



THE COUNT REPORT

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Count

AUSTRALIA'S LARGEST INDEPENDENTLY OWNED NETWORK OF FINANCIAL PLANNING ACCOUNTANTS AND ADVISERS

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A \$1million super opportunity and more...

This year, the Australian superannuation system is on track to become much simpler and put many Australians in a better financial situation in retirement. Review the important changes below and take advantage of these opportunities before 1 JULY 2007...

Make greater contributions into your super fund without paying excess tax – limited time only!

Non-concessional contributions (post-tax, undeducted)

Window of opportunity!

Until 30 June 2007, if eligible, you can make non-concessional contributions of up to \$1million into your super fund. This can include your personal savings, sale proceeds from property or a small business or another investment.

The \$1million cap includes contributions made from 10 May 2006 – 30 June 2007.

After this time, contributions of this kind will be limited to \$150,000 per financial year for those over 65 years who satisfy the Work Test; or \$450,000 averaged over 3 years for under 65s.

Any contributions made above these caps after 1 July 2007 will be taxed at the highest marginal tax rate of 46.5% (including Medicare Levy), so if you have significant funds to put into super it is extremely important to act before this date.

> See example of John and Sarah on page 2

(Continued from page 1)



Example – John and Sarah are retirees aged 60 and have several investment properties worth \$2.2million in total. These properties provide them rental income after expenses of \$88,000pa (4%). They also have other investment income of \$10,000 each - so their tax position is as follows:

	John	Sarah
Taxable Income (rental + other investment income)	\$54,000	\$54,000
Tax and Medicare	\$12,360	\$12,360
Net Income	\$41,640	\$41,640

John and Sarah have heard that they have a once in a lifetime opportunity to put up to \$1million into super before 1 July 2007. But they are unsure how this will benefit their retirement.

With their Count adviser, they look at the option of selling their investment properties and contributing the proceeds into superannuation.

There are some important things to note:

- John and Sarah are eligible to make a personal concessional (tax deductible) contribution as they have not received any employer super support for the financial year. This is limited to \$105,113 each for the 06/07 financial year.
- They are each able to make a non-concessional contribution of up to \$1million.
- Some of their properties were purchased prior to September 1985 so are not subject to Capital Gains Tax. The total capital gain on the other properties is \$400,000, but they were held for longer than a year so this is halved to \$200,000 (\$100,000 each) for tax purposes.

Once John and Sarah have sold their properties, they will each need to make a non-concessional contribution of \$1million and a concessional contribution of \$100,000 in order to place the entire sale proceeds into super.

Their concessional contributions of \$100,000 each will offset the assessable capital gain on their property sales, as this type of contribution is tax deductible. As a concessional contribution, the \$100,000 will be taxed at 15% when going into super.

The main benefit of this strategy is that John and Sarah will now each have a net super balance of \$1,085,000. From 1 July 2007, they are then able to start a pension from within super AND the earnings and pension payments they receive will be **tax-free!**

After following this advice, their tax position for 07/08 will be:

	John	Sarah
Taxable Income	\$10,000	\$10,000
Exempt Income	\$43,400	\$43,400
Net Tax and Medicare	Nil*	Nil*
Net Income	\$53,400	\$53,400

*Allowing for Low Income Tax Offset of \$600

This strategy provides a number of benefits:

- By drawing 4% from their pension (the same as assumed income from their property if they didn't sell), they receive \$23,520 more net income, due to a large taxation saving.
- Although they pay contributions tax of \$30,000 combined when undertaking this strategy, they save combined tax of \$24,720 in the first year, which means that they should be better off by using this strategy within a 2 year period. A similar tax saving will apply in all future financial years.

These benefits are only possible because John and Sarah put their property sale proceeds into super before 1 July 2007, when they were eligible to make non-concessional contributions of \$1million each. If they had waited, they would be limited to \$150,000 each per financial year (or \$450,000 each, averaged over 3 years) and pay excess tax for amounts over this.

Contact your Count adviser as soon as possible to take advantage of this strategy and other opportunities mentioned on these pages before 30 June 2007.

Concessional contributions:

From 1 July 2007 these types of contributions will be limited to \$50,000 per person, per financial year. Previously, there were age-based limits in place meaning the older you were, the more you could contribute.

Window of opportunity!

So as not to disadvantage those approaching retirement, you can make a concessional contribution of up to \$100,000 per financial year until 2012, if you are 50 years of age or over.

Salary sacrificing is the most common way to make a concessional contribution. You need to arrange with your employer to deduct some of your salary prior to it being taxed and contribute it into your super fund.

This can be a tax effective strategy to both save for retirement and reduce your taxable income.

Enjoy tax-free super when you retire!

From 1 July 2007, anyone over age 60 receiving benefits as a lump sum or a pension from a taxed superannuation fund will not be taxed on this income!

This is a very significant bonus for those considering retirement. Even if you have retired and have already begun drawing down a pension from your super, you may be able to receive this income tax-free from this date.

Seek advice from your adviser about your situation.

Retire when you want and how you want

From 10 May 2006, Australians were no longer forced to start using their super once they reached a certain age (previously age 65). Now, people can leave their super in their account for as long as they wish, using as little or as much as they want.

From 1 July 2007, those drawing down on their super via a pension will also have much more flexibility in how much they access each year. Generally, minimum drawdown amounts will be lowered and maximum caps abolished. This will assist people who want to make their pension last longer or those who need more, or less income, year-to-year.

More Australians to access the Government Age Pension

From 20 September 2007, gaining access to a part or full Age Pension under the Assets Test will be easier. Currently a single person over Age Pension age who owns their own home is able to access the Age Pension under this test, as long as their assessable assets levels do not exceed \$334,250. This amount will increase to \$507,000. For couples this threshold will change from \$516,500 to \$804,000.

This will enable many more Australians to access the Age Pension and will encourage people to accumulate assets and save for their retirement.

Make sure you register for the Pension Bonus Scheme!

If you fall into the new eligibility thresholds above and plan to access the Age Pension at some stage but want to keep working for at least another 12 months, don't forget to register for the Pension Bonus Scheme once you turn Age Pension age (M:65, F: 63.5).

The Bonus Scheme provides a tax-free lump sum payment for Age Pension entitlements which have been deferred (while you still meet Centrelink's Work Test). To claim a bonus, you must have registered with Centrelink at least 12 months prior to ceasing work and also fulfil other eligibility criteria. Speak to your Count adviser to assess your suitability.

Simpler terminology introduced by the Government:

Concessional contributions: Previously known as 'deductible contributions', are put into your super fund pre-tax. An example of a concessional contribution would be salary sacrifice.

Once in your super fund, concessional contributions are taxed at 15%, however in most cases, this is preferable to being taxed outside of super at your marginal tax rate.

Non-concessional contributions: Previously known as 'undeducted contributions', these types of contributions have already been taxed prior to going into your super fund. An example would be if you placed some of your personal savings into super.

Non-concessional contributions are not taxed on entering your super fund, however earnings on these contributions are subject to tax.

A tale of two generations: X and Y

The generation gap seems to be more obvious now than ever before, and this includes different financial habits and opportunities across the generations...

Former Prime Minister Paul Keating once described the younger generation as the “new poor”. With the under 40s now making up 51% of the population, does this description ring true? Here we explore the financial habits of Generations X and Y...

Which group do you belong to? Table 1 (below) gives a brief break down of the generations. While Baby Boomers are known for having worked hard and wanting to live it up in their retirement, the Generation Xs and particularly the Ys, want to live it up now, and might need to tighten their belt to secure a better future.

TABLE 1: SNAPSHOT OF GENERATIONS

	Age (DOB)	Lifestyle
Baby Boomers	1945 -1965 (41-61)	Retirement or pre-retirement
Generation X	1966 -1980 (26-40)	Home owners, entering management roles, starting a family.
Generation Y	1981 -1994 (12-25)	Starting to make financial decisions, entering workforce, travelling.

Spending habits and debt

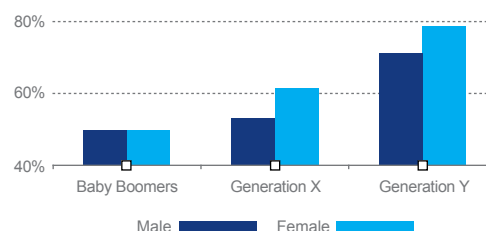
More than 63% of Generation X have no financial plan or spend up to their entire income each pay period, according to the Household, Income, and Labour Dynamics survey (HILDA 2002).

Other research suggests that the savings of Generation X are down 40% compared with the same age group a decade ago#. Now aged between 26-40, some are forging ahead in their career or starting a family, but might not be adjusting their expenditure or financial plans accordingly.

Aged between 12-25, Generation Ys are often re-labelled “Generation Debt,” as a result of debt related to increased education, property and living costs. And because of this, they are more likely to stay at home for longer, delaying their financial independence.

Graph 1 (below) shows that Generation Y has a greater acceptance of going into debt to provide for living expenses than both Generation X and the Baby Boomers.

GRAPH 1: PERCENTAGE WHO BELIEVE IT IS ACCEPTABLE TO BORROW MONEY FOR LIVING EXPENSES



Source: HILDA survey, 2002

While some debt may be unavoidable (eg home loan) or even tax-effective (eg investment loan), taking on debts from excessive spending can be dangerous. More debt means less saving so the real danger for both Generation X and Y may ultimately be a lack of funding once they reach retirement age. Or they will simply need to work longer.

Time is on your side

As a younger person, you have more time to save and allow your money to compound over a lifetime. And while retirement might seem a long way off, it's never too early to start putting more away in superannuation. The Australian Banker's Association suggests contributing an extra 3% of your income per year (on top of compulsory 9% employer contributions) in order for a comfortable retirement. A small amount now will have a lifetime to accrue interest and grow.

Many Generation X and Ys who earn less than \$58,000 can also take advantage of the Government co-contribution scheme - which can match your personal super contributions by up to 150%. Discuss with your adviser to see if you are eligible to increase your super savings this way.

National Centre of Social and Economic Modelling at the University of Canberra.

While lifestyles and expectations have changed significantly over the past 50 years, the importance of saving and securing finances has not. It's never too early or too late to start reviewing your financial situation. Seek advice for a personalised plan to suit your current situation.

Generation X and Y are in the best positions to take advantage of planning for long-term goals - so there's no excuse for leaving it until the last minute!

	Financial risks	Financial tips for both X and Y
Generation X	<p>Neglecting to review situation</p> <ul style="list-style-type: none"> ■ Eg. New job, new baby, and the financial consequences. <p>Lack of a Will or business succession plan</p> <ul style="list-style-type: none"> ■ May own a home, investments, or have a family, but haven't updated their Will. ■ Business owners – lack of future plan for changeover or unexpected events. <p>Underinsurance</p> <ul style="list-style-type: none"> ■ May have larger debts and more assets but have little or no insurance to protect wealth in case of accident or emergency. ■ Current Income, Life and Trauma insurance may not take into account a new partner or children. <p>Lack of superannuation</p> <ul style="list-style-type: none"> ■ Minimal savings within superannuation. ■ More than one super account from previous employers. 	<p>Goal setting and planning</p> <ul style="list-style-type: none"> ■ Make a list of short-term and long-term goals. ■ Create a budget – this doesn't have to mean cutting back dramatically on lifestyle, but making better choices. ■ Pay yourself first and have your savings automatically debited from your account each month. ■ Pay off credit card debt and other non-tax deductible debt as soon as possible. ■ Seek advice from a financial adviser. <p>Insurance</p> <ul style="list-style-type: none"> ■ Consider putting Wealth Protection insurance in place to ensure you are adequately insured. Check what insurance is covered by your super fund (see page 6 in this Count Report). <p>Superannuation</p> <ul style="list-style-type: none"> ■ Consider making extra contributions into super through salary sacrifice or claim the Government co-contribution if you are eligible. ■ Consolidate your super into one account to minimise fees. Take the time to choose an appropriate super fund.
Generation Y	<ul style="list-style-type: none"> ■ No financial independence due to debt or lack of financial planning. ■ High credit card debt. ■ HECS debts. ■ Lack of savings. ■ Lack of consideration to superannuation. 	<p>Review</p> <ul style="list-style-type: none"> ■ Review your situation yearly. Changes such as a new job, a growing family or divorce can significantly affect the way you structure your finances. Your goals will also change – eg saving for overseas travel, first home or an investment property.

How much will you earn over a lifetime?

Accidents happen. Each year approximately 1 million Australians are unable to work or are hospitalised due to accident or illness*. While sick leave might cover employees for a short period, what happens if you have to stop working indefinitely or have your own business?

If you earn \$60,000pa at 35, by the time you retire at 65, you could have earned at least \$2million – that's a lot of lost income if you are unable to work! How would you pay the bills, the mortgage and support a family, let alone keep a business afloat? Most Australians insure their car which generally has a much lower value – so isn't income a more valuable asset worth insuring?

Income Protection insurance can provide up to 75% of your income if you are unable to work due to accident or illness. Cover can be provided up until age 65, which can give you and your family peace of mind and ensure you are financially protected.

Generally premiums cost between 1-2% of your gross yearly income – and are also tax-deductible for individuals and business. The cost will depend on your age and occupation and also your nominated waiting period and benefit period. For a small cost, you get peace of mind that if anything happens, your income is secure.

However, your super fund may also offer some form of Income Protection cover...

Income Protection within your super fund (salary continuance)

Having cover within your super fund can be cost effective as super funds, due to their large number of members, will often be able to gain bulk discounts on premiums. Another benefit is that you won't be out of pocket on a daily basis, as the premiums will be automatically deducted from your super fund.

Yet there are a couple of things to keep in mind. Income Protection insurance within super usually has a maximum benefit period of 2 years so if you are unable to return to work after this time, you will no longer receive benefits.

To ensure this cover is adequate it is possible to compliment insurance in super with a separate policy which has a longer waiting period. This way, if you are unable to work indefinitely, your benefits from within super will last for a certain period, while you can arrange for your separate insurance benefits to kick in after the waiting period.

It is important to note that premiums within super are not personally tax deductible.

Income Protection cover - Things to consider:

- How long is the waiting period before you can receive insurance benefits?
- How long can you continue to receive benefits?
- What types of injuries or accidents are included in the policy?
- Is it more effective to have cover within your super fund or an external policy or both?
- Have your personal circumstances changed? Your existing cover may need reviewing.

Are you considering switching super funds or have you changed fund recently?

- Have you switched super funds recently? Your previous insurance cover may have ceased.
- Does your new super fund offer similar insurance benefits? Are the premiums competitive?
- Do you have more than one super fund? You may have a double up on insurance policies.
- Does your new fund have automatic acceptance or will you need a medical check?
- Will your retirement benefits still be enough if premiums are deducted throughout your working life?

Your Count adviser can recommend suitable insurance for your needs and can also review any existing policies you may have.

*ABS National Health Survey, 2002.

DEFINITIONS:

Premium: The fee you pay to the insurer to provide protection and cover.

Waiting period: The period you wait before receiving benefits or payments after an accident or illness.

Benefits: Payments you receive from the insurer in the case of accident or illness.

Benefit period: The period for which you receive benefits, which starts after the waiting period. Benefit periods can be up to 65 years of age, but may only be up to 2 years if within super.



Chairman's Report: Say NO to 'no-interest' specials

Many shoppers see offers of no deposit combined with no interest and no repayments for 12 – 18 months as something too good to refuse. But are they?

Seldom does anyone do you a favour year-in and year-out without a catch, and offers of this nature are only good for the retailer and financier while bad for the consumer. Why?

Firstly, the consumer usually pays full price because these types of no-interest offers are usually on items sold at full price. Despite full cost, the consumer is often tempted to buy something they don't need and can't afford because of the perceived 'good deal'. Secondly, once the free period is over the consumer is often left with a debt with exorbitant interest rates. If you don't have the money (except for 'good' purchases such as your home and investments) then don't buy it because you probably don't need it and no one can afford the interest rates associated with such offers.

I recently spoke with a state leader of a political party about such loans and whether he would do anything about the rates charged on them. His response was "I believe in buyer beware". Unfortunately, the average buyer is not aware, so make sure your family understands that these offers are not designed to benefit them, because no one else is going to tell them.

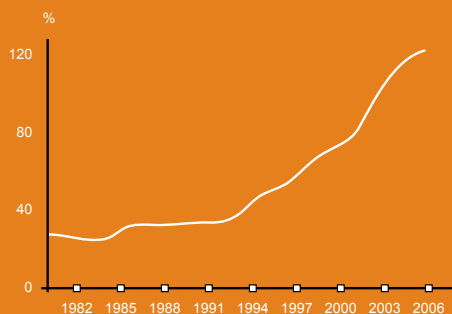
The graphs below show that household debt is on the rise while the level of savings for the average Australian is on the decline. Given this, we should be trying to reduce our 'bad' debt as much, and as quickly, as possible.

Begin by getting rid of all credit cards and only using a debit card to access money you have already saved. That way you will have a better appreciation of money and whether or not you really need to buy that item at all. Once you do that you will soon have funds to save for your retirement or that something special that you really do need.

Your Count adviser can help you with all your savings and superannuation needs.

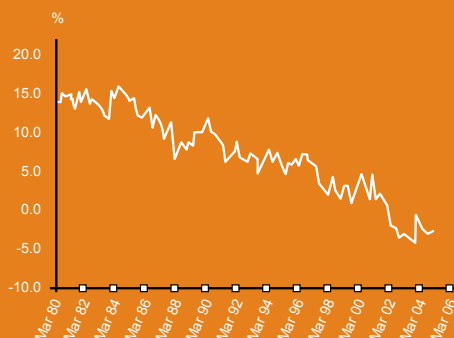
Barry Lambert, Founder and Chairman, Count Financial Limited

HOUSEHOLD DEBT
Percent of household disposable income



Income is after tax and before the deduction of interest payments.
Sources: ABS; RBA

HOUSEHOLD DEBT NET SAVINGS RATIO
Percent of household disposable income



After deducting consumption of fixed capital, which is primarily depreciation of dwellings. Source: ABS

How much will you spend on your child's education?

It's back to school for Australia's children, but sighs of relief from parents might be short lived with concerns over another year of school fees and related expenses. It's no wonder that education costs have become a major financial consideration for many parents, with private school fees expected to rise by up to 10% in 2007.

School fees, uniforms, stationery, sport and music equipment, and more, are all part of the increasing costs. Also, in the last decade, enrolment in non-government schools has increased by 22%*. So how much are you prepared to spend to see one child through their schooling? Table 1 shows some averages in Australia:

TABLE 1 – THE AVERAGE COSTS OF EDUCATION

	Public	Private
Childcare/pre-school (based on 48 weeks spent in childcare per year)	\$3,600	\$9,984
Primary school (7 years)	\$2,000	\$40,000
High school (6 years)	\$3,000	\$60,000
Further education (based on 4 year degree)	\$20,000	\$20,000
Potential total	\$28,600	\$129,984

Source: aifs.gov.au

If you are a parent worried about how you are going to cover your child's education costs, you're not alone. However, there are options to help you in the lead up to and through the school years. Your Count adviser can recommend suitable investments to help you budget and save, including:

- Managed funds or other investments to generate income through interest;
- Investment bonds; and
- A trust.

Some of these options have different tax consequences, so seek advice first. Your child might go through the education system for up to 20 years or longer, so start saving as early as possible!

*ABS, 12/2006

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