# newsletter

Boston One
Wealth Managers

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## Make your Super Last Retirement

While the only certainties in life are death and taxes, at least we usually know when our taxes are due. Time of death is rather less certain. Statistics tell us that a 65 year old male can "expect" to live for an additional 17.7 years, or until about age 83. A female at 65 can "expect" to live for 21.2 years – or 86 . But what do these averages really mean, and do they give us helpful answers in terms of planning our own retirement?

Whilst these figures are used by governments to calculate important factors like Pension eligibility, how much do these statistics on 'average life expectancies' reflect the reality that may apply to us?

Let's look at 100 men and 100 women who are about to retire at age 65. How long does their money need to last? The following table shows the number expected to be still alive at various ages after allowing for improvements in longevity.

| Age | Number Still Alive | |
|---|---|---|
| | Men | Women |
| 65 | 100 | 100 |
| 70 | 93 | 96 |
| 75 | 83 | 90 |
| 80 | 70 | 82 |
| 85 | 54 | 68 |
| 90 | 34 | 50 |
| 95 | 19 | 29 |
| 100 | 8 | 14 |

This means that half the women and one third of the men need their retirement savings to last at least 25 years if they retire at 65. One in seven women and one in 12 men will still need an income after 35 years! Of course, for those who retire at 60 you can basically add another five years to those numbers.

How many people retiring at 60 do you think would budget for their savings to last 40 years?

As the example above hints at, most retirees will live longer, often much longer, than the commonly quoted 'life expectancies'. And the range of income generating products, such as lifetime annuities, may not be effective in managing this risk. So what can you do to help manage this risk for your future – so that you're not left with a long life and too little income to enjoy it?

There is no magic remedy but seeing a financial planner early and reviewing your plans regularly may assist in stretching retirement dollars further.

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# 10 Tax Tips for a Better Bottom Line

With the end of the 2009/2010 financial year fast approaching, now's the time to examine your financial situation and ensure that your finances are as tax-efficient as possible. Here are 10 tips that can potentially boost your financial bottom line.

**Salary sacrifice**

Salary sacrifice can be a great way to boost your superannuation and effectively pay less tax. The big incentive for salary sacrifice is the tax savings that result from putting pre-tax salary into superannuation rather than having it taxed at your marginal tax rate. Note that salary sacrifice may not be beneficial in all cases and your employer must agree to make the contributions on your behalf.

**Losses to offset capital gains**

Tax is normally payable on any capital gains made throughout the year. To lessen this obligation it may be possible to realise investment losses on nonperforming assets. Note that capital losses from previous years can also be carried forward.

**Move assets into a lower tax rate ownership**

This strategy involves changing the ownership of certain assets from a higher income tax name to a lower income tax name. For example, if a husband works part time and his wife earns a higher wage from full-time employment, it may be tax-effective for certain assets to be in the husband's name. However, be aware that putting this strategy into action can trigger capital gains tax and other transactional costs.

**Make contributions into your superannuation fund**

Whether you contribute pre-tax (concessional) or post-tax (non-concessional) contributions, putting money into superannuation can be very tax effective. This is because earnings on superannuation assets are taxed at a concessional rate (up to 15 per cent), compared to earnings on your personal investments, which are taxed at your marginal tax rate.

- Pre-tax (concessional) contributions. If you are under 50, you can now make contributions of up to $25,000 in the financial year. If you are over 50, you have until 30 June 2012 to use the higher annual limit of $50,000 each year. Generally, provided your marginal tax rate is higher than 15 per cent, there is a benefit in making a pre-tax (concessional) contribution.

**INVESTING FOR HIGHER RETURNS—WATCH OUT!**

In the past 6 years, ASIC estimates that at least 6,000 Australians have lost around $500 million of their life savings chasing high returns. The biggest danger sign is an investment that promises a better return than you can get anywhere else.

So what is a high return? If the scheme promises you 1.5-2% or more per year better than the average return for the type of asset in which you invest, ASIC advises you to be extremely careful.

Investing means taking a risk that you may lose some money. But you will usually be much safer if you invest in real estate you have inspected, shares in solid companies traded on the stock exchange or investments managed by licensed, reputable investment managers. There are many honest professionals who can advise you.

If you are borrowing money to invest, you are taking an even bigger gamble. You can easily end up owing much more money than you first invested. You could lose your home or all your life savings.

For more information on money scams and warnings, please see the ASIC website www.fido.asic.gov.au

## Tuna, Lemon and Rocket Risotto

- 2 x 185g cans tuna in oil with chilli
- 1 small onion, chopped
- 1 1/2 cups (375ml) fish stock
- 350g arborio rice
- 100ml white wine
- 1/4 cup grated parmesan
- Grated rind and juice of 1 lemon, plus extra zest to serve
- 50g wild rocket

Drain the tuna, reserving 1 tablespoon of the oil, and flake to separate. In a heavy-based saucepan, heat the tuna oil over medium heat and cook the onion for 1-2 minutes or until softened. Mix the fish stock with an equal amount (375ml) of water.

Add the rice to the onions and cook for 2-3 minutes, stirring to coat the grains well. Add the wine and allow alcohol to evaporate. Once the wine has been absorbed, add the diluted stock a ladleful at a time until all liquid is absorbed - this will take about 20 minutes. When rice is cooked, stir in tuna, parmesan and lemon rind and juice, then season to taste. Serve on a bed of rocket and garnish with extra zest.

- Post-tax (non-concessional) contribution. A limit of $150,000 each financial year applies to these contributions. This amount can be averaged over a three-year period to allow for a larger one-off contribution of up to $450,000 if you are under 65.

**Contribute to your spouse's superannuation**
You can claim an 18 per cent tax offset on superannuation contributions of up to $3,000 made on behalf of a low-income or non-working spouse. The maximum offset allowed is $540. To be eligible for the full tax offset, your spouse's income must not be more than $10,800 in the financial year. Note that a reduced tax offset is also available if your spouse's income is less than $13,800 in the financial year.

**Government co-contributions**
Depending on your income, you may be eligible for a superannuation co-contribution from the Federal Government. The scheme matches eligible personal superannuation contributions by up to $1 for each $1 made by an individual. See your financial planner for eligibility rules.

**Income protection insurance**
Income protection insurance can be an important part of securing your financial future. It provides a replacement of up to 75 per cent of your salary if you are unable to work due to sickness or an accident. The tax benefit comes because the insurance premium is tax deductible, potentially reducing its cost. And you now have cover for one of your greatest assets – your ability to earn an income.

**Imputation credits**
This is an important tax benefit that comes from investing in the Australian stock market. When Australian companies pay dividends to their shareholders, they will often have already paid company tax on the profits that are being distributed. Because the company has already paid some tax, an imputation credit will be attached to the dividend. Shareholders then claim an imputation credit for the amount of tax paid by the company. And if you pay no tax already, the imputation credit is returned to you as a tax refund by the Australian Taxation Office when you lodge your tax return.

# Enduring Issues for Everyone

So you've made a will and taken out life insurance to provide for your family in case your number comes up sooner than expected. But what if instead of dying you became mentally incapacitated? Who could you trust to make financial, medical and lifestyle decisions on your behalf? And how can you make sure they'll have the power to do so unchallenged?

Gemma and Tom, both 32, had been living together in Sydney for just on a year when he suffered a serious brain injury in a car crash. As their defacto arrangement was still relatively new, Gemma and Tom had separate finances at the time of the accident. To make matters worse, Tom's mother Ruby didn't approve of his relationship with Gemma.

Although Tom was a lawyer, he hadn't appointed an enduring power of attorney to handle his financial affairs. That meant neither Gemma nor Ruby were legally able to administer his finances or access his bank account without first formally applying to the NSW Office of Protective Commissioner for permission to do so. Both Gemma and Ruby, who had never warmed to Gemma, decided to lodge an application.

With two parties contesting as to who should be Tom's attorney, this became a protracted process and an added headache and heartache for both Gemma and Ruby during a very traumatic time in both their lives. Meanwhile, Gemma struggled to meet Tom's mortgage repayments on her nurse's salary while awaiting the Commissioner's decision.

All this could have been avoided if Tom had the foresight to appoint an enduring power of attorney to handle his affairs in this situation.

An enduring power of attorney is a document whereby one person (the principal) authorises another (the attorney) to act on his or her behalf, generally in relation to financial and property decisions. In some states, this can also extend to medical and lifestyle issues. An enduring power of attorney differs from a general power of attorney in that it doesn't cease to operate if the principal becomes of unsound mind.

An enduring power of attorney can come into effect from the date signed/ specified or when a particular event occurs (such as when the principal becomes of unsound mind).

Legislation differs from state to state. Whereas in NSW an enduring power of attorney is not permitted to make decisions in relation to medical treatment, that's not the case in Victoria, South Australia, the ACT and Queensland. In NSW, where a more extensive medical and lifestyle enduring power of attorney is not available, it's important to also appoint an enduring guardian under the Guardianship Act 1987 that can perform these functions in the event of the principal's incapacity. Similar provisions exist in other states (except WA) where broader enduring powers of attorney are not available.

A principal can make or revoke an enduring power of attorney at any time provided they have the mental capacity. The easiest way to revoke a power is to tear up all copies. It's also a good idea to send a signed letter to all financial institutions informing them that the relevant power of attorney is revoked and asking for all copies to be posted back.

# Contact Details


Level 2, 10 Short Street, SOUTHPORT QLD 4215

PO Box 2202, SOUTHPORT QLD 4215

Phone 07 5537 6711

Email admin@bostononewealthmanagers.com



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