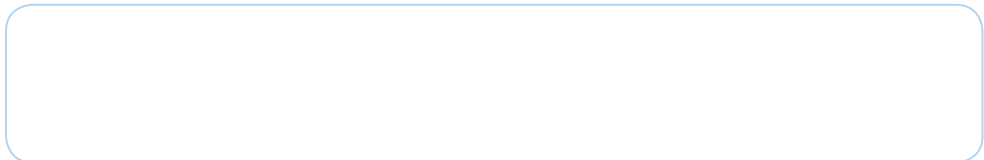




Financially Speaking



Edition 23 2009

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The 2009/2010 Federal Budget at a glance

On 12 May 2009, The Treasurer, Mr Wayne Swan, delivered his second Budget. The 2009/10 Budget provides for an underlying deficit of \$57.6 billion.

The focus of this Budget is to stimulate the economy and to protect jobs.

Governments around the world have introduced various stimulus measures to tackle the global downturn; Australia is no exception.

Since the 2008/09 Budget, the Government have announced a number of stimulus measures.

The measures announced in this budget will mostly affect higher income earners, social security recipients and retirees.

Here is a brief summary of the key changes announced in the 2009/10 Budget.

Taxation

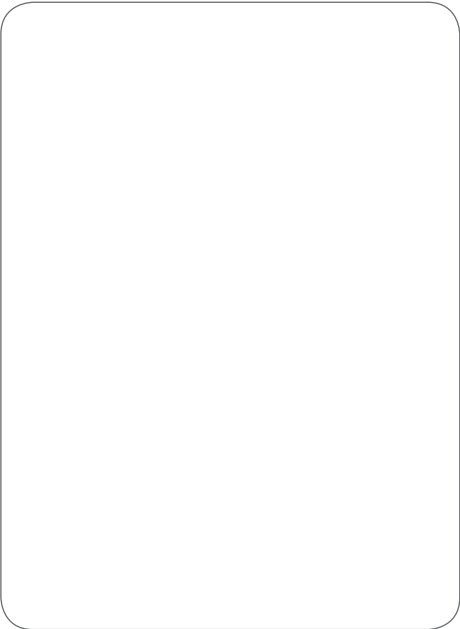
Personal tax savings

Tax cuts, as announced in the last year's budget, are still to apply. From 1 July 2009, the 30% threshold will be increased by \$1000 to \$35,001 and the 40% marginal tax rate will be reduced to 38%.

The income tax rates for 2009/10 are detailed below:

Table 1: Income tax rates 2009/10

Taxable income	Tax payable
\$0 - \$6000	Nil
\$6001 - \$35,000	Nil + 15% of excess over \$6000
\$35,001 - \$80,000	\$4350 + 30% of excess over \$35,000
\$80,001 - \$180,000	\$17,850 + 38% of excess over \$80,000
\$180,001 +	\$55,850 + 45% of excess over \$180,000



Private health insurance

Currently, individuals and families who hold private health insurance cover are entitled to a Government rebate of 30% on their premiums.

Broadly speaking, individuals and couples earning more than \$75,000 and \$150,000 in income for surcharge purposes respectively who do not have private cover must pay the Medicare levy surcharge of 1% of the total of their taxable income plus reportable fringe benefits. Income for surcharge purposes includes taxable income, reportable fringe benefits and certain distributions from family trusts.

The Government has announced significant reforms to the private health insurance rebate system, starting from 1 July 2010. If the proposal is legislated, the level of rebate will depend on the level of income earned.

The Medicare levy surcharge will also increase up to the maximum level of 1.5% of the total of taxable income plus reportable fringe benefits if:

- you do not have private health insurance and
- your income for surcharge purposes is more than \$75,000 (for individuals) or \$150,000 (for couples).

From the 2009/10 financial year, income for surcharge purposes will also include certain

pre tax contributions to superannuation and net investment losses.

The changes are summarised in Table 2 below.

Below are some of the factors to consider when deciding whether to take up or to retain private health insurance:

- Medicare levy surcharge payable compared to the cost of the premiums
- extra cost of private health insurance if applying at a later date
- private health insurance policy benefits
- if the tax cuts fully or partially cover the reduction in rebate.

Table 2: Private health insurance threshold 2009/10

Tier	Threshold		Rebate			Medicare levy surcharge
	Singles	Families	Under 65	Age 65 - 70	Age 70+	
0	\$0 - \$75,000	\$0 - \$150,000	30%	35%	40%	0%
1	\$75,000 - \$90,000	\$150,001 - \$180,000	20%	25%	30%	1%
2	\$90,000 - \$120,000	\$180,001 - \$240,000	10%	15%	20%	1.25%
3	\$120,000	\$240,001 +	0%	0%	0%	1.5%

Superannuation

Reduction to the contribution caps

One of the most significant superannuation changes announced in this Budget is the reduction in the superannuation contribution caps.

From 1 July 2009, the concessional contributions cap (which includes your salary sacrifice contributions and Superannuation Guarantee contributions your employer makes) will be reduced from \$50,000 p.a (indexed) to \$25,000 p.a (indexed). If you are 50 or over in the financial year, you are eligible for the transitional concessional contributions cap. The transitional concessional contributions cap applies until the financial year ending 30 June 2012. This cap will be reduced from \$100,000 p.a to \$50,000 p.a.

The non concessional contributions cap will remain at \$150,000 p.a for the 2009/10 financial year. The averaging provisions (allowing contributions totalling up to \$450,000 over three financial years) will still be available if you are eligible.

The reduction in the contribution caps means you may need to re visit your retirement savings plans. This may be of particular concern if you are have been planning on starting to save for your retirement close to retirement age rather than saving gradually over a longer period of time.

It is also time to review your salary sacrifice arrangement to ensure that you do not exceed the concessional contributions cap.

Reduction to the Government co contribution

Currently, if you make an after tax superannuation contribution and are eligible to receive a Government co contribution, the co contribution amount will be up to 150% of your contribution, up to a maximum of \$1500 depending on your level of income.

From 1 July 2009, the maximum co contribution will be reduced to \$1000. The matching rate will reduce to 100%.

This is a temporary measure and the matching rate and co contribution will gradually be restored to their current level for the 2014/15 financial year and beyond.

Minimum pension drawdown relief

The 50% reduction in the minimum pension drawdown requirements will be extended to the 2009/10 financial year. This recognises the current economic downturn and the impact that it has had on superannuation fund balances.

If you have, for example, an account based pension, this measure provides the opportunity to keep more capital invested in the concessional tax pension environment for longer.



Social Security

Increase to age pension age

The qualifying age for the Age Pension and the Commonwealth Seniors Health Card will gradually increase until 2023, when the age for both men and women will reach 67.

This increase will be phased in and will be effective from 1 July 2023.

Increase in the maximum Age Pension rate

The Government will increase the maximum rate of Age Pension.

The rate of increases is:

- \$32.49 per week for single pensioners receiving the full rate of pension
- \$10.14 per week (combined) for couples receiving the full rate of pension.

Closure of Pension Bonus Scheme

The Pension Bonus Scheme currently provides a tax free lump sum bonus if you continue working beyond age pension age and delay claiming the Age Pension.

The Pension Bonus Scheme will be closed to new applicants from 20 September 2009.

The Government will continue to encourage older Australians to work, by providing concessional treatment to employment income under the Income Test. The concession, called Work Bonus, will exempt half of the first \$500 per fortnight of employment income from the Income Test.

Increased Income Test Taper Rate

Currently, every dollar above \$138 per fortnight (if you are single) and \$240 per fortnight (if you are a couple) (combined) reduces your pension payable by 40 cents. The Government will increase this rate to 50 cents from 20 September 2009.

Existing pensioners will not be disadvantaged by this change. They will continue to receive their entitlements under the existing rules and will also receive the \$10.14 Pension Supplement (for single or for couple combined), until the new system provides them with a better outcome.

Commonwealth Seniors Health Card

The Government will modify the income test used to determine eligibility for the Commonwealth Seniors Health Card (CSHC). From 1 July 2009, the definition of income will be expanded to include certain

superannuation contributions from your employer. Salary sacrificed contributions would generally be included. However, Superannuation Guarantee contributions, for example, would be excluded.

The Government will no longer proceed with its previous proposal to include tax free income stream payments under the income test used to determine eligibility for the card.

Conclusion

The 2009/10 Federal Budget presents some significant changes which will affect many Australians. Now is the time for you to speak to your financial adviser to plan for the 2009/10 financial year and beyond. Existing strategies should be reviewed as some of the changes announced will make them redundant or less effective. New strategies should be implemented where necessary to achieve your goals and objectives.

If you're interested in finding out more about how your finances are affected by the budget, see your financial planner.

Source: Zurich Financial Services Australia



Does super still stack up?

Investing in super may have lost some of its gloss, but the tax advantages mean that it is still an attractive option.

A couple of years ago, when the share market was rising rapidly, superannuation seemed like a foolproof way to fund your own retirement. Returns were high and the tax advantages were considerable. Now that returns have been affected by the market downturn, some investors may be questioning whether it is still a good idea to put extra funds into super, or just stick with the compulsory 9% employer contributions.

Buying at the bottom

No one can predict exactly how long it will be before the market recovers, but you will want your super to be positioned in the best possible way to benefit from a recovery. And in the share market at the moment there are quality stocks going 'cheap', which means there could be buying opportunities to be had. As the chief executive of the Association of Superannuation Funds of Australia, Pauline Vamos, says "People are doing it tough, but other costs are coming down and you're buying at bargain basement prices if you put money into super now".

The tax advantages are numerous

To encourage people to fund their own retirement, the Government has in place a number of benefits designed to make investing through super as attractive as possible.

Here are a few of the tax advantages:

- Once you reach age sixty, there is no tax on any money you take out of super.
- If you convert your super to a pension, you do not pay any tax on the investment earnings in your pension account.
- If you earn \$30,342 p.a or less in the 2009/2010 financial year, for every after tax \$1.00 that you contribute to super the Government will co contribute \$1.00 up to a maximum of \$1,000. People earning up to \$60,342 p.a in the 2009/2010 financial year can also benefit.¹

- Investment returns within super are taxed at just 15%, unlike most investment returns outside super, which can be taxed at up to 46.5%.
- You don't pay income tax on amounts you salary sacrifice to super. Instead, your super contributions are usually taxed at 15%, which can be much less than your marginal tax rate. In addition, you may pay a lower rate of income tax if your salary sacrifice reduces your remaining salary so it falls into a lower income tax bracket.

Things to consider

No minimum amount is required to add to your super, but you should consider the tax implications and contribution caps that may apply, as well as your personal circumstances and objectives.

Your financial planner can help you with this.

How much super is enough?

Although this is very much an individual assessment, research from the Association of Superannuation Funds of Australia indicates that a couple will need to spend \$50,086² per annum, in today's dollars, to live comfortably in retirement.

Based on our estimates, this means a couple would need a combined super

balance of approximately \$762,000 (in today's dollars) to live comfortably for twenty years of retirement.³

If you're unsure how much super you'll need, you can use the Colonial First State 'How much super is enough?' calculator to help you estimate how much super you will have based on your current situation. If you have a final sum in mind, you can also estimate the additional contributions you may need to make to reach that amount.

To access this calculator, go to www.lonsdale.com.au and click on Useful Tools.

Your financial planner can assist you in planning for your future. Call your financial planner today.

¹Please note these contribution thresholds have been updated by Lonsdale Financial Group Limited since the original article was written by Colonial First State in line with the budget announcements by Treasurer Wayne Swan on 12 May 2009 and are believed to be accurate at the time of publication. Please seek advice from your financial planner when planning your superannuation.

²Association of Superannuation Funds of Australia: Westpac – ASFA Retirement Standard Report (June Quarter 2008).

³Source: Colonial First State. Assumes an annual earning rate of 6% after fees and taxes with annual pension payments of \$50,086 indexed to inflation at 3% pa over 20 years of retirement. Excludes any Government age pension entitlements. A change in one or more of the assumptions will produce different results.

Source: Colonial First State



Safe to get back in the water?



Simple ways to make a splash or dip your toe in investment markets.

After some testing times in financial markets, many investors now find themselves waiting for the market to turn and wondering what to do next. If you've pulled back from your investment strategy, the big question for you is how to get back in the market — do you make a big splash, grind out the laps or just dangle your feet over the edge?

Feet first

If you're a conservative investor, you're probably looking for investment opportunities that won't bobble around too much with share market fluctuations. You've probably felt pretty anxious watching the value of your portfolio fall, so capital protection is a priority. Think about dipping your toe in the water with low risk investments like bonds and cash funds. From there, you'll want to check the depth and temperature of the water before going any further. If you're a really conservative investor, you might even hold off until the market has shown signs of a sustained recovery. Of course, if you do this you will miss out on the early gains, but you should sleep soundly at night.

Off the blocks

For investors looking for steady long term growth, your approach is less about your entry and more about grinding out the laps in search of incremental improvements. You're happy to take a slow and steady approach to investing. Short term falls in your portfolio are annoying, but you're confident that over time the market will recover and move higher.

One effective way of getting back in the market is to dollar cost average: a strategy where you contribute a fixed amount of money to your investment at regular intervals. By doing this, you'll be buying more when the market is low and less when the market is high, and you won't have to worry about timing your entry. Of course, dollar cost averaging does not guarantee a profit, but it does help smooth out the market's up and downs.

Somersaults and splash bombs

For the right kind of investor, the adrenaline and dizzy heights of the ten metre platform can be too hard to pass up. And if you're looking for a ride full of twists and turns, you'll see the big falls in the market as an opportunity to make money — particularly to pick up good stocks at bargain prices.

To you, it doesn't matter if the market isn't at the bottom yet because you have a long term view — long enough to wait for the market to turn so you can make a good profit.

You could think about investing in managed funds with a higher allocation to Australian and international shares. Just be prepared to hang on for the full ride.

Safety in the water

Regardless of whether you're a conservative, moderate or aggressive investor, there are always some investment basics to follow:

- See yourself at the finish line

It's always important to understand your investment goals and why you're investing. If your goals have changed, then you may need to realign your portfolio to help you achieve them.

- Know where the deep end is

Investing always involves an element of risk, and even more so in today's uncertain market. The worst situation is to be in trouble and out of your depth, so it's a good idea to clearly understand what sort of investor you are. Assessing your risk profile is a standard part of every financial plan — ask your financial planner to help you.

- Practice all your strokes

In an uncertain market, it's important that you don't stick with one discipline, but diversify across different asset classes. Sometimes when markets change dramatically, the level of diversification in your investment portfolio can also change.

Take the time to ensure your portfolio is set up for an endurance event, not a sprint.

Your financial planner can assist you in planning for your future.

Call your financial planner today.

Source: BT Financial Group

Does your insurance inside your superannuation offer enough financial protection for your family?

Many employees think that their superannuation provides enough insurance cover, but does it really? While there can be advantages in arranging insurance through your employer's superannuation plan, there can also be disadvantages. It is too important an issue to leave to chance so here are some of the facts.

Your needs?

Before examining the pros and cons of insurance ownership, it is important to calculate how much cover you need based on the following:

- total debts including mortgages, personal loans and credit cards
- future family income needs so that your income could be replaced
- specific funds to provide for your children including education expenses
- funeral costs; and
- provision for specialised medical care and recreational or rehabilitation costs in the case of total disablement or critical illness.

Your financial planner will help you work out the amount of cover that you need, taking into account your circumstances and budget.

What is available through my employer sponsored superannuation plan?

Once you have calculated how much cover you need, you should consider the value of the insurance benefits in your employer sponsored superannuation plan. Remember that you can have both your employer sponsored superannuation fund and personally arranged insurance plans in place as part of your total protection planning.

You also need to check definitions of disability and other cover restrictions under employer sponsored superannuation insurance arrangements. They can often

be more restrictive than personal insurance plans in terms of what's covered and the degree of disability required to make a successful claim.

Generally speaking, employer superannuation plans do not calculate insurance benefits based on an individual's needs but on a pre-set formula, such as a pre-set 'unit of cover' or 'multiple of salary'.

Furthermore, recent research by IFSA* revealed that default levels of cover in superannuation funds for most people would not provide an adequate level of financial security, should the unexpected happen.

What if you are disabled, sick or injured?

You should check if you are covered for the diagnosis of traumatic events such as heart attack, stroke and cancer through your superannuation funds. While the fund may offer cover for total and permanent disability, cover is unlikely to extend beyond this.

In relation to sickness and accident, while some employers offer 'group salary continuance schemes', they don't always offer insurance cover up to the generally accepted maximum of 75% of gross income or additional benefits to reimburse superannuation contributions.

The payment of salary continuance benefits can be limited through superannuation funds to a maximum of two years, which may leave you out of pocket if you are sick or injured for longer than that. Living for years with a partial disability or a degenerative disease is a reality now, and in the future, due to the latest advancements in medical treatment and technology.

In reviewing the insurance available within your superannuation, you should also check on the conditions of release as these are often limited, meaning that any claim payments made could be held within the superannuation fund until you retire.



Is cover under employer superannuation cheaper?

It is fair to say that premium rates under an employer superannuation scheme are often lower than personally owned policies, however, this is not always the case. Your employer may not be paying the premium for you as some funds are structured so that insurance premiums are deducted from Superannuation Guarantee contributions. In effect you are paying the premium.

What if you start a new job?

If you are about to leave your employer and you want to take out a personal policy, you should apply for it before you leave your current employer, in case you can't obtain personal cover. This gives you the fall back position of exercising a continuation option, within a certain period of time, from the superannuation fund you are leaving.

Handy Hints

Your financial planner can help you assess your insurance requirements to protect your financial future. Knowing how much cover you need and making sure you have adequate cover in place far outweighs the convenience and possible cost advantages of relying solely on your employer sponsored superannuation fund.

*IFSA Lifewise Research, May 2009.

Source: Tower

The outlook for investment markets

Asset class

Listed property

Short term prospects Australian real estate investment trusts (A-REITs) have been severely beaten back from overvalued levels, reflecting the sector's high levels of indebtedness and complex financial engineering. Looming debt maturities and falling valuations continue to plague the sector and further announcements regarding breaches of loan covenants are anticipated. Increased vacancies

will also drag earnings down over the course of the economic slowdown. However, much of this bad news is known and has been priced in by the market, and many A-REITs have rallied hard from near-capitulation selling in March 2009. Quality A-REITs caught up in this vicious selling now offer good value for patient investors.

Asset class

Residential property

Short term prospects Residential property remains sluggish after the exhaustion of the nationwide housing bubble. While rising rents and an increase in the First Home Owner Grant are providing some support (distortion) for prices, this is being somewhat

negated by the spectre of rising unemployment. Zurich Investments expects house prices to stay sluggish as high house-price to disposable income ratios continue to adjust.

Asset class

Cash

Short term prospects Interest rates have been slashed in Australia by the Reserve Bank of Australia from 7.25 to 3 per cent in a succession of quick moves as the credit crunch takes its toll on the

local economy. Investors who have flocked to cash following the Australian Government's guarantee on bank deposits will need to weigh up its relative safety against the prospect of falling yields into the future.

Asset class

Bonds -
Australian and
international
fixed interest

Short term prospects Yields remain attractive on high quality corporate debt, and Zurich Investments anticipates a degree of spread compression when confidence reverts to more normal levels. Until then, investors should closely monitor default rates in the

sector. Government bonds have also enjoyed good returns as rates have been cut across the globe. However, very low yields may be problematic when the rate cycle turns.

Asset class

Australian Shares

Short term prospects The Australian market has rallied more than 20 per cent off its March lows but whether this is the early stage of the next bull run or just another sucker rally remains to be seen. The local market has arguably recovered from oversold levels and it is likely that the easy money has already been made. In some instances, the share price rally of some companies is unjustified, given that the

problems of highly leveraged balance sheets have not gone away. On the other hand, opportunistic companies have raised additional capital in recent weeks. While our banks remain in relatively good shape, attention must be paid to bad loan provisions and the continuation of the challenging operating environment. Dividend cuts across financials are indicative of the need to preserve capital.

Asset class

International Shares

Short term prospects The green shoots of recovery have put a fire under global markets at a time when most were pondering how much further things could fall. From March lows, the US is up more than 30 per cent and the UK more than 25 per cent. Unloved Japan has rallied more than 35 per cent, with other Asian markets even higher. US equities have largely completed their latest round of quarterly earnings, with many corporates beating expectations, albeit from severely pessimistic estimates. The market has shrugged off the results of the US financial 'stress tests' and taken comfort from some banks reporting

profit for the first time in many quarters. Nonetheless, the transparency of these tests and quality of these earnings warrant some scepticism. For the time being, risk is back in vogue with markets factoring a return to economic growth by the end of the year, though Zurich expects a sluggish recovery regardless of the timeframe. Ultimately, uncertainty around earnings must be addressed for a sustainable rally, and investors should continue to look to companies with strong market positions and that are capable of generating solid cash flows.

Different strokes



Australians will suffer 60,000 strokes in 2009. Here's how to avoid becoming another statistic.

In February 2005, AFL footy star Angelo Lekkas suffered a minor stroke while playing a practice match for Hawthorn. He was twenty eight. Scans revealed the stroke affected 40 per cent of his brain's cerebellum. Fortunately, Lekkas made a full recovery and was back on the field by round fifteen. He retired at the end of the season and now does sports tuition. He's also an ambassador for the National Stroke Foundation.

If there's a lesson to be learnt from Lekkas' experience it's that no one is immune to the risk of stroke. According to the National Stroke Foundation, stroke (cerebrovascular disease) is Australia's second largest killer after coronary heart disease.* One in five people die within one month of having their first ever stroke.* Meanwhile, 88 per cent of stroke survivors live at home and most have a disability.* And contrary to what many people think, stroke isn't just an old person's disease.

Disclaimer

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Nearly one in five Australians who has a stroke is under fifty five.*

Spotting the symptoms

A stroke occurs when an artery supplying blood to a part of the brain becomes blocked by a clot or a burst blood vessel. Deprived of oxygen, brain cells in the affected area can die. According to the National Stroke Foundation, this can take anywhere from a few minutes to a few hours depending on the severity of the stroke.

Ischaemic strokes (caused by a blood clot) are more common. Clots tend to form in arteries that are narrowed by a build-up of fats. Causes of haemorrhagic stroke, which occurs when a blood vessel bursts, include high blood pressure and cerebral aneurysms (weak spots in the blood vessel wall).

The Heart Foundation says symptoms of stroke include loss of:

- strength (paralysis) of the face, arm and/or leg on one side
- feeling (including complete loss of sensation, numbness or tingling) of the face, arm and/or leg on one side of the body
- normal speech (e.g. difficulty finding the correct words)
- balance
- normal vision (e.g. double vision, poor vision).

Preventative measures

Stroke is a cardiovascular disease, so the main risk factors are the same as for heart attack. To reduce your risks of stroke, the Heart Foundation recommends:

- regular blood pressure, sugar and cholesterol tests (and keeping levels in check)

- following your doctor's advice on lifestyle factors
- taking any prescribed medicines (i.e. to help stop blood clots forming, control blood pressure etc.)
- not smoking.

More general ways to improve cardiovascular health include eating healthy food, doing at least 30 minutes of moderate physical activity most days and maintaining healthy body weight.

Cover for stroke and other traumas

Insurance cover is available to help you and your family cope financially if you are diagnosed with stroke or another serious trauma. Trauma insurance payments can be used for whatever purpose you choose, whether it be specialist medical attention, covering the cost of home modifications, repaying debts (such as your mortgage) or travel for recuperation. Speak to your financial planner to find out more.

* "10 things you should know about stroke", the National Stroke Foundation. www.strokefoundation.com.au

Source: Zurich Australia Limited

Recognise stroke FAST

Face: Can the person smile; does their mouth/eye droop?

Arms: Can the person raise both arms?

Speech: Can the person speak clearly and understand what you say?

Time: Act FAST and call 000 immediately.