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Market view

Australia

The RBA left the official cash rate on hold at 2 per cent at its meeting on 6 October 2015 and again on 3 November 2015 where it has remained since May this year.

Credit growth numbers are showing some signs that regulatory initiatives are having an impact on investor lending. Employment figures continued to surprise on the upside with 17,400 jobs added in August. Australian house prices rose 0.9 per cent in September, following a 0.3 per cent rise in August.

United States

The US Federal Open Market Committee met on 16-17 September 2015 and decided to leave the official Fed Funds target rate at 0%-0.25%. Chair Yellen did leave open the door for a rate hike this year and the Fed's dot plot continues to show one rate hike before the end of 2015.

Europe

The European Central Bank met on 3 September 2015 and made no changes to policy. The main refinancing rate remains at 0.05 per cent and a target of €60bn of securities are to be purchased each month.

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United Kingdom

As expected, the Bank of England left policy unchanged when it announced its decision on 10 September 2015 meeting. The Bank Rate was unchanged at 0.5 per cent and the stock of asset purchases remained at £375bn.

There was one dissent on the nine member board, the second meeting in a row. Market expectations have been pared back after the Fed left rates on hold and now point towards the first hike in Q2 2016.

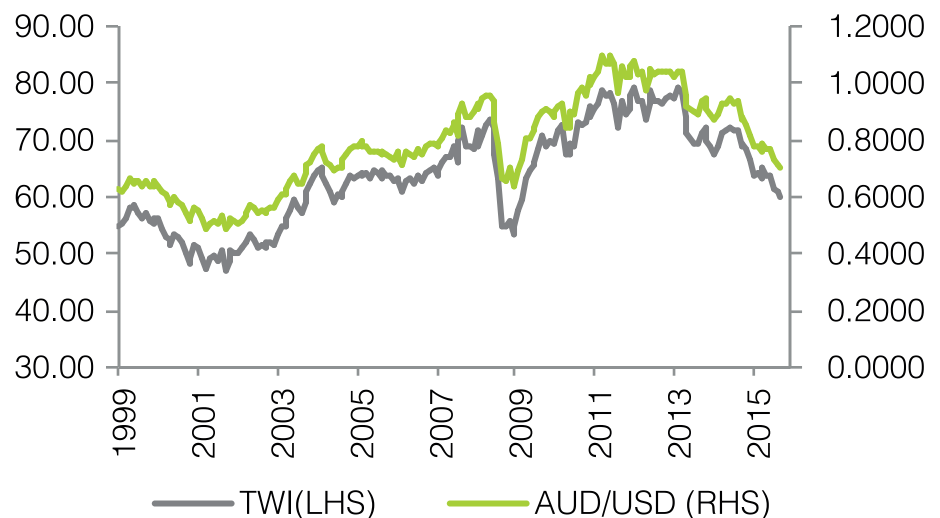
Japan

The Bank of Japan's policy board convened on 15 September 2015 and left its qualitative and quantitative easing program at an annual increase of ¥80trillion to its monetary base. There was one dissent at the meeting with Chief Economist, Takahide Kiuchi, proposing instead to taper annual Japanese Government Bond purchases to ¥45trillion and keeping asset buying, zero rates for as long as needed under flexible price target.

Australian dollar

The Australian dollar finished down 1.4 per cent against the USD in September to $US0.7017. The Australian dollar traded as low as $US0.6911 and as high as $US0.7219 during the month, largely reflective of changes in views of the first rate hike for the US Federal Reserve.

Australian dollar down again



Source: Bloomberg as at 30 September 2015

Commodities

Commodity prices traded with volatility again in September, weighed down by the US dollar and growth concerns in China. Overall commodity prices were weaker but this hides significant divergence of price performance between various commodities.

Australian shares

Weakness in the Australian share market persisted in September, with the S&P/ASX 200 Accumulation Index declining by a further 3.0 per cent. The market remained volatile throughout the month, with regular and significant swings in investor sentiment.

Energy and materials shares remained under pressure, reflecting ongoing weakness in commodity prices.

Australian listed property

ASX-listed property stocks outperformed the broader share market, with the S&P/ASX 200 Property Accumulation Index declining in value by just 0.3 per cent.

Stocks exposed to discretionary consumer expenditure continued to perform relatively well. Scentre Group (+2.4 per cent) and Westfield Corporation (+2.3 per cent) were among the best performing stocks in the index. Official data has confirmed that retail sales growth in Australia remains reasonably robust, likely supported by ongoing low borrowing costs.

Source: Colonial First State

An SMSF trustee decision for the long, long haul

One of the longest-term decisions many investors will make is whether to setup a self-managed super (SMSF) fund with individual trustees or a corporate trustee.

It is a decision that could have financial and personal implications for as long as the SMSF remains in existence including when a member leaves the fund and/or a new member joins.

Indeed, some SMSF members would not fully recognise the key differences between having individual trustees or a corporate trustee until a member dies. Of course, this consideration is particularly pertinent given the ageing of the population.

Under superannuation law, all members of an SMSF must be either individual trustees or directors of a corporate trustee of the fund. An SMSF with individual trustees must have at least two individual trustees yet a corporate trustee can have only one director.

The tax office's latest-available SMSF annual statistical review records that 92 per cent of the SMSFs established in 2013/14 had individual trustees – a rise of two per cent over three years.

As the tax office observes, 'there has been a consistent shift away from corporate trustees'. This could partly be attributable to some investors focusing on what may seem the easiest and most hassle-free way to setup an SMSF – perhaps without weighing-up the long-term differences between the two types of trusteeships.

Others planning an SMSF would no doubt carefully compare the features of each type of trustee – perhaps in consultation with their financial planners – and then choose the best perceived course for their circumstances.

Interestingly, 77 per cent of SMSFs in existence on 30 June 2014 had individual trustees. In other words, 33 per cent have corporate trustees against 8 per cent for new SMSFs.

A proportion of SMSFs would have begun with individual trustees and later switched to a corporate trustee, perhaps after the death of a member.

The tax office, as regulator of self-managed super, urges would-be SMSF members to understand the differences between the two types of trustees. It could be worthwhile gaining advice about the issue from an SMSF specialist.

On one hand, individual trustees – with each member acting as a trustee – can cost less to establish because a company is not setup to act as a trustee. However, the ATO points out that there are other considerations apart from initial cost.

An SMSF with individual trustees must hold its assets in the name of all those individuals as trustees of the fund. If an individual trustee is replaced, the names on the funds' ownership documents must also change. 'This can be costly and time consuming,' the tax office warns.

By contrast with a corporate trustee, assets are held in the name of a company as trustee. If trustee directors change, the assets remain in the name of the same company.

If a fund has two individual trustees and one dies, the fund must appoint another trustee to continue as an SMSF. (This is because of the requirement that a fund must have at least two individual trustees.) Yet if an SMSF has a corporate trustee, a deceased trustee director may not have to be replaced because a corporate trustee can have a single director.

In other words, a corporate trustee will continue to control an SMSF and its assets after the death or incapacity of a member.

Source: Vanguard

To find out more about establishing an SMSF or to discuss your current SMSF trusteeship, speak with your financial planner.

Why franking credits are important for retirees

Many of you will have seen the term franking credit appear on your share dividend statements, but what does a franking credit actually mean and how you can benefit?

What is a franking credit?

When an Australian-listed company posts a profit, it is standard practice to redistribute those profits to its shareholders in the form of a dividend. As the profits have already been subject to Australian company tax of 30 per cent the shareholder is entitled to a rebate (partial to full) from the ATO for tax already paid if their marginal tax rate is less than 30 per cent.

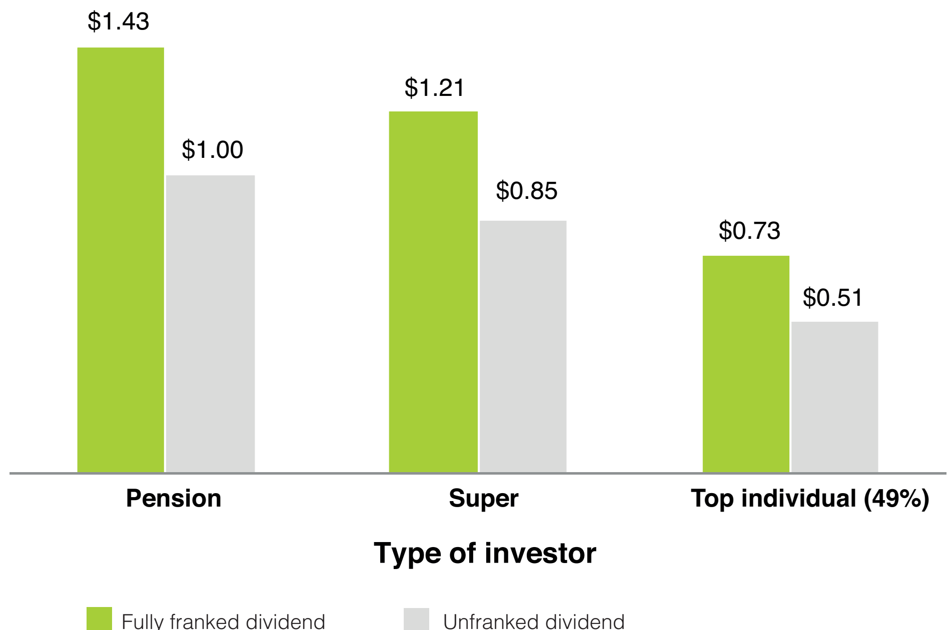
On the dividend statement, the company tax paid is referred to as a 'franking credit'.

In the case of retirees that pay zero tax, franking credits are 100 per cent refundable, which means they can significantly boost the returns for pension phase investors.

The importance of franking credits for retirees

The graph below compares the after tax return of a $1 dividend franked vs unfranked for pension phase investors, super funds and individual investors on the top tax rate of 49 per cent. As you can see per dollar of dividend the zero tax rate applied to pension phase investors allows them to benefit most from a fully franked dividend, leaving them approximately 22 cents and 70 cents better off than super and top tax rate investors respectively.

The after-tax value from a $1 dividend franked vs unfranked for different Australian investors.



Source: ATO, Plato using 2014/15 tax rates.

What difference does franking make?

The table below, compares the performance of the standard S&P/ASX Accumulation Index with that of a new 'tax aware index' (the S&P/ASX 200 Total Return Tax-Exempt Index) which fully values franking from the perspective of tax exempt investors such as charities or pension phase investors. The additional returns from franking credits are close to the current cash rate and, when accumulated over three years add an extra 7.2 per cent to returns.

Performance of Australian shares before and after franking for the three years to 31 December 2014

	S&P/ASX200 Accumulation (without franking)	S&P/ASX200 Total Return Tax-Exempt (with daily franking)*	Difference
3 yrs to Dec 14 accumulated	52.7%	59.9%	7.2%
3 yrs to Dec 14 pa	15.1%	16.9%	1.8%
2012	20.2%	22.2%	2.0%
2013	20.2%	22.0%	1.8%
2014	5.6%	7.2%	1.6%

Source: S&P Dow Jones

* S&P/ASX200 Franking Credit Adjusted Daily Total Return Index (Tax-Exempt. Data as at 31 December 2014). Past performance is not a reliable indicator of future performance.

As you can see, over time franking credits can have a significant impact on your returns, particularly if you are in pension phase or are a tax-exempt investor. Therefore, if you are a retiree or nearing retirement, you need to understand the benefits of franking and how you can structure your investment portfolios effectively.

Source: Plato Investment Management

To find out more, speak to your financial planner today.

Approaching retirement – protect your plans

You have taken a long and varied pathway to get where you are, but you have finally reached that point in your life where you are confident about who you are and what you want. Whether it's the satisfaction of a successful career or the joy of parenthood, likely you have much to be proud of, and while you're not over the hill yet, the time to start planning for a comfortable retirement is now.

HSBC's recent Future of Retirement study[1] reveals that while Australians expect to spend 23 years in retirement (that's more than half the time many spend in the workforce), many will run out of money after only 10 years, leaving them reliant on the age pension.

While you may know what type of lifestyle you want in retirement, can you be certain you will have enough money to achieve this lifestyle or how long your money will last?

Maximising your retirement savings and protecting your income during your last few years in the workforce should be a fundamental financial priority. But there are challenges. You may not be as healthy as you once were and have limited sick leave and annual leave to fall back on. You may have transition to retirement arrangements that rely on regular super contributions. If you live in the pricey cities of Sydney or Melbourne, for example, you may still have a mortgage on your own home, or perhaps on an investment property or holiday home.

You've got a lot at stake and you've come too far to not protect it, which is why insurance still plays an important role. So what type of protections might be important for you?

This is a question without a simple answer, although it's likely that your

income is central to your plans – so protecting it should be a priority.

Once you hit 50, the chances of suffering serious illnesses like cancer or heart attack increase. Trauma like this can leave a big dent in your savings, and trauma cover is designed to help you meet all those out of pocket costs that come with such conditions, so you can concentrate on recovering. The downside is that in your fifties, this type of cover can become expensive, so you really need specialist help to determine the best way to protect yourself in these circumstances.

Income protection and life cover can both be funded through superannuation, which can obviously help with cash flow but will draw down on your superannuation balance.

When it comes to funding cover, longer term certainty versus shorter term affordability is also often a major decision criteria and unsurprisingly, many life insurance customers (usually buying cover at a time that coincides with their peak indebtedness) find the short term cost savings of stepped over level premiums too tempting. This is especially true when the point at which level premiums put you ahead can be 10 years or more in the future. Paradoxically of course, if you are taking out cover at this stage in life (the time at which cover becomes harder to afford) is the time when you're more likely to claim than ever before.

With current term deposit rates around the 2 – 2.5 per cent mark, the decision about how to make your money work harder becomes more complex, and there may be some people for whom level premiums may become more appropriate (even when that first year differential can be as much as 100 per cent or more.)

Whilst it is a given that some sort of protection is still important at this stage of life, the best mechanisms to achieve this protection will vary depending on your personal circumstances, which is why you should discuss your options with your financial planner.

Source: Zurich

1 HSBC, The Future of Retirement Life After Work?, 2013, www.hsbc.ae/1/PA_ES_Content_Mgmt/content/uae_pws/pdf/en/future-of-retirement.pdf.

Changes to the age pension rules – will you be affected?

From 1 January 2017 Government changes to the age pension are likely to reduce pensioner entitlements. It's important that you understand how the changes could affect you.

Increase in the assets test threshold

The assets test threshold is the amount of assets pensioners can hold before their pension starts to reduce under the Centrelink assets test. The table below shows the new thresholds that apply from 1 January 2017.

Assets test thresholds from 1 January 2017

Family situation	Assets test threshold	Estimate assets test cut-off
Single, homeowner	$250,000	$547,000
Single, non-homeowner	$450,000	$747,000
Couple, homeowner	$375,000	$823,000
Couple, non-homeowner	$575,000	$1,023,000

Increase in the 'taper rate'

The taper rate is the rate at which the age pension starts to reduce when the level of assets increase. From 2017 the taper rate will increase from $1.50 a fortnight to $3 a fortnight. This means the maximum age pension a pensioner can receive will be reduced by $3 per fortnight for every $1,000 of assets they hold above the assets test threshold.

How the changes could affect your age pension

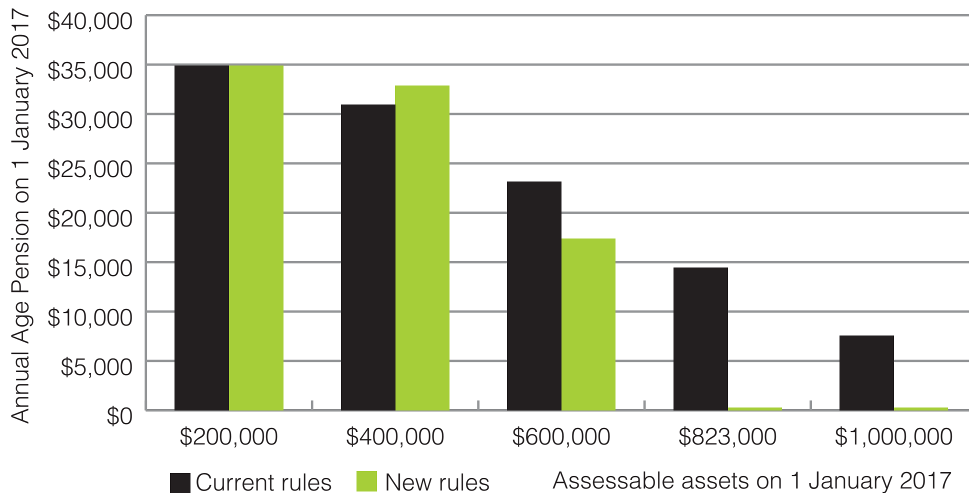
The higher assets test thresholds will generally mean:

- age pension recipients with an asset value ‘around’ the thresholds are likely to see an increase in their age pension entitlement, and
- age pension recipients with assets above the threshold are likely to see a reduction in their age pension – in some cases to zero – as a result of the increased taper rate.

Example

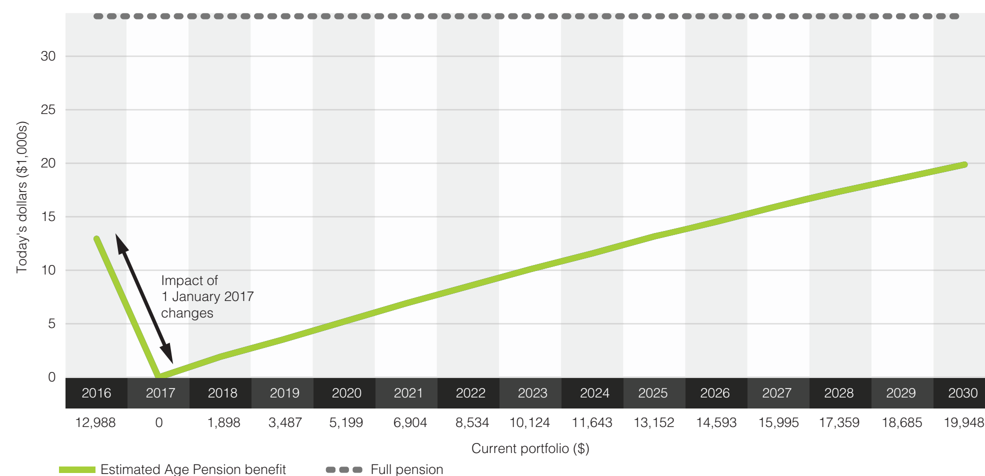
Retired couple Betty and John are both 68 years old and own their home. They have $823,000 in total assets and currently receive a part age pension of $500 per fortnight. If their assets remain unchanged on 1 January 2017, their age pension is estimated to reduce to zero (see Chart 1 and Chart 2).

Chart 1– The effect of a couple homeowner’s age pension as at 1 January 2017[1]



1 Based on information released by the Government available from www.liberal.org.au/latest-news/2015/05/07/fairer-access-more-sustainable-pension. The chart also assumes all assets are financial assets subject to deeming.

Chart 2 – Projection of future entitlements



Source: Challenger Age Pension Calculator.

Assumptions: 68 year old couple, homeowners, personal assets at $15,000, financial assets that are deemed at $808,000 and CPI at 3 per cent (any earnings are spent each year).

Source: Challenger

Speak to your financial planner to find out more about the likely impact of these changes on your entitlements and to explore strategies to help reduce the impact.

Make sure your estate ends up in the right hands

Each year, large numbers of Australians die without a Will. As our lives become more complex, it is an oversight that can be as costly as it is heartbreaking.

None of us like to contemplate our own mortality but unfortunately the adage about death and taxes being life's two certainties is absolutely spot on and it's worth putting plans in place for what happens when we die.

Dying without a Will – known as dying 'intestate' – may not be a problem if you have few assets, have been married to the same person all your life and have no kids. In that situation everything you own passes to the surviving spouse.

But many of us have significantly more complicated lives.

Our high divorce rate means an ex, a new spouse or partner and even stepchildren can enter the inheritance scene. Our assets are also more complex, with superannuation often ranking as the second most valuable asset after the family home.

It all adds up to make having a formal Will more important than ever before.

Intestacy can leave a trail that leads to court

Essentially, a Will dictates who will receive each of your assets when you die. Without a Will in place, your estate will be divided up according to the laws that apply in your state or territory. While these statutory decision trees are set in stone, they are unlikely to be in line with your wishes.

This is especially the case if you have separated (though not formally divorced) from a former spouse, who could potentially inherit everything you own if you die intestate, leaving a new partner with nothing.

The bottom line is to speak to your financial planner and lawyer about arranging a valid Will. All the hard work invested in following a tailored financial plan could unravel in the blink of an eye if you die intestate. The reality is none of us know when we will pass away, so the merits of having a current Will apply equally to everyone.

Not every asset is covered by a Will

One of the benefits of discussing your estate plans with your financial planner is that they have a clear picture of your asset position.

This is important because not every asset you own forms part of your estate. Many people are surprised (and often just a little unnerved) for instance, to discover that it can be left to their fund trustee to decide who inherits their super.

There is a way to have a say in how your super is bequeathed, and it involves completing some paperwork called a 'binding nomination'. This spells out to the fund trustee who you would like to inherit your super and any life insurance held through super.

Only certain people can inherit your super tax free – notably your spouse and dependent children, or a person with whom you share an interdependent relationship – such as two aged siblings sharing a home together.

Your financial planner can help you make important decisions about who inherits your super and guiding you through the possible tax pitfalls to ensure the best outcome for everyone involved.

The critical thing is to take action today. None of us know what lies around the corner. Once your estate plans are in place, be sure to review those plans annually or following any major change in your life or asset holdings.

Speak with your financial planner to discuss your estate plans.

Source: BT

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