MARCH 2013

Lifestyle Matters

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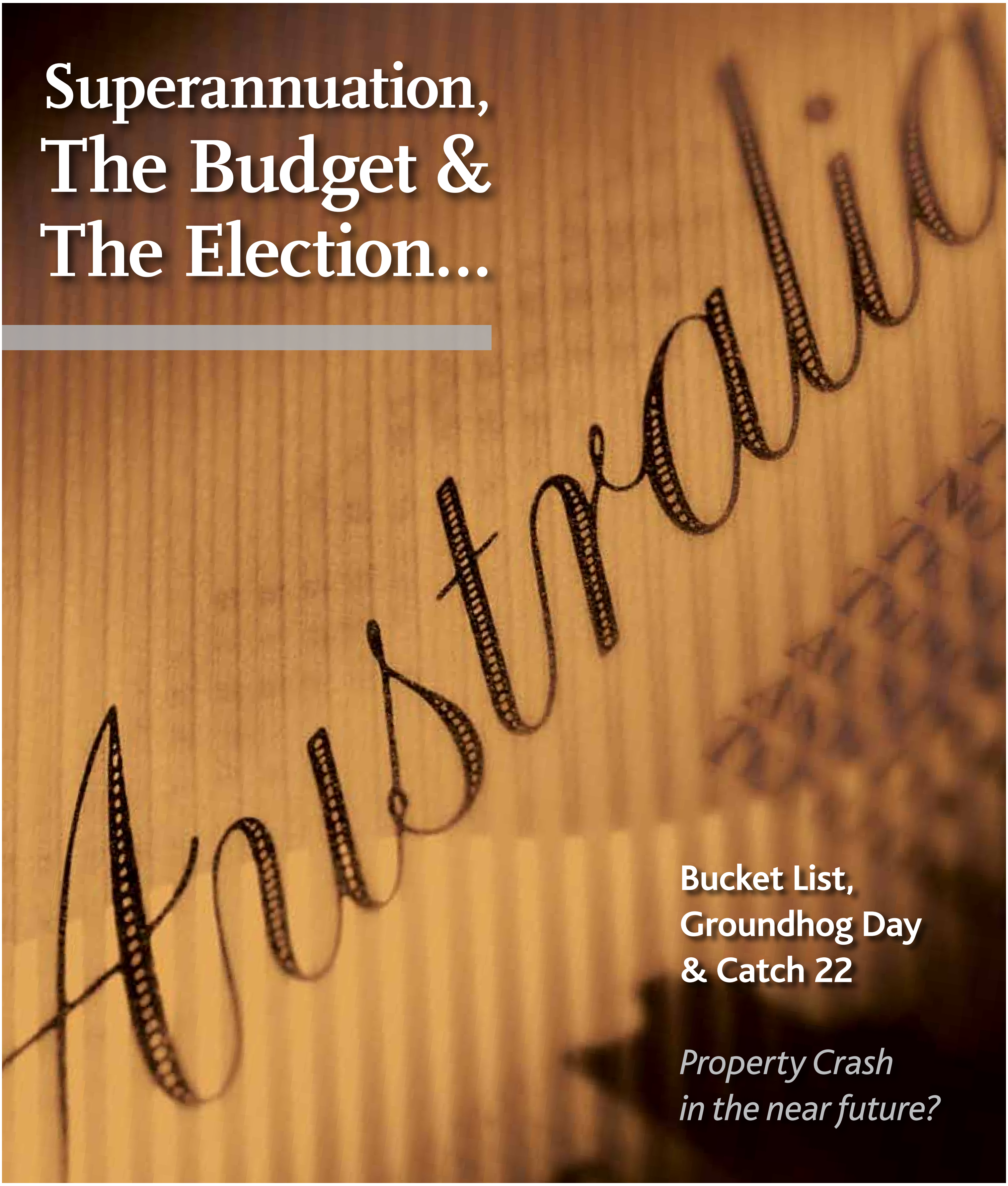

Superannuation, The Budget & The Election...

Bucket List, Groundhog Day & Catch 22

Property Crash in the near future?

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Superannuation, The Budget & The Election…

There is no hiding from the fact that superannuation has been a political football for the last 5 years. In addition to the Global Financial Crisis, constant tinkering with rules and regulations around superannuation has undermined confidence in Australia's preferred retirement funding vehicle.

The many changes have been well documented previously so we do not intend to outline these again. What we do wish to address is recent media headlines suggesting even more changes in the upcoming May Budget which could possibly be the last by this current Government.

THERE ARE 3 MAJOR WAYS THE GOVERNMENT CAN TAX SUPERANNUATION.

1. On the way in (via contributions tax of 15%),
2. On earnings within superannuation (currently at 15% on income and 10% on capital gains) and,
3. On the way out (currently NIL tax on superannuation pension income payments and withdrawals once you are over 60 years of age).

The Government has already doubled contributions tax for those earning higher incomes ($300,000) however, there is the possibility that this could be extended by dropping this income threshold to $180,000.

There has also been talk of the Government re-introducing tax on the way out of superannuation but no details have been given yet.

So how does this affect you?

Most of the questions coming from our clients have been around the continued attractiveness of making additional superannuation contributions. Quite simply, if contributions tax is higher and withdrawal taxes are re-introduced, the relative attractiveness of additional super contributions would need to be re-evaluated. Of course, everybody's situation is different, but factors such as alternative investment vehicles and time to retirement would need to be considered in most cases.

Despite this uncertainty, we draw some comfort from the fact that all major superannuation changes over the last 20 years have generally not retrospectively disadvantaged those who have contributed to superannuation prior to the change.

What would happen under a Liberal Coalition Government?

We don't know, however, Liberal Governments have generally been very supportive of those looking to self-fund their retirement through superannuation. In 2007, Treasurer Peter Costello, announced many generous superannuation concessions, including the removal of tax on superannuation pensions from age 60.

Matthias Corman, Shadow Assistant Treasurer, has gone on the record as saying: "we won't be rescinding the legislated increase in the super guarantee from 9 to 12 percent".

"A Coalition Government will not make any negative unexpected changes to superannuation. We need to restore confidence in superannuation as the retirement savings vehicle of choice," Corman said.

"Australians doing the right thing by saving for their retirement deserve stability and certainty in superannuation arrangements so they can plan their future retirement with confidence."

All we can do is be vigilant and "watch this space".

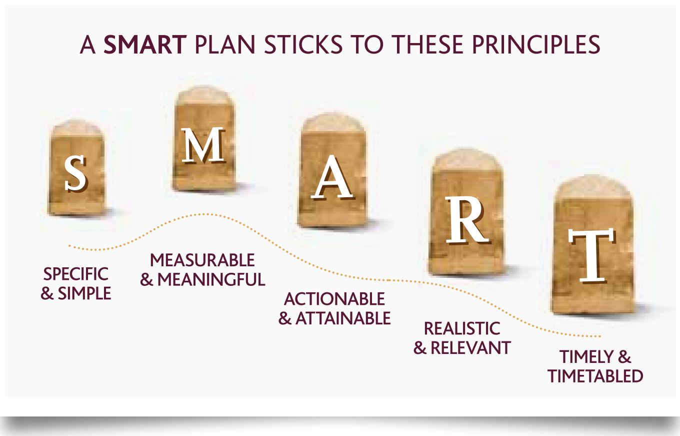
DO YOU HAVE A 'BUCKET LIST'?

Isn't it amazing how novels and movies can change our language and the way we communicate with each other?

It's hard to recall where this all began, but the first instance that comes to mind is the book *"Catch 22"*. This saying has become so common in our modern vernacular that it is even described in encyclopaedias and dictionaries.

More recently we had the movies *"Groundhog Day"* and *"The Bucket List"* that became almost instant classics.

So, how does this relate to financial planning I hear you ask? Well, the starting point for any financial plan is really your personal 'bucket list' (or lists). If what you want to achieve in life is exciting enough, the strategies to help you tick off all the items on your list can be implemented and followed through with vigour and discipline. If the **why** is weak and meaningless, interest in the strategies will wain and the plan will not be successful.



We find that most people who do develop and stick to a financial plan have clear written **Life Goals**. These translate into **Financial Goals**. The process of creating a financial plan identifies steps that must be taken and turns a hoped-for result into a likely outcome.

Importantly, in a turbulent economic period such as the one we have experienced in recent years, a written plan allows you to keep your eyes on the long-term prize, rather than making a panicked decision. It also gives you the chance to make far more accurate fine-tuning decisions to ensure everything stays on track toward your desired goals. The long-term nature of a financial plan can help ease any short-term concerns as it allows time for the market to smooth out the bumps and dips along the way, while providing the opportunity for growth.

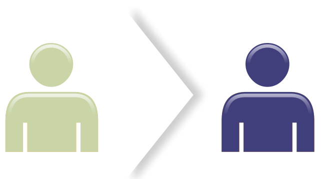
A good financial plan will show you numerous ways to make your long-term hopes a reality, including; the amount you will be required to save to achieve your goals, the utilisation of tax effective financial vehicles and protection of your financial future through insurance and good estate planning.

A thorough plan will have milestones along the way that serve to break up the major plan into a number of smaller ones and also act as checkpoints to ensure you're still on track. Such a strategy is known in some circles as a *SMART* plan. *'SMART'* is a well known and heavily researched guide to setting powerful but realistic objectives.

Perhaps a final *'R'* should be added to the plan to represent *'Review'* and *'Reassess'*. As previously mentioned, once the plan is in place it must be changeable. In fact, it should be fine-tuned at least once every 12 months during your annual reviews. Products develop, governments introduce new legislation, regulations are altered, changes to tax laws offer new opportunities and markets rise and fall. In our experience change (whether it is with your own personal situation or within the environment we live) is constant, so it pays to review your plan regularly. After all, if you're confident about your future, you're more likely to enjoy the present.

Lifestyle can help you crunch the numbers to work out how to fund, and therefore achieve the items on your *'bucket list'*. Make sure you discuss your list with us when we next meet.

Of course the *catch 22* is, if you don't have a plan in place to achieve the things on your *bucket list*, life might end up like *"Groundhog Day"*!



CLIENT REFERRALS TO LIFESTYLE FINANCIAL SERVICES

The best compliment we can receive from a client is a referral to their friends or family. We are always happy to have an initial meeting with someone you think may benefit from our services, with no obligation and with no fee, to ensure we can, in fact, add value. We will always ensure we protect the privacy and respect the confidentiality of all our existing and new clients.

Improvements to housing affordability are irrelevant if you have not got a job and can't make repayments.

Property Crash Ahead?

Yes, we know we have written about this before but it is such a recurring theme in discussions with...well everyone, that we can't help but document our thoughts and observations.

On one hand you have respected ratings agency, Standard and Poors (S&P) coming out in February saying that Australia's level of housing debt is a ticking time bomb that could see the property market collapse if economic conditions do not improve. On the other hand the RBA Governor, Glenn Stevens, stated recently that "housing investment should strengthen given several factors are supportive."

S&P are concerned about rising levels of unemployment. "The sustainability of high household debt levels has not been tested in an environment of high unemployment for a long time," stated S&P in a recent Fairfax report. They also believe that house prices are elevated relative to household incomes. Despite this, they did remain cautiously optimistic on Australia's economic health and believe strong fundamentals should keep our AAA rating intact.

To present a different spin on the above, Governor Stevens noted that the share of household income devoted to interest payments has declined considerably and this has lead to improved housing affordability.

He said: "Interest rates are low, housing prices are tending to rise, gross rental yields have increased, population growth remains strong and is even picking up a little." However, he did add that: "admittedly, we are as yet very early in this phase."

LIFESTYLE'S VIEW:

Our view has not changed much from the last time we wrote about this topic (in December 2010). On an investment fundamentals basis, property, as an asset class, looks overpriced. It simply does not provide a great return on your investment from an income perspective.

BUT IS IT GOING TO CRASH?

We agree with S&P. It all depends on the level of unemployment. Improvements to housing affordability are irrelevant if you have not got a job and can't make repayments. If unemployment is kept in check, the RBA will do the rest. They can still reduce interest rates further if required and it is unlikely they would increase rates before it is very obvious that Australia is on the recovery path.

So what about our view that the market is overpriced? It is difficult to see this correcting given the current undersupply of housing and high occupancy rates we have in Australia. And this does not appear to be changing anytime soon.

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