

AUTUMN 2009 NEWSLETTER

Uncertainty rules! The world is waiting, and watching the USA. Who knows whether the bail-out packages will work? Investment markets hate uncertainty. Only an American could describe the current position as clearly as this:

“There are known knowns; there are things we know we know. We also know there are known unknowns: that is to say we know there are some things we do not know. But there are also unknown unknowns – the ones we don’t know we don’t know” Former US Secretary of Defence Secretary Donald Rumsfeld.

The Defence Secretary was describing the USA’s involvement in the Middle East, but he could well have been giving a speech on the current state of the USA banking system. Listening to a number of well known investment managers over the last two weeks has reinforced our view that the world is sliding into a depression, although Australia will not feel the pain as much as many other countries.

The global indicators of growth and inflation have not been this weak for 35 years. We do, however, know the cycles come to an end, and the current negative cycle will end.

The biggest concern for Australia is the very high level of household debt. Since 1995 household debt as a percentage of income has risen from below 6% to over 15%. This means that on average, Australians are today using 15% of their after tax income to service their debts. We have felt comfortable with debt because asset values, primarily housing, has risen during the period. We now find ourselves in a position with overvalued houses and very little in savings. The figures quoted above are the average numbers. If you take away all of the retirees, and the people who have no debt, the average level of household debt climbs alarmingly.

What has happened to household budgeting? Remember when we sat down and figured out how to save up to by a new household appliance. In those days a budget was *a method of worrying before you spent, instead of afterwards.*

Tips For Claiming Donations To Emergency Relief Funds

The Australian Taxation Office has issued a media release that clarifies the following matters:

- People who give to ‘bucket donations’ can claim a tax deduction of up to \$10.00 without needing any proof of the donation.
- People who have made a donation over the telephone or via the internet, can use their web receipt or credit card statement as evidence. There is no limit on how much can be treated as tax deductible. The organisation however, must be endorsed by the Australian Taxation Office.
- You can check whether an organisation is endorsed at www.ato.gov.au

Lifestyle Matters Pty Ltd

ABN 49 095 706 362

40F Victory Boulevard

Ashburton Vic 3147

Ph. 03 9885 4549

Fax 03 9885 0919

Website: www.where2now.net

Changes To The Minimum Level Of Pension Drawn From All Types Of Allocated Pensions

The Federal Government has announced that the minimum pension draw down for the current financial year will be cut in half. If you do the maths, this is already misleading because more than half of the year has already gone. It could in theory be useful for a small number of people who can afford to reduce their pension. Fund managers will have systems in place to provide people with an opportunity to reduce, or cease their pension payments beginning in March 2009.

We encourage clients to ring us if they believe that it would be in their best interests to take up this offer. Our cursory review of clients tends to suggest that the number of people that will ring us, can be counted on the fingers of one hand!

Aged Care Update

The Australian Government is developing a new website that will enable people to gain much more access to information about the quality and compliance of Australia's 2,830 aged care homes.

From the 1st of July 2009 this new website will list all of the State and Territories nursing homes that:

- Have been the subject of an official sanction in the previous year
- Are currently the subject of an official sanction
- Have received a notice of non-compliance (NNC) in the previous year, or
- Is currently the subject of a NNC

Centrelink Assistance When Times Are Tough

There are three ways in which Centrelink may be able to assist people who are facing hardship due to their investments being frozen or suspended, or they own assets that they cannot sell, or be reasonably expected to sell. The three options worth exploring are:

- Gaining access to the Age Pension, or a higher level of Age Pension
- The Pension Loans Scheme
- Request a revaluation of assets

The Social Security severe financial hardship rules may allow some people to gain access to the Age Pension provided that they are assessed under the Assets Test. The rules effectively exempt assets that are frozen or unsaleable as unrealisable assets, and therefore they are not counted under the Age Pension Assets Test.

The Pensions Loan Scheme provides a supplement to a person's income in the form of a loan arrangement secured by real estate. This arrangement may suit people who do not wish to sell an asset

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during the current economic climate. This scheme is only of benefit to pensioners who are not currently receiving the full rate of pension.

Clients who are subject to the Age Pension Assets Test can apply to have their investments revalued if they are unhappy with the figures currently being used by Centrelink. In March and September each year Centrelink do a bulk update of share prices and managed fund unit prices. From time to time, they do more frequent revisions. The last revision, that we are aware of, took place on the 3rd of November 2008.

Could Your Wife Be Eligible For A UK Pension?

Many men who have worked in the UK are unaware that their wives are most likely to be entitled to a part UK pension. Any wife of a husband that is receiving a UK pension can check their potential entitlement via the following Australian contacts: local call charge phone number 1300 308 353, or by emailing contactus@britishpensions.org.au *Note: the source of this update only mentions 'wife' (not partner).*

The UK pension is not subject to our assets test type assessment. The negative features of a UK pension include, no indexation, and the amount can fluctuate significantly due to exchange rate movements.

Worth Thinking About

- Never laugh at anyone's dreams. People who don't have dreams don't have very much – Anon.
- Words from George Carlin, a comedian of the 70's and 80's:

The paradox of our time in history is that we have taller buildings, but shorter tempers, wider freeways but narrower viewpoints. We spend more, but have less, we buy more, but enjoy less. We have bigger houses, but smaller families, more conveniences, but less time. We have more degrees, but less sense, more knowledge, but less judgement, more experts, yet more problems, more medicine, but less wellness.

The Cost Of A Comfortable Retirement Rises Again

The Westpac-ASFA Australian Retirement Standard data now shows that a couple will need at least \$50,561.00 per annum to maintain a comfortable standard of living in retirement.

Clients can see the full details of how these numbers are put together at www.superannuation.asn.au and then search for the section called super guru, and look for the part titled 'retirement standard'.

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Changes To The Government Superannuation Co-Contribution Scheme

On the 1st of July 2003 the Federal Government introduced a unique initiative designed to assist eligible low income earners boost their superannuation each year. From the 1st of July 2007 the scheme was extended to include self-employed low income earners.

The basic facts are as follows:

- A low income earner is defined as a taxpayer whose taxable income is below \$30,342.00 in the current financial year. These taxpayers may qualify for the full co-contribution of \$1,500.00 provided that they contributed at least \$1,000.00 and did not claim a tax deduction for the contribution. Lesser contributions attract a reduced co-contribution.
- A partial entitlement to the co-contribution applies when a taxpayer earns between \$30,342.00 and \$60,342.00, and contributes at least \$1,000.00 and does not claim a tax deduction for the contribution. The maximum co-contribution reduces at the rate of 5 cents for every dollar of taxable income above \$30,342.00.

From the 1st of July 2009 the income on which the entitlement is based will be adjusted to include amounts that have been salary sacrificed into superannuation and other eligible deductions.

The Interim Reporting Season

The interim reporting season refers to the six-monthly reports that listed Australian companies are required to send to the Australian Stock Exchange. The reports are typically delivered at a public meeting attended by the media and shareholders. We are in the middle of the interim reporting season right now.

This is proving to be one of the most difficult in many years. Many companies are reporting lower profits and difficult trading conditions in the year ahead. Companies with significant offshore operations are reporting the worst conditions. Several companies have declined to provide full year guidance on their profit outlook, because frankly they cannot see that far ahead with certainty.

After this reporting season is over, we will have a much better idea of the companies that will weather the storm in reasonable shape. Some companies are far less likely to suffer a protracted period of poor results because of the industry in which they operate. We will be advising clients which companies to invest in when all of the results are in.

Disclaimer

This newsletter is for general information only. Tax, Social Security and Investment Laws change frequently and may affect different persons in different ways. You should not act solely on information in this newsletter.