



## OPTIMISING YOUR RETIREMENT INCOME

**Determining the best way to generate the level of income required for retirement is no easy feat. Often this will involve withdrawing some investment capital along with investment earnings to generate the income a retiree may need.**

For example, let's assume John, who is age 60, will be retiring after 1 July 2007 and needs an annual income of around \$45,000. He is wondering should he generate his retirement income by starting a superannuation pension, from his bank account or from a balanced investment portfolio outside of superannuation?

For many, commencing a superannuation pension will be the optimal choice. Based on the proposed new superannuation rules, all money withdrawn will be tax-free for those aged 60 or over. Additionally, investments are in a tax-free environment in the pension phase. However, if John's retirement income were drawn from a balanced investment portfolio outside of superannuation, he would pay tax on investment earnings and on capital gains withdrawn.

Funding retirement from a bank account is probably the least favourable scenario. Not only because the earnings may be less than the above investments, but also because 100% of the



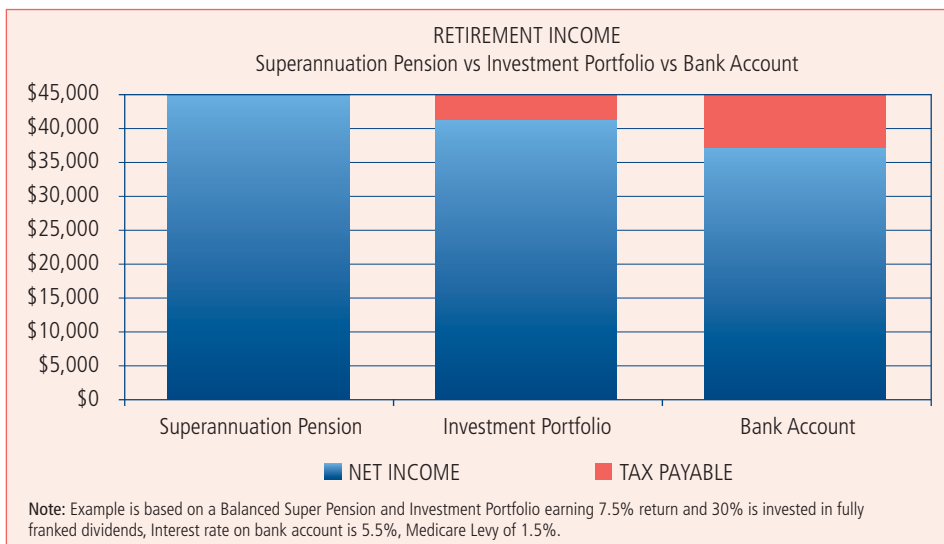
income is assessable and John may need to drawdown more capital, depleting his investment sooner.

Given that any tax paid is effectively eroding what could be utilised in retirement, commencing a super pension may provide considerable relief.

Everyone's situation is different, so speaking with your Financial Adviser can help determine whether your retirement funds should be in superannuation, outside of superannuation or a combination of both.

*“You create your opportunities by asking for them.”*

Shakti Gawain



# BOOSTING YOUR SUPER BY 30 JUNE 2007

During the May 2006 Federal budget, Peter Costello announced a number of sweeping superannuation changes that have been subject to quite a bit of discussion over the last 11 months. Importantly, whilst a number of the proposed changes are yet to be finalised, there are some opportunities that will no longer be available after 30 June 2007.

Broadly, the main changes centre around super benefits becoming tax-free for those aged 60 and over and changing the amounts that can be contributed to super – after-tax contributions (undeducted) which will be effective immediately and before-tax contributions from 1 July 2007.

## TAX-FREE SUPER FOR THOSE AGED 60 AND OVER

At present the amount of tax payable when you withdraw super depends upon whether you make a lump-sum withdrawal or receive a pension, your age and the 'type of money' being withdrawn.

From 1 July 2007, this will be simplified. Super withdrawals and pension payments (from taxed superannuation funds, like the Fiducian Superannuation Service) will be tax-free for those aged 60 or over. However, for those under age 60, tax will continue to apply on any benefit withdrawn.

## AFTER-TAX CONTRIBUTIONS

Before the 9 May 2006 Federal Budget there was no upper limit on the amount that could be contributed to super after-tax. Based on the proposed announcements, an annual cap exists on the amount that can be contributed (see note box) from 9 May 2006. After some discussion the Government agreed that for a short period, until 30 June 2007 the cap would increase to \$1,000,000. Note, breaching these limits could mean paying an additional 46.5%\* in tax.

## BEFORE-TAX (SALARY SACRIFICE) AND EMPLOYER CONTRIBUTIONS

Currently, age-based limits generally restrict the amount that can be contributed to super before-tax. The older you are, the more you can contribute. Any amounts contributed over your age-based limit are not deductible to your employer. Therefore the only disadvantage to you was that your employer might not have allowed you to contribute any extra money to super before-tax.

From 1 July 2007, based on the proposed announcements, a 'Flat Dollar Limit' of \$50,000 will apply to all before-tax contributions (including company contributions). In addition,

the responsibility and consequences of not remaining within the limits will be borne by you and not your employer. Breaching these limits could result in paying an additional 31.5%\* and then 46.5%\* in tax.

If you are heading towards retirement it would be wise to speak to your Financial Adviser to see how you can benefit from these changes.

\*Includes Medicare Levy of 1.5%

### BEFORE 30 JUNE 2007

1. Can you boost your super by making after-tax contributions – up to \$1million to 30 June 2007?
2. If you have more than one employer, you may be able to invest more than your age-based limit – up until 30 June 2007 contribution limits is an employer concern. Therefore, two employers means two limits.
3. Consolidating super for those with super entitlements before 1 July 1983 can help to maximise your tax-free benefits if you're eligible to retire before 60; or for Estate Planning purposes.

### AFTER-TAX CONTRIBUTION LIMITS

1. Maximum of \$1,000,000 from 9 May 2006 to 30 June 2007
2. From 1 July 2007 a maximum of \$150,000p.a. If you're under age 65 there is no work test. Those aged 65 or over but under 75, must satisfy a work test of 40 hours in 30 consecutive days.
3. Those aged under 65 will have the option to 'bring forward' an additional two years of contributions.

### BEFORE-TAX CONTRIBUTIONS LIMITS

1. After 1 July 2007 a Flat Dollar Limit of \$50,000 applies.
2. A concessional limit of \$100,000 is available for those who are aged 50 or over, up until 30 June 2012.

*“Wise men  
make more  
opportunities  
than they find.”*

Edward de Bono



# MARKET OVERVIEW

## IS THE GLOBAL ECONOMY GOING TO SLOW DOWN THIS YEAR?

The world is currently enjoying its fourth straight year of strong growth (around 5% per year). While not all regions are booming, much of the developing world certainly is, including China (growing at close to 10% per year), India (over 7%) and much of Eastern Europe (over 6%). The advanced economies though have to pull their weight, as they provide the major export market for the productive output of the developing world. No advanced economy is more important than the US, as it imports goods and services roughly equivalent to the entire output (GDP) of the UK economy. Any slowdown in spending by US households would therefore have a major effect on the rest of the world.

However, currently the US economy appears to be in good health. It grew by around 3.5% in the December quarter and consumer spending was even stronger. Good news too has been coming from the other major advanced economies in Europe and Japan. In both regions, although GDP growth has been low, business confidence has reached high levels.

While booming exports have been the main impetus for this growing confidence, the outlook for household spending has also been improving. All in all, prospects for the global economy for the year ahead appear encouraging.

## WHAT ABOUT THE OUTLOOK FOR SHARE MARKETS?

Share markets in all the major economies, including the US, Japan and most of Europe, as well as Australia, continue to trade at reasonable valuation levels. This is despite large lifts in share price indexes since the market trough of March 2003. The reason for this phenomenon of rising markets and relatively stable or even falling valuations is that corporate earnings have been growing even more strongly than markets. In the US, for example, 2006 was the fifth consecutive year of double-digit profit growth for companies.

With no recession in sight, inflation under control and valuations still reasonable, the outlook for most world stock markets looks positive, with potential for further market appreciation over the course of 2007.

*“To go fast, row slow.”*

Norman Vincent Peale

## SUDOKU PUZZLE

To solve a Sudoku, every number from 1 to 9 must appear in:

- Each of the nine 3 x 3 boxes
- Each of the nine vertical columns
- Each of the nine horizontal rows

Remember, no number can occur more than once in any row, column or box.

Answers on page 4.

2			1		5	4	7	
7				6				
		4	2		9		8	5
9		8				6		7
	7						3	
6		3				9		4
4	2		5		3	8		
				8				2
	3	6	4		1			9

