

GETTING THE BALANCE RIGHT.

IS LIFE TOO SHORT OR IS LIFE TOO LONG??

In last month's newsletter we waxed lyrical about the sound financial state of Australia and what a great place it is to live. But just how long can you expect to live for in this great country?

As you would expect Australia's life expectancy is very high by world standards, we are ranked number seven. Andorra, a tiny country in the Pyrenees mountains between France and Spain, has the longest life expectancy, at 83.5 years. There is also a small village in Italy called Stoccareddo where people do not suffer from heart diseases or diabetes and live well into their 90s. There is an on-going study by scientists into the longevity of these people.

In fact the figures for Australia are truly amazing. A female born today has a 1 in 4 chance of living to age 100! For retirees, at age 60 the male can at least expect to live until age 80, while the female will last another 4 years until age 84, and this is just if they are average!

The common adage that "life is too short" sounds an attractive mantra for those who want to live for today and forget about planning tomorrow. You know "live fast die young and leave a good looking corpse!" This mantra is also often reinforced by many tragic events we may experience in our life when we see loved ones die prematurely.

However the reality is that the greatest risk for most of us will be that we actually live too long! Too long that is to provide us with the comfortable retirement we desire. This demographic trend is frightening for our politicians who have an ever burgeoning group of pensioners expecting government support. And scary for individuals who no longer believe the government pension will be there for them.

The solutions available to us (not including winning Lotto) are fairly simple:

- Save more during our working life;
- Maximise investment returns on savings;
- Work longer;
- Expect less in retirement.

There is no magic answer. The role of a good financial planner is to help individuals to understand this dilemma, understand their choices and then formulate a plan. A plan which has the necessary discipline to get the right balance between the now and the future. This is not a sexy answer - and disappoints a lot of clients who are hoping for a short cut. The role of the planner is also to maximise long-term investment returns through discipline (there is that unsexy word again), ensuring tax effectiveness and fee efficiency. However this must all be done with regards to the risk profile of the client. Life is all about balance - and if you are going to live for a long time, is there anywhere better than Australia?

Where to live longer

Where in the world to live if you want to live longer

Andorra
Macau
Japan
Singapore
San Marino
Hong Kong
Australia
Canada
France
Sweden

How to Die Young!

The 5 most dangerous sports

Base Jumping
Horse Riding
Rock Climbing
Fishing (rock)
Motor Cycling

NB: these rankings are based on the number of deaths per annum as a percentage of known participants. The world's most dangerous sport based purely on the number of death's while playing the sport is actually **lawn bowls**. We think this has something to do with the demographics as opposed to the sport itself.

SUPER CONTRIBUTIONS - NOT SO SIMPLE!

When the "simple super" regime was introduced from 1 July 2007 one of the key measures to protect the integrity of the system was the introduction of contribution limits. The importance for getting these right and the consequences of breaching these limits for clients cannot be overstated. In the worst case scenario an innocent mistake of exceeding these limits (caps) can result in penalty tax of up to 93% (ouch!)

What are the limits in 2009 / 2010?

Contribution Type	Age of Member	Cap
Concessional (CC) (eg SGC, salary sacrifice or personal deductible)	Under age 50 on 30/06/10: Age 50 or over on 30/06/10:	\$25,000 \$50,000
Non-concessional (NCC) (eg. Post tax)	Under age 65 at any time during the year: Over age 65 for entire year:	\$150,000 or Up to \$450,000 over a 3 year period. \$150,000 (need to meet 'work test')
CGT small business	SIS contribution standards apply	\$1,100,000 lifetime limit
Personal injury	SIS contribution standards apply	No limit.

What are the penalties?

The penalty for exceeding the CC cap is 31.5% additional tax. Therefore in effect the client will pay the top marginal tax rate on these contributions. However these excess contributions (gross amount) also

then count against the non-concessional caps.

The penalty for exceeding the NCC cap is tax at the highest marginal tax rate - ie 46.5%. This tax is on top of the tax that has already been paid - thus resulting in the 93% tax rate.

The cap traps

In theory the contribution caps sound reasonable and with good advice should be easy to manage. However in reality there are many tricks and traps that can cause clients to breach the limits and incur penalty tax. These contributions cap breaches can arise in a variety of ways:

1. A transaction is assumed not to be a contribution but actually is - eg insurance premiums paid via super.
2. A contribution has been assumed to be made in one income year whereas in fact it is actually made in another - eg employer June contribution is actually made in July.
3. An in-specie contribution has been undervalued.
4. A contribution has been wrongly classified as one type of contribution - eg. member makes a personal deductible contribution but subsequently is not eligible to claim a deduction and the contribution must be classified as a non-concessional contribution; and
5. A contribution from an earlier period is overlooked - particularly relevant if \$450,000 3 year cap has been triggered in prior years.

A simple example - and a nasty surprise

George is aged 58 and in May 2008 he made a \$450,000 non-concessional contribution. He understands that he cannot make another NCC until 1 July 2010 or he will breach the 3 year bring forward cap. He retired in June 2009 and made a \$50,000 contribution in July 2009 with the intention of claiming the contribution as a personal deduction under the 10% rule. He commenced a pension with his super account in August 2009.

When George made his \$50,000 contribution he did not lodge a deduction notice with the fund. When George realises this and tries to advise his superfund they advise him it is too late because he has commenced a pension with these funds. The contribution has been classified as a NCC. Accordingly he has breached the NCC cap and he will be liable for \$23,250 in excess contributions tax.

When George receives his notifications from the ATO he does have the opportunity to apply to the ATO to exercise discretion, but this is only possible if the Commissioner considers that there are special circumstances outside the control of the individual. In the situation outlined above we believe it is unlikely George will be successful.

The moral of the story is that clients should seek professional advice and always keep their advisers informed **before** they make any superannuation contributions, or commence a pension from their superannuation assets.

WHERE IN THE WORLD WOULD YOU RATHER LIVE THAN AUSTRALIA?

Where in the world would you want to live right now? At the risk of being overly parochial I think the clear answer is - nowhere. And it is not just because that while the northern hemisphere is currently freezing and covered in snow we are enjoying the beautiful Sydney summer.

Economically Australia is cementing its place as the best performing economy in the OECD and the third best performing globally, after China and India. The Australian economy avoided recession in 2009 experiencing only a mild slowdown. Our economy is on its way to its 19th consecutive year of growth.

Australia's strong fundamentals relative to most OECD countries include:

- a strong and sound banking system;
- a Government in a relatively strong fiscal position;
- unemployment rate remaining low at 5.5%;
- moderate inflation;
- a resilient housing market;
- our major export partner, Asia, less affected by the GFC than Europe and the US; and
- prices for Australia's key commodity exports are rising once again.

So do we compare against the rest of the world with the 4 most important economic indicators - what is the official interest rate, do you have a job to pay the mortgage, how much will your income buy, and how's the weather?

World interest rates

Country	Current interest rate
Canada	0.25%
UK	0.5%
Japan	0.1%
US	0.25%
EU	1.0%
China	5.3%
Australia	3.75%

Have you got a job?

Country	Unemployment rate
UK	7.8%
Japan	5.5%
France	10%
US	10%
China	9%
Australia	5.5%

Prices - how much is a Big Mac?

Country	Price in A\$
Canada	\$4.03
UK	\$4.24
Japan	\$3.33
US	\$3.84
Sweden	\$5.70
China	\$2.00
Cheapest (Malaysia)	\$1.65
Most expensive (Norway)	\$7.40
Sydney (Town Hall)	\$3.45

How is the weather?

City	Avg Winter Temperature	Avg sunlight hours
Vancouver	3	2
London	5	1
Tokyo	6	5
New York	1	5
Stockholm	-2	1
Beijing	-1	6
Sydney	12	6

ECONOMICS, CRYSTAL BALLS OR DART BOARDS?

Many individuals treat investing like gambling - and they try and pick the big winners. At BDOWM we believe that like the race track the odds are against anyone consistently picking the winners. If it was

really that easy - would people really tell you the secret? The only solution to this conundrum is a disciplined approach to investing that requires a sound diversified investment portfolio within an individual's risk profile.

Have a look at the table below which highlights the best and worst performing asset class for each calendar year. Can you pick next year's winner?

20 years of historical asset class returns for calendar year

Year	Aust. shares	International shares	Property	Aust. Fixed Int	International Fixed Int	Cash
1990	-17.52	-14.59	8.7	19.01	14.79	16.13
1991	34.24	20.63	20.08	24.75	17.88	11.2
1992	-2.31	5.22	3.21	10.41	16.54	6.92
1993	45.36	24.82	30.73	16.32	14.77	5.39
1994	-8.67	-7.62	-7.09	-4.66	-10.44	5.36
1995	20.19	26.66	14.28	18.63	24.13	8.03
1996	14.6	6.71	14.24	11.87	-2.96	7.57
1997	12.23	42.19	21.91	12.23	22.18	5.63
1998	11.63	32.82	18.44	9.54	22.49	5.14
1999	16.1	17.57	-4.68	-1.22	-10.26	5.01
2000	4.8	2.49	19.71	12.08	19.99	6.27
2001	10.49	-9.65	14.6	5.45	7.48	5.24
2002	-8.64	-27.13	11.76	8.81	8.63	4.77
2003	14.96	-0.29	8.8	3.05	-14.12	4.90
2004	27.92	10.43	32.01	6.96	6.06	5.62
2005	22.45	17.39	12.5	5.79	-0.33	5.73
2006	24.51	12.02	34.03	3.16	-1.25	6.04
2007	16.22	-2.14	-8.41	3.46	-0.45	6.73
2008	-38.9	-24.9	-55.3	14.9	9.2	7.6
2009	37.59	1.39	9.56	1.73	8.02	3.47
2010	?	?	?	?	?	?
Avg 20 year period	11.86	6.7	9.95	9.91	7.6	6.63
Avg 10 year period	8.92	-2.91	4.05	6.49	7.98	5.63

Best performing asset class

Worst performing asset class

Data: Aust. Shares - S/PASX 300 Accum Index, International shares - MSCI wWorld Acc Index Gross Div (A\$), Property - S&P/ASX 300 REIT Accum Index, Aust Fixed Int - UBS Warburg Composite Bond Index, International Fixed Int - BarCap Global Agg Indexed hedged (A\$) and Cash - UBS Warburg Bank Bill index.

