

## Welcome to Collins Financial Planning Xpress

Collins Financial Planning's purpose is to provide you, our client, with information and advice that will assist you to understand, enhance and therefore secure your financial future and lifestyle.

Collins Financial Planning Xpress aims to highlight and inform you of various issues in what we hope is in a readable but technically accountable medium.

Past issues can be found on our website [www.collinsco.com.au](http://www.collinsco.com.au) under the tag **Wealth Creation** they are well worth a browse as they hold a wealth of information.

*In this issue we will look at the latest changes to superannuation and how they may affect you. Also two small secrets with investing in 'investment style's and compounding'. We take away an interesting view by Mark Teale on aging and round it all up with trying to break through the headlines that roar out at us every day.*

*We hope you enjoy this issue of Collins Financial Planning Xpress*



**- Mark Ducret**  
Responsible Manager  
Collins Financial Planning



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- How might the latest superannuation changes affect you?
- What we mean by "investment styles"
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## How might the latest superannuation changes affects you?

With several major changes to Australia's superannuation system due to take effect from 1 July 2017, here's a summary of the main ones. These changes involve a lot of fine detail, so if you think you may be affected make sure you talk to us sooner rather than later.

### **New \$1.6 million cap on retirement balances**

This move limits the sum that retirees can invest in tax-free pensions. It will also apply to current pensions, so if you have more than \$1.6 million in retirement stream products on 1 July 2017 you will need to roll the excess back to an accumulation phase account where earnings will be taxed at 15%.

This cap will be indexed in line with inflation, in \$100,000 increments. The Federal Government estimates this figure will grow to \$1.7m by 2020-21. Also, once the income stream is established within the applicable limits, subsequent earnings will not be subject to the cap.

If you are intending to set up a pension account before 1 July 2017, take this cap into account to avoid creating additional headaches.

### **New non-concessional contribution cap**

The current limit on non-concessional (i.e. after tax) contributions is \$180,000 per annum or \$540,000 over three years. From 1 July 2017 the limit is reduced to \$100,000pa or \$300,000 within any three-year period. In addition, people who have reached their retirement balance cap (initially \$1.6 million) at the start of each financial year will be unable to make non-concessional contributions.

If you plan on making large non-concessional contributions, perhaps from the sale of a property for example, be aware that the current caps apply until 1 July 2017.

### **Concessional contribution cap reduced**

Current annual caps on pre-tax contributions are \$30,000, or \$35,000 for over-49s. From 1 July 2017 these reduce to \$25,000 per annum, irrespective of age.

This measure is softened in that, from 1 July 2018, if you have a super balance of less than \$500,000, you will be able to carry forward any unused cap for up to five years.

As for this financial year, if you currently contribute less than your current cap you may want to up your salary sacrifice or self-employed contributions prior to July 2017 if appropriate.

### **Reduced income threshold for additional contributions tax**

The annual income threshold above which superannuation contributions are taxed at 30% (rather than the usual 15%) will be reduced from \$300,000 to \$250,000.

### **Tax-deductions on super contributions extended to all**

From 1 July 2017 all residents under 65, or between 65 and 74 if they meet the work test, will be able to claim a tax deduction for superannuation contributions they personally make. This is a win for workers whose employers don't allow salary sacrifice contributions, and some individuals who are both self-employed and employees. Don't forget that the concessional contribution cap will still apply.



## Tax on earnings to be applied to Transition to Retirement (TTR) pensions

The current tax-free status of TTR pensions will be removed, so earnings within the fund will be taxed at 15%. The tax treatment on pension payments to individuals will remain unchanged.

Linked to this, individuals will no longer be able to treat certain superannuation income stream payments as lump sums for tax purposes. Currently such lump sum payments are tax-free up to the lifetime threshold low rate cap (\$195,000).

## Extended spouse tax offset

Currently, an individual who makes a superannuation contribution for a spouse earning less than \$10,800 per year can claim a tax offset of up to \$540. The threshold will rise from \$10,800 to \$40,000, increasing the number of people able to claim the offset.

## Removal of anti-detriment rule

Super funds will no longer be able to claim a tax deduction for a portion of a death benefit paid to a dependent. An anti-detriment payment represents a refund of the 15% paid on contributions made by the deceased member over their lifetime. The government claims the current provision is inconsistent with parts of tax law.



## Tax exemptions extended to additional retirement phase products

Deferred lifetime annuities and group self-annuitisation products will receive a tax exemption on earnings in the retirement phase, bringing them into line with other retirement income streams.

## The important advice

These changes will affect us all in different ways, and as they do little to simplify the superannuation system, it's critical to seek expert advice to ensure that you continue to make the most of your retirement savings.

# What we mean by “investment styles”

Just when you thought investing was easy to understand - you put your money into shares, property, fixed interest, cash, etc. your adviser starts talking about “investment styles”!

In essence, what that means is how fund managers choose the underlying investments of their funds.

There are two traditional ways of choosing stocks that active fund managers use – growth and value.

- **Growth** managers choose shares or companies for which they expect capital gain through improved company earnings. They tend to look in areas of the economy that they anticipate to do better than the market average and companies within those areas with the most growth potential.
- **Value** managers look for stocks with undervalued assets that they believe are trading at less than their intrinsic value. They analyse the company's finances thoroughly to work out a 'fair value' for the stock by looking for low price to earnings (P/E) ratios, low price to book ratios, high dividend yields, and other key indicators of a company's value.

And then there is GARP or "Growth at a Reasonable Price" and Style-Neutral.

- **GARP** is a mix of the growth and value styles. Here the focus is on stocks that have a stronger growth outlook than the market but which are cheaper than the average stock bought by a growth manager.
- **Style-Neutral** management uses intensive fundamental analysis of companies to determine their long-term worth. As the name implies, this manager does this without a specific style bias.

## Passive investing

In addition to active fund management, there is also passive fund management with two common strategies being index and buy and hold.

- **Buy and Hold** managers operate on the principle that 'time in the market' is **more** important than 'timing the market'. They buy and hold shares in the belief that the value will increase.
- **Index** managers aim to reflect a specific index like the S&P/ASX 200 in the stocks that the fund holds. Generally these funds will perform in line with the market.

So when your adviser talks about asset allocation, he or she is also taking into account diversification across the investment management styles as well.

Smart investing is not as easy as it sounds. That's why we are here to do all the hard work for you.



## Tap into the amazing power of compounding

When you invest over a period of time, compound interest is your best friend. In effect, it means you are earning interest not just on your own capital, but also on the interest you've already earned. Over the long term, this might be phrased as "interest on interest on interest on interest ..." or more simply, "free money"! So how do you get this free money? This is how...

### A simple start

Imagine we place \$100 in an investment that earns 10% pa. At the end of one year, we've earned \$10. Imagine we spend all the interest we receive. At the end of each year, our investment amount is back to \$100. That's simple interest. At the end of 10 years, we'll still have our \$100, and we will have received a total of \$100 in interest.

### $I = P(1+r)^n - P$

Don't worry, we'll do the maths for you, but this little formula contains a power that Albert Einstein is attributed to labelling "the most powerful force in the universe". It calculates our net profit when we earn interest on the interest. That's what compounding is all about.

Going back to our first example - if we re-invest the interest on our original \$100, at the end of the first year we will have \$110. Leaving it invested at 10% pa, we'll earn interest of \$11 in the second year, bringing the total in the account to \$121. If we keep going for 10 years, our investment will grow to \$270.70 - that's our original \$100 plus \$170.70 in interest.





**Time is money—literally**

This example may not seem so impressive, but the power of compound interest really shines over the long term. Looking at our simple situation and taking the interest out each year for 30 years, we will earn a total of \$300 in interest. But relying only on the compounding of the interest (ie. no other deposits are made), the total interest earned over the same time would be \$1,883.74.

A child born today could easily live to 100. Simple interest on a \$100 investment would amount to \$1,000 over their lifetime. Left to compound untouched at 10%, that same investment would grow to \$2,113,241! Even on such a small initial investment, that’s an incredible difference!

The other critical factor is the actual rate of earnings. If the earnings rate dropped just 1% to 9% pa, our hundred-year investment would grow to “only” \$783,548.

**A couple of drags**

But don’t forget to take into account tax and inflation. They act as drags on our investment performance.

Let’s assume investment earnings remain at 10% pa and are fully taxable. What will our \$100 grow to over 30 years at different tax rates?

0% Tax (Allocated Pen- sion)	15% Tax (Super Fund)	34.5% Tax (Average Tax- payer)	49% Tax* (Top Tax Rate)
\$1,983.74	\$1,269.25	\$709.69	\$460.32

*\*Includes 2% Medicare Levy and 2% Temporary Budget Repair Levy.*

As for inflation, although we are currently experiencing very low inflation, nobody knows how long this will last. If it reaches the Reserve Bank’s target of 3%pa, you will need \$2.43 in 30 years’ time to buy something that costs \$1.00 today.

There are many ways of minimising the effects of tax and inflation. Picking the right tax environment is clearly important. Capital gains are only taxed when an investment is sold, so growth assets have an advantage over those that only produce income. They also cope better with inflation.

**Investment risk**

Always remember, seeking higher returns generally involves taking higher risks but some of those risks can be managed with an effective and professionally constructed investment strategy.

If you want to take advantage of “the most powerful force in the universe”, talk to us

Assumption on calculations: interest is compounded monthly.



# Can you lose your adaptability

By Mark Teale

*The simple definition of 'adaptable'; the ability to adjust oneself readily to different conditions and circumstances.*

My observation in others, as well as myself, is that as we grow older our ability to cope with change becomes more difficult and paralyzing.

My understanding of new technology is very limited. I still buy CDs, have no idea how services like Spotify and iTunes work, have a Smart TV which I am sure is 'smarter' than me, have only one computer screen (two frightens me – let alone three), and I don't subscribe to Netflix, Presto, or Stan (I personally don't need them) and am happy to fall asleep in front of the free-to-air television content – ads and all!



Is it because we are not willing to accept change, and want things to remain as they were? or do we lose the cognitive powers to understand why the change has occurred – and how to deal with it.

A recent study published in the key scientific journal 'Neuron' came to the conclusion that would appear to support my second explanation.

After a series of experiments with both young, and old, mice subjects – using grain and sweet flavored pellets – this very esteemed group of researchers from the Queensland Brain Institute concluded that in the older mice, activity in a key brain circuit called the striatum (which allows mammals to adapt to change) weakens with age.

I do feel so much better knowing that my aging brain is being compared to that of an aging mouse, and that I now have a genuine excuse that I can use when I am having trouble with any new technology.

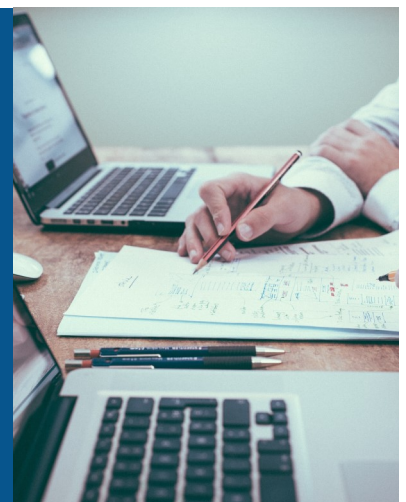
But, if I am truthful, I also know that I am being lazy and not wanting to learn something new.

Like all the muscles in your body, I am quite sure that your brain – if you do not put it to use regularly – fades, becomes lazy, and eventually slow to respond.

To ensure your brain remains active you need to set goals in your retirement that challenge and strengthen your most important muscle: the brain.

I did read, with heightened interest, an article in Forbes magazine which discussed signs of an adaptable person – including;

- People who experiment – you must remain open to change have the emotional tolerance, mental fortitude,
- People who don't whine – if you can't change or influence a decision – suck it up and move on.
- People who don't blame others – forego the old, embrace the new, don't hold grudges or eschew blame needlessly and absorb the change.
- The curious! – curiosity enables growth, be eager to learn and continue to learn.
- Those who open their minds and are willing to listen to other's points of view ensuring they are not limited in their thinking or understanding





A very good example of the above is my friend Neil, who has just been gifted with a drone. This will enable him to take amazing photos and videos, but first he will need to learn how to fly, control the drone, and the camera.

Neil is demonstrating, very clearly, that a willingness to open your mind to new technology, to experiment, and to be curious can be a lot of fun – sorry Neil – I am certainly not insinuating that you are old (or close to retirement!).

I do understand that the Queensland Brain Institute experiment did conclude that as we age the brain circuit striatum does grow tired, but seriously, I am sure you will agree that human beings are far more intelligent than a mouse, and more than capable of coping with change if we allow it too.

## What do the financial headlines *really* mean?

I'm the first to admit I'm no expert when it comes to horse racing, so hopefully you'll forgive my ignorance. During my daily read of the major newspapers, I came across this headline in a major Australian paper:

*"Trailblazer equals Phar Lap's winning streak with triumph at Flemington."  
Wow! I thought after 80 years, the mighty Phar Lap has been equaled!*

Phar Lap's legend has been passed through every Australian generation. According to Melbourne Museum, his exhibit continues to be its most popular. Intrigued, I read the article.

Only then did I discover that Phar Lap's record of 14 consecutive wins has been beaten many times – Trailblazer being the most recent in a string of successful horses, including the famous Black Caviar with 25 wins.

That newspaper headline cunningly grabbed my attention, yet having read it, I felt betrayed somehow... even foolish.

It reminded me of an urgent call I'd received recently from a client. Brett is one of those guys who drops in couple of times each year to review his portfolio – until one day a couple of months back.

Brett had seen this headline on a national news site:

*"Australian shares slump amidst global economics fears, \$30 billion wiped out."*



He was in a bit of a panic so I immediately checked out the article.

Sure, global markets were in turmoil over political uncertainty, but the article explained Australian shares had, "...slumped to five-and-a-half week lows."

Excuse me?

If the markets had slumped to say, five-and-a-half year lows, Brett's concerns might be justified.

Brett is not alone. Time-poor, many people scan headlines and subsequently make financial – or other – decisions in haste.

Recently, I read this headline in the financial press:

*"Capital gains tax increase set to push up property prices."*



My immediate concern was that I hadn't realised Capital Gains Tax (CGT) was rising. Reading further, I discovered the article was speculative; talks were taking place to determine whether current tax breaks should be cut.

The headline had captured my attention, but the reality of the situation was not as worrying as I'd first thought.

It pays to get the facts, right?

Fortunately, Brett contacted me before taking action. I was able to calm him down by giving an overall picture of the global situation and relate it specifically to his investment portfolio and personal strategy.

Anyone with horse racing expertise would have laughed at my naïve conclusion about Phar Lap, and but for a temporary red face, I'd have recovered.

Conversely, had Brett not consulted me, and acted on his impulse of selling his shares, his outcome may have been quite different.

They say the devil's in the detail, and it certainly holds true for most things in life which is why we see a doctor if we're sick, or a mechanic if the car's playing up.

Accordingly, we should never underestimate the value of good financial advice.

## The CFP philosophy

We understand that most people want advice on how to achieve a range of things that they value such as organising their financial affairs, achieving financial independence, planning to retire, Centrelink issues, creating extra wealth, investing, balancing their budget, reducing tax liabilities, making sure that their money doesn't run out and protecting themselves against unforeseen risks. Collins Financial Planning can help with all of these objectives.

To do this we help people build a strategy. A long-term, comprehensive strategy that will take them from where they are now to where they want to go.

- Our job is to work with our clients to build that strategy.
- To help them do better.
- To help them structure their finances better.
- To help them make smart decisions

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