



Welcome to the winter edition of *finance forum*

The economy continues to hog the headlines and the Government announced a \$57.6 billion budget deficit in May. What's interesting though is the shift in behaviours and attitudes we've started to see in the last couple of months.

We're now seeing businesses and ordinary people positioning themselves to be ready for a recovery when it comes. Big companies are tightening the purse strings, but there is still planned development and consumers have not completely abandoned shopping trips – at least in Australia.

The newspaper stories are a bit less negative than late last year. Even the share market has shown signs of life, although it's much too early to say the worst is behind us on that front.

This edition focuses on opportunities and traps from the Federal Budget. You will note we've moved our 'Snippets' section to the back page where you can find information on what's happening around SPP

We hope you enjoy reading this edition of *Finance Forum*.

We're a quirky bunch

by **Paul Clitheroe**

It never ceases to amaze me how our way of thinking impacts on where we end up financially. One of the economic indicators I watch with interest is a simple media count of positive and negative comments.

Two years ago the count hit nearly 100 per cent, meaning just about every media comment on money and the economy was positive. In contrast, three months ago, the count was nearly 100 per cent negative. Now I know that 100 per cent positive cannot be the truth. Nor can 100 per cent negative.

So the truth is somewhere between the extremes. The fact is, you're usually better off investing in bust periods, instead of when things are booming and the market is soaring. But our behaviour over the years suggests many of us never learn this – we just can't let go of biases in our behaviour.

That's why I was so interested to come across an article in the Financial Review by economist Andrew Leigh (AFR 5 May) entitled "A Home on the Scrapheap".

What I liked about this article is that it challenges one of our sacred cows, Australians' strong desire to own a home.

Leigh quotes Andrew Oswald of Warwick University, England who has undertaken research linking areas with high rates of home ownership to higher unemployment. Examples he gives are; Switzerland with a home ownership ratio of 37 per cent and unemployment of 3 per cent and Spain with home ownership at 85 per cent and unemployment at 17 per cent.

Leigh then makes some very interesting points;

- ~ when an area suffers a downturn, renters can go to where the jobs are.
- ~ home ownership decreases labour market flexibility.



~ it increases traffic congestion. As homeowners change jobs, they do not move closer to work as a renter is likely to do.

~ if young Australians buy a home too early they can get locked into one job market.

~ it is risky having so much of your money tied up in one asset class.

His final paragraph is really quite challenging "Subsidising home buyers may be a good job creation scheme for real estate agents and buyers, but if it locks young families into jobless regions, we might end up with a longer recession".

Good provocative stuff. I have no argument with Mr Leigh. I think the points he makes against home ownership in terms of an efficient economy are absolutely right. But on balance I think that he is wrong.

There is nothing wrong with renting. It provides flexibility, and can free up surplus income for investments. But what worries me is our behaviour with money.

What I love about our dream to own a home is that it effectively forces us to pay off a mortgage. Once the mortgage is gone, we become far more stable consumers in terms of our spending habits.

While Mr Leigh makes a very good case, I was delighted to read that his heart caused him to chuckle when he discloses that he is one of the 70 per cent who owns a home. Economically perfect? Probably not. The right decision for us humans? I think so.

Paul Clitheroe is a founding director of financial planning firm ipac, Chairman of the Federal Government's Financial Literacy Foundation and chief commentator for *Money Magazine*.



Budget snapshot: how are you affected?

The 2009/10 Federal Budget has a number of impacts on financial strategies, economies and markets.

retirement strategy impacts

Concessional super contributions limit halved

From 1 July 2009, the Government proposes that the amount that can be contributed to super at concessional tax rates will be halved. This includes Superannuation Guarantee, salary sacrifice and personal contributions that attract a tax deduction. The change affects:

- ~ higher-income earners,
- ~ those who want to reduce a potential capital gains tax liability on sale of an asset, and
- ~ people who want to 'catch-up' on super contributions in later years.

It also reduces the benefit of the popular 'transition to retirement' strategy, for employees aged 55+ who start a pension and sacrifice part of their salary to super.

The proposal is that from 1 July 2009 for people aged 50+, the 'transitional' contributions cap reduces from \$100,000 to \$50,000. For younger people, the concessional contributions cap reduces from \$50,000 to \$25,000 (indexed).

no indexing of non-concessional contributions cap

The non-concessional contributions cap of \$150,000 pa (or \$450,000 over three years) was to be indexed from 1 July 2009 to \$165,000 pa. This won't

happen in 2009/10, so there's now no advantage in delaying non-concessional contributions to 1 July 2009.

lower minimum pension drawdown extended

In February the Government halved the minimum pension drawdown requirements for account based income streams for 2008-09. It is proposed that this will be extended for 2009-10.

Commonwealth Seniors Health Card (CSHC) changes dropped

A proposal to include the gross amount of tax-free super income in the income test for the CSHC has been dropped. However, the proposal to include amounts salary sacrificed to super in the income test still applies from 1 July 2009.

Pension and Centrelink changes

Age Pension age will increase for both men and women to 67 from 1 July 2023. This will be achieved by increasing the qualifying age by six months every two years from July 2017. Currently, qualifying ages are 63.5 for women, 65 for men. Other pension changes that are proposed to come in from 20 September 2009:

- ~ **Rate increase:** full rate pension increases by \$32.49/week for singles and \$10.14/week for couples. This includes Age Pension, Disability Support Pension and Carer Payment.

~ **Income test tougher:** for single pensioners, the rate at which the pension reduces will increase from 40 cents for each additional dollar of private income to 50 cents in the dollar. For each member of a couple, this 'taper' increases from 20 cents to 25 cents. Current part pensioners who would be hurt by this will have existing payment rates maintained.

~ **Pension bonus scheme closed to new members:** while existing members of this scheme are not affected, it closes to new members from 20 September 2009. The scheme provides a tax-free lump sum (maximum \$34,815/single or \$29,077/couple) to people who stay in the workforce and delay receiving the Age Pension. The scheme will be replaced by a new Work Bonus which provides an exemption from the income test for 50 per cent of the first \$500 per fortnight of employment income.

Employee Share Acquisition Scheme (ESAS) benefits cut

The Budget proposals limit access to employee share schemes, with the result that employees with an Adjusted Taxable Income of more than \$60,000 can no longer participate in \$1,000 exempt plans. The ability to defer tax on the value of shares or rights acquired has also gone from Budget night. These measures were to apply immediately, however are now under review.

other financial strategy changes

A number of other proposed changes that may have an impact on financial strategies were also announced. These include:

- ~ proposed tax cuts confirmed
- ~ 18 weeks paid parental leave from 1 January 2011
- ~ first home buyers boost extended in full until 1 October 2009, but abolished 31 December 2009
- ~ additional carer payments.

Super co-contribution cut for now

The Government's super co-contribution will be cut temporarily under the Budget proposals. For contributions made between 1 July 2009 and 30 June 2012, the government will contribute \$1 (instead of the current \$1.50) for every dollar up to a maximum \$1,000. From 1 July 2012 it increases to \$1.25, finally going back to \$1.50 from 1 July 2014. Income thresholds apply:

income range (2008 – '09)	co-contribution
\$30,342 or less	Full co-contribution
\$30,343 to \$60,341	Partial/tiered co-contribution
\$60,342 or more	No co-contribution



health insurance proposals affect high-income earners

Changes to the Private Health Insurance tax offset and Medicare levy surcharge thresholds announced before the Budget are proposed to come in from 1 July 2010. The offset will be means tested and the Medicare levy surcharge will apply as shown in the table below, if the proposed measures are confirmed (at the time of writing, the Opposition had said they would fight this proposal):

means testing thresholds for private health insurance tax offset and Medicare levy surcharge

single income*	family income*	offset < age 65	offset 65 - 70	offset ≥ age 70	surcharge
< \$75,000	< \$150,000	30%	35%	40%	nil
\$75,001 – \$90,000	\$150,001 – \$180,000	20%	25%	30%	1%
\$90,001 – \$120,000	\$180,001 – \$240,000	10%	15%	20%	1.25%
> \$120,000	> \$240,000	nil	nil	nil	1.5%

* income definition is Adjusted Taxable Income. For those crossing age thresholds, application of each threshold is based on days of eligibility.

what it means for the economy

The Government's Budget strategy has two contrasting objectives:

1. provide further fiscal stimulus in the short-term, building on the emergency measures announced in the December 2008 and February 2009 mini budgets and;
2. set the wheels in motion to balance the Budget over the long-term.

The Government expects 2009/10 to be a tough year with the economy shrinking by 0.5 per cent, its first decline since 1990/91. Unemployment is expected to rise to 8.25 per cent by June 2010 from the current 5.4 per cent.

As a result of the global recession, and weakening terms of trade in Australia, the budget deficit has increased to \$57.6 billion. The Government expects it to stay almost that high in 2010/11, and to take at least six years until the Budget returns to balance.

While the two mini budgets focused on 'cashing up' households to provide a 'kick' to consumer spending, the emphasis is now on long-term investment programs in transport, health, education and communications.

what it means for markets

There was not much "new news" in the Budget to worry, or excite, investors too much as most of the announcements were out before Budget night. Here's a quick summary:

- ~ **Cash:** cash rates are likely to remain low for quite some time, until clear evidence of economic growth and inflation come through.
- ~ **Bonds (fixed interest):** the Government will issue large volumes of bonds to raise money and fund the large deficit. While Government bonds are traditionally regarded as "safe haven" assets in tough times, the potential large supply of bonds could hold down bond prices.
- ~ **Shares:** the climate remains difficult, however the local share market is cheaper than its long-term average (based on average price-earnings ratios). While individual companies will benefit from infrastructure projects and other initiatives, overall the Budget is unlikely to have a major impact on shares.

learning more

To understand the changes in more detail and whether your financial strategy is affected, please contact us.

key financial strategy impacts

- ~ tax cuts confirmed
- ~ changes to Commonwealth Seniors Health Card dropped
- ~ Age Pension full rate increased
- ~ Pension income test tougher
- ~ concessional contributions to super trimmed
- ~ lower minimum super pension drawdown extended
- ~ private health insurance to cost more for high-income earners
- ~ employee share plan benefits cut

Snippets



Welcome to SPP Sara

SPP Tax Services continues to grow as more SPP financial planning clients take advantage of our in house tax lodgement service. In late May, the tax business acquired a small tax firm originally based in Ashmore, adding over 700 family groups to the service. We are pleased to welcome Sara Harrison to our team. Sara moved to the Gold Coast from Newcastle in 2006 and will be responsible for looking after our new tax clients.



Sara Harrison

SPPs extended services

As you know, Strategic Planning Partners are industry leaders when it comes to providing quality comprehensive financial advice. Maybe you didn't know just how far our expertise goes. Some other areas we can provide advice on include estate planning strategies, self managed super fund assistance, personal insurance management, and of course, SPP Taxation Services.

If you need help in any of these areas, please contact your adviser.

Special event

Jeff Rogers, ipac's Chief Investment Officer, presented SPPs investment update on the 3rd of June at the Gold Coast Arts Centre. Jeff shared views on the current market environment, some emerging opportunities and how to get your finances on track. For those of you who were able to attend, we hope you enjoyed the presentation.

Women and Money

SPP has been running a series of small information workshops titled 'Women & Money' in order to help educate and assist women to take control of their finances in a comfortable non-threatening environment. The seminars are absolutely free and have been a success for those who have attended to date. Future topics to be covered include estate planning, Centrelink strategies, saving and investing, and retirement planning.

The workshops are presented by our own Theresa Chapman, Certified Financial Planner and co-host of 4CRBs Finance Forum. If you would like to register your interest for future events please contact the office.

Kokoda Challenge

Our own Josh Mashman from our Technical Services team is taking part

in the 2009 Kokoda Challenge on July 18, a cross country team event through a route in the Gold Coast Hinterland signifying the experience of Australian troops on the Kokoda track during World War II.

The Kokoda Challenge is Australia's ultimate team event, combining endurance and mateship, as teams of four trek 96kms in 39 hours.

It is one of Australia's toughest events and it's not just physically and mentally demanding - it is also a fundraising challenge. Teams commit to raising money to help fund the cost of the Kokoda Challenge Youth Program, an early intervention program for young people from all walks of life which encourages them to learn the skills and values of discipline, tolerance, respect and self worth. Participants in the Youth Program culminate their 20 week training schedule by walking the actual Kokoda Track in Papua New Guinea.

If you would like to find out more or sponsor Josh's team please contact Josh at SPP.

Referrals – Thank you!

We would like to extend a thank you to all our clients who continue to refer friends and family to us. It's an important way for us to continue to grow our business and we are always happy to meet someone on your reference.

Arrange an appointment with your financial adviser

This year's Federal Budget has several implications for financial strategies. If you'd like to discuss how you could be affected and what this means for you, please contact your financial adviser to arrange an appointment.



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