



Personal Wealth

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Lifespan Clients

Glass Half Full as Markets Rally

Signs of an improving global economy have triggered strong gains in world equity markets and risk assets in general. Many forward looking economic indicators have shown an improvement lately. The chart below shows how one of these forward looking indicators, the Purchasing Manager's Index has turned sharply upwards for some large economies. A reading over 50 indicates economic expansion. In addition, a backward looking indicator, the latest US GDP estimate came in at a better than expected -1% annual decline.

The Australian equity market (S&P/ASX 200) was up 7.3% in July. It has now risen for five consecutive months although it is still down 10.2% over the year to July 2009. The market fell 51% from 1 November 2007 to its low point on 6 March 2009, a period of about 16 months. However since that low it has rallied 36.3% (to end of July).

End of the Rate Cut Cycle

The Australian unemployment rate was surprisingly unchanged at 5.8%, against expectations of a rise to 6.0%. In fact over the past 4 months, it has risen just 0.1%. We expect that forecasts of 8.5% will be wound back to about 7.5%.

It appears the Reserve Bank of Australia (RBA) has abandoned its easing bias and has adopted a neutral to mild tightening bias. It has also upgraded its Australian growth forecasts out to the end of 2010. The new forecast is for growth of around 0.5% in calendar 2009, compared to a previous estimate for a contraction of 1%.

Some of the language it used was "the recent stronger-than-expected economic data and the general improvement in sentiment both in Australia and abroad have reduced the likelihood that a further reduction will be required." It also said that the risks around their forecasts were "broadly balanced." And that its forecasts assume a "return to a more normal setting of monetary policy over the forecast horizon."

The implication is that we have seen the low in short term interest rates. The market

is already factoring in rate rises, current expectations are for cash rates of around 4.5% in 2010. Most market watchers were of the view that there would not be any rate rises until mid 2010 as unemployment would be rising steadily. However the stronger than expected recent data has likely bought this date forward.

State of Play

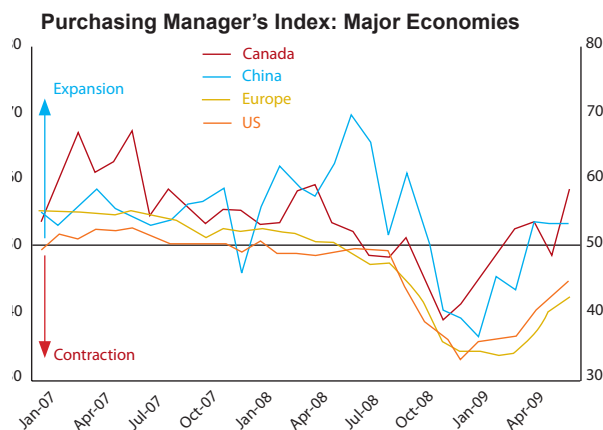
We believe that equities are now close to fair value rather than the outstanding value they were in early March. Listed property has also rallied significantly off its lows as the sector has managed to lower gearing levels through equity raisings. After the recent run, equities are probably looking somewhat overbought in the short term. The Australian market Price Earnings ratio (PE) has risen from a low of about 10 times to 15.6 times (one year forward consensus earnings). This PE is above the long term median of about 14.3 times (UBS). However a common view is that current earnings are below the long term trend.

This PE expansion is in fact what we normally see in a recovery as markets anticipate

higher earnings in the future. The market is now willing to take the chance that earnings will improve rather than assuming the worst possible outcome that had prevailed until recently. Obviously if earnings disappoint then this will be reflected in equity markets. Current consensus earnings growth estimates (earnings per share) are for almost flat earnings growth of 0.3% in 2010, and growth of about 22% in 2011.

As sentiment has improved brokers are following their usual pattern of raising their targets for the Australian equities market. As an example, Goldman Sachs now has a December 2009 target of 4,765 on the ASX 200 index, up 9% from its previous target.

As we have indicated we think the cash rate will rise although it is difficult to determine when the first official move will occur. We remain cautious on fixed interest as an improving global economy and large deficit spending will lead to rising bond yields and hence lower prices. Fixed interest returns have actually been negative (-2.1%, UBS Composite) over the 6 months to July. Over the same period Australian equities have outperformed fixed interest by over 25%.



Source Perpetual : ICAP Securities as at 21 July 2009.



The likelihood is that a lot of the damage has already been done although we think it is quite probable that Australian 10 year government bonds will be yielding over 6% in 2010.

Markets have rallied strongly as the disaster scenario has faded from view. However we have yet to see the upturn in earnings that such a move would imply. We continue to be cautious with fixed interest and continue to recommend higher than normal cash weightings for conservative investors who do not have offsetting equity allocations. We have some concerns about the strength of this rally and would be more inclined to accumulate equities on pullbacks in the market. We think you should remain diversified and should continue to dollar cost average into the market over a period of time.

Investment Returns to July 31 2009 (%)

Asset Class	1 month	3 months	1 Year	3 Years	5 Years
Australian Shares	7.3	13.1	-10.2	-1.0	8.3
Global Shares	5.5	3.8	-11.4	-8.4	-1.3
Listed Property	2.4	11.2	-37.8	-22.7	-8.4
Fixed Interest	0.3	-1.0	9.2	6.4	6.0

Source van Eyk

Pension and Work Bonus Schemes

Pension Bonus Scheme

The Government will close the Pension Bonus Scheme to new entrants on 19 September 2009. Existing members of the scheme will not be affected by this closure and people who qualify for the Age Pension and register before this date will still be able to accrue entitlements under the existing rules.

This little known scheme is entirely voluntary and was initiated by the Australian Government on 1 July 1998 to reward people who remain in the workforce and wish to defer claiming the Age Pension or a Service Pension.

As detailed in the table below, the scheme provides a tax-free lump sum upon retirement to people who defer claiming the Age Pension for up to five years, and continue to work.

Registration for the bonus scheme must be made within 13 weeks of meeting the age and residence requirements for the Age Pension. A bonus cannot be paid to anyone who has already received Age Pension or another payment since reaching Age Pension age.

To receive a bonus, a person must work a minimum of 12 months from the date of registration and complete at least 960 hours of paid work in this and any subsequent years. This is an average of 20 hours each week for 48 weeks each year. For couples, only one person must pass the work test. Two thirds of the 960 hours of work must be completed in Australia.

A bonus can be accrued for a maximum of 5 years and cannot be accrued after the age of 75 (but work by a person after age 75 can accrue towards the bonus of a younger partner who has not accrued the maximum of 5 years).

The bonus is paid when a person first claims and receives the Age Pension. The claim for the Bonus and Age Pension must be lodged together. Unless special circumstances exist or the person's membership is non-accruing, the bonus must be claimed within 13 weeks of failing to meet the work test.

Please note that the payment of this tax-free bonus is not counted as income for the income test and it is no longer payable to the estate or spouse of a deceased claimant if a claimant dies before the bonus becomes payable.

Work Bonus scheme

The main reasons why the Government has decided to close the Pension Bonus Scheme to new entrants from 19 September 2009 is due to the complexity, and not meeting its objective of encouraging workforce participation for people who have reached Age Pension age.

It is important that older workers are not discouraged from continuing work after reaching the Age Pension age. To replace the existing Pension Bonus Scheme and to encourage older workers to continue working later in their life, the Government has introduced the Work Bonus scheme which treats earned income more generously.

Under the new arrangements, only half of the first \$500 of fortnightly employment income will count towards the income test. Pensioners can get a maximum benefit of \$125 per fortnight under the Work Bonus scheme

Current Maximum Bonus Payable		
Bonus Years	Single-\$	Partnered (Each) - \$
1	1,392.60	1,163.10
2	5,570.40	4,652.40
3	12,533.30	10,467.90
4	22,281.50	18,609.60
5	34,814.80	29,077.50





Conclusion

In light of the above, a person may need to evaluate whether the Pension Bonus Scheme or the Work Bonus Scheme is more beneficial to them. This will depend on how long a person intends to remain in the work force after they become eligible for the Age or Service Pension.

As illustrated in the table below, if a single worker who qualifies for the maximum benefits in both schemes wishes to continue working for 2 years or less, the Work Bonus offers a better outcome.

But if the same person plans to work for 3 years or more then the Pension Bonus is more advantageous.

Existing members of the Pension Bonus Scheme may wish to assess their situation to see which option is more beneficial.

If a person is not entitled to the full Pension Bonus Scheme, the Work Bonus scheme may be a better option.

As usual, we recommend that you consult with your Lifespan Adviser to find out what would be the best alternative for you.

Current Maximum Pension Bonus and Work Bonus

Bonus Years	Pension Bonus Scheme Single	Work Bonus Scheme Single	Pension Bonus Scheme Partnered (Each)	Work Bonus Scheme Partnered (Each)
	\$	\$	\$	\$
1	1,392.60	3,250	1,163.10	3,250
2	5,570.40	6,500	4,652.40	6,500
3	12,533.30	9,750	10,467.90	9,750
4	22,281.50	13,000	18,609.60	13,000
5	34,814.80	16,250	29,077.50	16,250

Life Insurance – Should it be Funded Within or Outside Super?

Super	Non-Super
Availability of cover <ul style="list-style-type: none"> Life, Total and Permanent Disability and Income Protection are available through super Trauma cover generally cannot be provided through superannuation 	Availability of Cover <ul style="list-style-type: none"> All types of cover are available, i.e. Life, Total and Permanent Disability, Trauma and Income Protection Cover can be structured through trusts, companies, partnerships, in the names of other individuals and can be assigned Non-super arrangements are much more flexible
Tax Deductibility to Client <ul style="list-style-type: none"> You cannot get a deduction for a premium in respect of a life policy Contributions made to super to fund the premium may be deductible as a concessional contribution to super 	Tax Deductibility to Client <ul style="list-style-type: none"> Income Protection cover is tax deductible to the client. Life, Total and Permanent Disability and Trauma cover are generally non-deductible, except where used for revenue purposes as part of business insurance
Tax Deductibility to the Super Fund <ul style="list-style-type: none"> Premiums for insurance held within superannuation are allowable deductions to the fund. 	Not Applicable
Premium Cost <ul style="list-style-type: none"> Where the cover is provided under a group basis for most members of the fund, then the individual cost, before tax, may be more competitive than a standalone cover 	Premium Cost <ul style="list-style-type: none"> By bundling insurance covers with a single insurer, discounts may apply
Tax on Proceeds <ul style="list-style-type: none"> The Life benefit can be paid as either a lump sum or as a pension, depending on the trust deed for the superannuation fund Where the death benefit is paid to a spouse or to dependent children in the form of an income stream, the income stream will generally be tax free where either the deceased member or the dependant was aged 60 or more at the date of death. Otherwise, a 15% offset will apply Tax on TPD benefits is payable based on a formula incorporating your age and years of service (please note: a condition of release needs to be met before you are able to withdraw funds from superannuation) Income protection proceeds are taxable at the marginal tax rate 	Tax on Proceeds <ul style="list-style-type: none"> There is no tax payable on Life/TPD/Trauma proceeds when insurance policy is held in own name Income protection proceeds are taxable at the marginal tax rate

Based on your individual needs and circumstances your adviser will be able to determine:

- The appropriate level of cover
- The most competitive premium
- The appropriate method of funding



Offset Account Home Loans – What it is and Benefits

An offset account is a savings / transaction account directly linked to your home loan account. The balance of the transaction account is “offset” against the amount you owe on your home loan. You are then only charged interest on the balance of the home loan minus the amount in the offset account, rather than on the entire amount you owe on the loan.

For example, if you have a \$400,000 home loan at an interest rate of 6% pa variable, and you have \$20,000 in your offset account, the \$20,000 is subtracted from the outstanding balance on your loan (\$400,000) and you are left with \$380,000. You will be charged interest based on \$380,000 rather than \$400,000. That means the interest on your home loan is 6% of \$380,000 (\$22,800 pa) rather than 6% of \$400,000 (\$24,000 pa).

An offset account works much like a normal transaction bank account. In order to maximise the benefits of your offset account you can have your salary, and

any other forms of income (such as rental income) directly deposited into the offset account. You can then access your funds by normal banking methods such as ATM, VISA, or writing a cheque. You can, of course, deposit additional money into the offset account as well.

Some lenders offer offset accounts on fixed rate loans, but they are more commonly linked to variable rate home loans.

The major benefit of an offset account is the considerable amount of money you are saving over the life of your home loan. This enables you to pay off your home loan faster. Despite the fact that your interest is calculated on the reduced amount, your monthly payment is still based on the full amount owed on the home loan so you are effectively making a larger payment towards the principal of your home loan each month.

With a standard savings account, you would have to pay taxes on the amount of



interest you earn. By contrast, you do not have to pay taxes on the amount of money you're saving by using an offset account. The interest earnings are not considered taxable income because they are going towards reducing interest on your home loan.

It is important to remember that while the balance of your offset account is your 'savings' and you can access these funds at any time, to accelerate the repayment of your home loan the savings accumulated in your offset account should be left in this account wherever possible. On most loans (there are some exceptions on fixed rate loans) you can also make additional repayments from the offset account to the actual loan account to reduce the balance of your home loan, and to reduce the temptation to spend from your offset account.



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