that may be received by a dependant in the event of the death of a member. Where, in the past, people may have limited the amount of life insurance cover held within superannuation to their pension RBL, such a limitation will no longer be required.

The types of life insurance typically held within superannuation include death cover, total & permanent disablement cover, and salary continuance or disability insurance. Typically disability insurance, which pays a monthly benefit to replace wages in the event that the insured is unable to work, is limited to a 2 year benefit period. Where a longer benefit period is required, say to age 65, it is customary to hold the policy outside super as the premium is generally tax deductible even if held in your own name.



Insurance against total and permanent disablement may be held inside or outside of superannuation, however, if self-employed, many advisers recommend to hold this cover outside super. In the event of a claim, a benefit may be taxable for the self-employed if it passes through superannuation.

Trauma insurance pays a lump sum benefit in the event of diagnosis of a defined medical condition. As premiums for trauma insurance are not tax deductible to a superannuation fund, it is not customary to hold this insurance through super.

The question of how best to hold insurance cover depends on your individual circumstances. Before structuring your insurance arrangements, the advice of a risk insurance specialist should be sought.

Source: Peter Kelly – Professional Investment Services

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- Superannuation/Rollovers
- Retirement Planning
- Mortgage Elimination
- Shares and Property
- Fixed Interest and Cash
- Tax Planning
- Finance Services
- Home Mortgages
- Business Planning
- Risk Insurance
- Corporate Superannuation
- Corporate Services

Your local advisers office is located at:



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