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Did You Know?

The Australian stock market finished May 2007 up 27.5% for the past 12 months (and that's just the price index before accounting for dividends). On FinDem's calculation, all the shares on the ASX are worth \$1.5 trillion after only having reached \$1.0 trillion less than two years ago.

Source: *Financial Demographics*
www.financialdemographics.com.au

All articles appearing in Timely Tips are written by Professional Investment Services unless otherwise acknowledged.



Maximise your retirement income - Understanding the changes to annuities 20 September 2007

On 20 September 2007 the way some retirement income streams are treated will change. Many people will be affected by these changes and some may be better off if they act before this date. Could you be one of them?

How annuities will change

Right now, when you invest in a 50% asset test exempt annuity (also known as a 'complying annuity'), half of the amount you invest is exempt from the Assets Test, which is used to calculate your Age Pension entitlement. However, annuities purchased after 20 September this year will have no exemption from the Assets Test. This means that Centrelink or the Department of Veterans' Affairs (DVA) will include the entire amount of your investment as an asset when calculating any Age Pension entitlements.

The good news is that if you take up one of these complying income streams before 20 September 2007 it will retain its 50% asset test exemption in the future. So if you are considering investing in one of these types of investments, now is the time to speak to your financial adviser to find out if you can maximise your retirement income by investing before 20 September.

Age Pension thresholds to increase

Another change to be introduced on 20 September will mean many retirees will receive an increased Age Pension and some non-pensioners will become eligible for the Age Pension. The cut-off rate for the level of assets a person or couple can have to be eligible for a pension will increase.

Who will benefit?

- Anyone who is currently eligible for a part Age Pension, is assessed under the Assets Test, and invests in a

complying annuity before 20 September 2007, will receive an increased Age Pension compared to situation if they start their annuity after 20 September.

- Some non-pensioners will become eligible for the Age Pension as a result of the increased thresholds.
- Some non-pensioners will become eligible for the Age Pension by taking up a complying annuity prior to 20 September 2007.

What is an asset test exempt income stream?

It is an income stream – often an annuity – that meets certain requirements set by the government. Funds are invested in exchange for a pre-determined, guaranteed income stream in retirement. If it satisfies certain criteria, the annuity will be a 50% asset test exempt income stream in relation to the Assets Test for Centrelink or DVA assessment. It also receives a generous Income Test treatment.



The income must be paid for a minimum period of your expected term of life. The income may be fixed or indexed each year either by a fixed amount (for example 3%), or by inflation. Once purchased, you generally cannot withdraw lump sums from the capital you used to purchase the income stream. So asset test exempt income streams provide you with a guaranteed income whilst maximising your Age Pension benefits.

1. How an annuity can increase the Age Pension

A home owning couple with \$500,000 in assessable assets is currently eligible to receive an Age Pension of \$1,815 per year, or \$69.80 per fortnight. If they put 30% of their assets (i.e. \$150,000) into a complying annuity on 1 June 2007, their Age Pension would increase to

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

\$7,664.80 per year, or \$294.80 per fortnight. Come 20 September, their pension would rise to over \$15,300 (\$588.46 per fortnight). That's 24% more than they would receive had they not gone into the complying annuity. With the improved Assets Test and the complying annuity investment, this couple's disposable income would increase by over \$519 a fortnight, and that's not including the income the annuity is paying them!

2. The new Age Pension thresholds

A home owning couple who has \$700,000 in assessable assets is currently not eligible for any Age Pension or the Pensioner Concession Card. On 20 September, this will change and the couple can claim an Age Pension of \$4,584 per year.

If this couple put \$207,000 into a complying annuity strategy before 20 September, their pension qualification would almost double to \$8,620 per year. Therefore it's not just existing pensioners that can benefit from this strategy. Those with assets above the Assets Test cut-off thresholds stand to gain as well. But this opportunity closes on 19 September this year, so now is the time to talk to your financial adviser.

Source: Challenger Financial Services Group.

Protecting Your Most Important Asset

Have you ever thought about what would happen if you couldn't return to work due to sickness or injury? Would you have enough savings to ensure minimal disruption to you and your family's lifestyle?

Total and permanent disability (TPD) insurance offers protection and financial peace of mind if the person insured (commonly called the 'life insured') becomes totally and permanently disabled. TPD insurance can provide a lump sum payment or in some cases equivalent instalments to the policy owner if the life insured is disabled as defined in the policy. The payment may be used to eliminate debt, pay ongoing medical expenses, make necessary home modifications or to hire home care services such as nursing, cleaning and cooking. Generally, being totally and permanently disabled for the purpose of a TPD policy means that the life insured can't work in their own or any occupation for which they are suited by training, education and experience.

However, there are different types of

TPD definitions that you need to be aware of. Your financial adviser can help determine which definition would be best for you, but here's some general information for you to consider.

TPD definitions

You can choose between two primary definitions:

Own occupation definition – pays a benefit if you suffer an illness or injury that means you can't work in your 'own' occupation again.

Any occupation definition – pays a benefit if you suffer an illness or injury that means you can't work in any occupation again.

An example: A surgeon who permanently injured his hand will be ineligible for benefits under the 'any occupation' definition because he could still work as a GP. He would however, be eligible for benefits under the 'own definition' as he can't work as a surgeon.



Case Study

David is a 40 year old regional sales manager, husband to Joanne and father to 3 year old Jack. David was involved in head-on collision with another motor vehicle in which he suffered a severe spinal injury resulting in quadriplegia. The injury meant that David was unable to perform his duties as a regional sales manager or any occupation for which he had prior training, education, or experience.

Fortunately, David saw his financial adviser after Jack was born and decided to take out a \$500,000 TPD insurance policy, paid out in lump sum in the event of a claim.

With this money, David and Joanne were able to pay off all their mortgage and personal loans, modify their home, and purchase the necessary medical equipment to make life easier for him.

Who should have TPD insurance?

Broadly, anyone who does not have significant savings which could be used if a sickness or injury occurs and they are unable to return to work.

Source: ING Australia Ltd

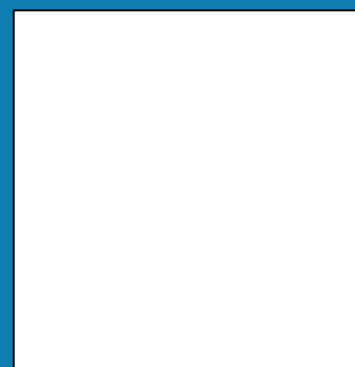
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List of services:

- Wealth Accumulation
- 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 adviser office is located at:



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