FIDUCIAN FOCUS
Spring 2016

IS SUPER STILL WORTH IT

The May 2016 Budget contained significant amendments to superannuation including capped limits to the concessional tax treatment of contributions and pensions.

While these changes are not yet legislated, superannuation is still an attractive tax vehicle as tax is generally applied on earnings in accumulation mode at no more than 15%, increasing the retirement capital available to compound over time. Once in pension mode, no tax is currently applied on (exempt current) pension income.

Saving for retirement – accumulation mode

Tax on superannuation can be substantially lower than the tax paid on salaries, business income and investments. A median income earner on $59,000, will be paying tax at 32.5 cents in the dollar, plus Medicare Levy, for every $ above $37,000 earned, which is significantly higher than the 15% tax applied on superannuation.

The superannuation contributions can be made:

- via salary sacrifice to reduce your current income tax bill, which in turn will increase the capital for retirement savings, after contributions tax is applied. Until 30 June 2017, up to $35,000 can still be contributed into superannuation if you were aged 49 or over on 30 June 2016.
- to obtain a guaranteed return of up to 18% on the $3,000 contribution, for an eligible low income or non-working spouse. The maximum rebate of $540 currently applies if the spouse's income is less than $10,800.
- to access two superannuation pools and two preservation ages for retirement, via spouse contribution splitting. The split contribution will not be included in the receiving spouse's super caps.
- to fund reduced working hours before full retirement. By commencing a Transition to Retirement Income Stream (TTR), a client aged between preservation age and age 59, will receive the income stream less tax applied at his/her tax marginal tax rate less a 15% offset and the earnings on the TTR assets will be taxed at nil.
- to protect your lifestyle, cover debt and ensure that you can achieve your goals, whilst managing cashflow and reducing the after-tax effective cost of insurance. Technically, the payment of insurance premiums will reduce retirement savings, so the impact of under-insurance, family protection and retirement savings will need to be carefully considered.
- reduce applicable capital gains tax.
- protect minor children as a method of estate planning. Unlike minor penalty tax rates of up to 47%, a dependant child beneficiary can receive up to $49,753 income annually tax-free.

As taxable income increases, the tax advantages of saving within superannuation increase. A marginal tax payer of 47% will have an effective tax break of 32 cents per dollar salary sacrificed (subject to Div 293 Tax).

For lower-income earners, the Government will also boost retirement savings via the Government Superannuation Co-contribution Scheme. Up to $500 is available if income is less than $36,021.

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AGE PENSION – PLANNING FOR COMFORTABLE RETIREMENT

Accessing Age Pension income support is an opportunity to access certain income and other concessions and savings during retirement. The Social Security system also allows a retiree to supplement income to a more comfortable living standard from savings and/or use these retirement savings to access capital growth opportunities to increase the likelihood that these investments will last through retirement.

Given historically low interest rates, a 65-year-old couple would need to invest about $1.2 million in an annuity to achieve the same return as a full Age Pension (currently $34,252 per year).

January 2017 Assets Test change – allowances and pensions

The Age Pension is subject to age, residency, assets and income test rules.

In January 2017, the number of eligible Age Pensioners will be reduced by the application of an increase in the Assets Test-free area and the doubling of the assets reduction (taper) rate from $1.50 to $3 for every $1,000 above the new assets thresholds.

This change will affect all recipients for allowances and pensions, as the amount received from Centrelink is the lesser of the income payment calculated under both the Assets and the Income Tests.

Low-income clients with assets between the current Assets Test-Free Areas will become eligible to receive the full Age Pension:

Asset Test Free Area	August 2016	January 2017
Single homeowner	$209,000	$250,000
Couple homeowner	$296,500	$375,000
Single non-homeowner	$360,500	$450,000
Couple non-homeowner	$448,000	$575,000

Critically, the doubling of the taper rate will reduce the part-pension for many Age Pensioners with mid-level assets and eliminate the pension at a lower maximum threshold. A couple homeowner currently receiving a part-pension with assets of $1,175,000 will no longer receive the Age Pension, as their assets exceed the expected 2017 disqualifying limit of $823,000.

Should the Age Pension be lost on 1 January 2017, previous Age Pensioners will:

- be automatically issued with the Commonwealth Seniors Health Card (if Age Pension Age or above) or the Health Care Card for those below Age Pension Age. These cards will be exempt from the usual income tests indefinitely
- lose Centrelink Concessional Income treatment for Account Based Pensions acquired before 1 January 2015. The account-based pension will instead become subject to deeming rules unless there is access to another income support payment, and treated as a normal financial asset earning a set rate of income, irrespective of the income actually generated. The current deeming rates are 1.75% and 3.25%, while the current RBA cash rate is 1.5%

  Deeming will be applied permanently, irrespective of whether the Age Pension is later reclaimed
- lose the Pensioner Concession Card. The Pensioner Concession Card reduces the cost of medicines under the Pharmaceutical Benefits Scheme, and allows access to various concessions available from state and territory governments and local councils, such as reductions in property and water rates and reductions in energy bills.
- Potentially see an increase in Aged Care Daily Fees if the impact of deeming income from a previously non-deemed allocated pension is greater than the loss of the Age Pension.

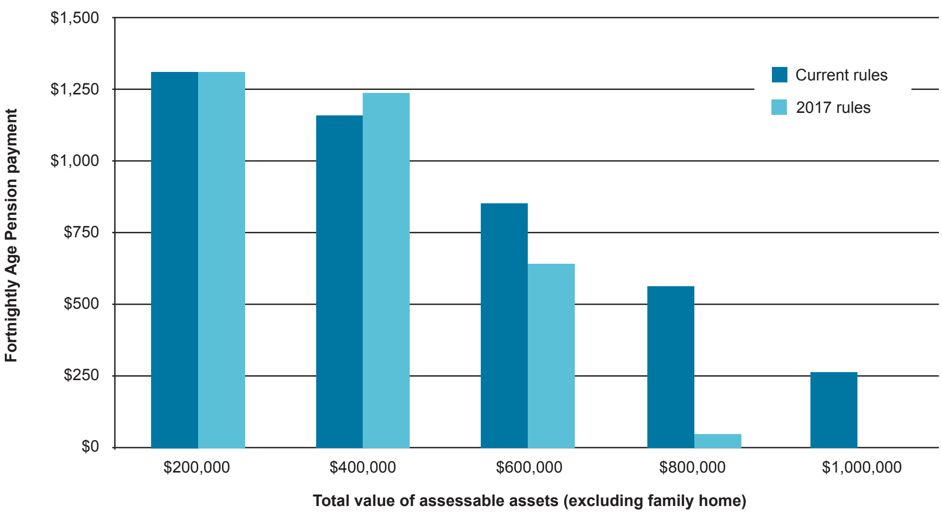
How can you prepare for the change?

The January 2017 Assets change will reduce the part-pension for 235,000 pensioners, with another 91,000 losing their full Age Pension entitlement. These pensioners will need to consider their options:

- How they will replace their lost income?
- Will they draw more from their retirement savings or change how their retirement assets are structured?
- Can they trim their budget? Will they cut planned expenditure, for example, a holiday?
- Is there anything they can do now to manage the Centrelink Assets Tests?

Assets test – couple homeowner

(Based on maximum total couple - combined Age Pension rate)



Your Fiducian financial planner is always happy to assist. If you would like assistance with managing the Age Pension changes or any other financial advice, please contact your planner.

Sources:

http://www.humanservices.gov.au

2016 thresholds correct as at July 2016. Source: http://www.humanservices.gov.au/customer/enablers/assets/

2017 thresholds based on: The Hon Scott Morrison MP, 2015, Rebalance Assets Test Parameters - Non Homeowners Pension Impact, Media Release (related file), 7 May, Department of Human Services, Canberra.

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ASFA Retirement Standard www.superannuation.asn/au/resources/retirement-standard, sourced 8/8/2016

THE CASE FOR GLOBAL EMERGING MARKETS

Andrew Heyden, Aberdeen Asset Management Limited, an underlying manager for the Fiducian Global Smaller Companies and Emerging Markets Fund

The longer-term growth themes behind emerging markets (EM) are generally well understood. These are countries and regions of the world that have relatively young, hardworking, populations, where people are aspiring to more western-like, middle class, lifestyles. The ambitions of these people have been driving above average economic growth in these countries, which has in turn led to attractive investment opportunities in many of the sharemarkets of these developing countries.

Despite this, developed market equities have generally outperformed emerging market equities over the last few years, particularly in the US. However, signs are increasing that emerging markets offer better prospects going forward, versus their developed market peers, for several reasons.

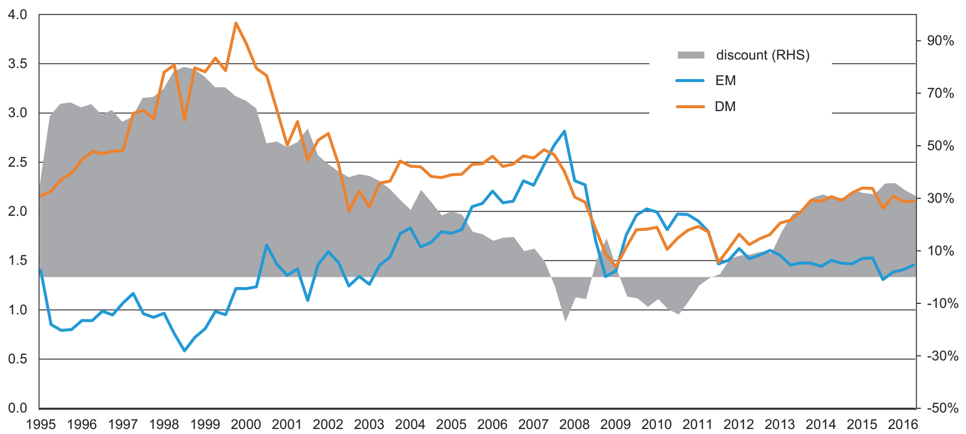
1. **The 'perceived' slowdown in China.** We believe markets have probably over-reacted to this perception, given that China's economic growth rate is still significantly higher than most countries in the developed world. Furthermore, the government in China still has significant ability to manage the economy through any future headwinds.
2. **The strength of the US Dollar (USD).** A strong USD is generally a headwind for EM equities and the USD has been relatively strong against most currencies including EM currencies, over the last 3-4 years. This has been in anticipation of higher interest rates in the US which are now looking less and less likely. Hence we believe it is likely that the USD will be flat to weaker going forward, which would be a neutral to positive factor for EM equities.
3. **Developed market headwinds.** Since the global financial crisis of 2008, there has been significant stimulus provided to developed market economies, including very low interest rates, 'quantitative easing' programs and governments running budget deficits. In many regards the taps have been turned on 'full' in these countries. However, severe imbalances remain, including elevated asset prices (especially bond prices) but also, in some cases, equity and property prices. Such imbalances are not as extreme in most developing economies.
4. **Valuations.** The average 'price-to-book' ratio is a common way of assessing how cheap or expensive equity markets are. As the chart shows, emerging markets are currently trading at around a 30% discount to developed markets. We have not seen this level of discount for more than a decade.

For these reasons we believe that emerging market equities offer an opportunity for investors to gain exposure to those developing parts of the global economy that are growing at faster rates than most developed economies, at prices that are relatively attractive in historical terms.

"Signs are increasing that emerging markets offer better prospects going forward, versus their developed market peers, for several reasons"

Valuations – trading at a discount to developed market equities

Recent discount is widest in over a decade



Sources: Bloomberg, June 2016

FIDUCIAN IN THE COMMUNITY

FIDUCIAN'S CHARITY VISION BEYOND AUS

Vision Beyond AUS is Fiducian's charity, founded by managing director Indy Singh. VBA provides free eye surgery to impoverished and disadvantaged adults and children in countries such as India, Myanmar, Nepal and Cambodia. To date, more than 19,250 operations have helped restore sight to visually impaired people – each operation costs $30. For information and to donate, go to visionbeyondaus.org.au

IS SUPER STILL WORTH IT? CONTINUED

Commencing retirement

The benefits of superannuation savings are highlighted upon retirement.

Currently, the assets supporting a superannuation pension will have no tax applied on earnings growth (subject to the proposed $1.6M cap and 15% TTR earnings tax)

- Between preservation age and age 59, a low rate lump sum of up to $195,000 can be received tax free upon retirement. Pensions are subject to an individual's marginal tax rate less a 15% tax offset.
- Upon reaching age 60 and permanently retiring, any pensions or lump sums can be received tax free.
- Superannuation, for a client less than Age Pension Age, is not included in the Centrelink Assets Test.
- For clients reaching Age Pension Age, the superannuation sourced pension is excluded from rebate income. This can assist with accessing the Senior and Pensioners Tax Offset, increasing the available tax free income for clients. Currently, the maximum tax free income for SAPTO is $57,948 for an eligible couple (before the potential application of the Medicare Levy, which is based on taxable income).

Preparation, ongoing planning and regular and steady contributions will help you in accessing the tax advantages that superannuation can provide, irrespective of whether you are still working or are planning for your retirement. To get the most out of your super, and ensure your financial plan is up-to-date with the ongoing changes, contact your Fiducian planner.

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