

Important information regarding Centrelink changes



A number of significant changes will affect the level of Centrelink benefits that are payable to many Australians. These changes may affect the following groups of people:

- Current pensioners who are affected by the assets test;
- Those who are ineligible to receive government income support benefits because of the value of their assets;
- People hoping to become eligible for a government benefit in the future (eg those approaching retirement); &
- Older Australians expecting to enter an aged care facility (such as a hostel) in the future.

Means testing

The Government provides a range of income support benefits to Australians in certain circumstances. These include benefits such as the age pension, sickness benefits, unemployment benefits and the like.

When assessing a person's eligibility for government benefits, the applicant's assets and income are taken into account. An assets test and an income test are applied and the test that produces the lower benefit is the one applied. The tests are applied on an ongoing basis to determine a person's continued eligibility for benefits. Where assets or income exceeds certain thresholds, the benefit is either lost or reduced according to a formula.

Assets test thresholds

The current assets test thresholds are based on whether a person is single, a member of a couple, or a member of a couple separated by ill-health. Homeownership is also taken into account.

The pension assets test thresholds applying as at 1st July 2007 appear in the following table:

Status	Assets Free Threshold	Maximum assets before pension reduces to \$0
Homeowners		
Single	\$166,750	\$343,750
Couple - combined	\$236,500	\$531,000
Couple - seperated by ill health	\$236,500	\$590,500
Non-homeowners		
Single	\$287,750	\$166,750
Couple - combined	\$357,500	\$652,000
Couple - seperated by ill health	\$357,500	\$711,500

Once a person's assessable assets exceed their prescribed assets free threshold, their pension benefit is reduced by \$3 per fortnight for every \$1,000 of assets they have in excess of the asset free threshold.

From 20th September 2007, the pension reduction factor of \$3 per \$1,000 will be reduced to \$1.50 per \$1,000.

This means that potentially many more people who currently only receive a part pension, or those who receive no pension because of the level of assets they hold, will now receive either an increased part pension or, for those who currently receive no pension, they may now become entitled to a part pension. For those who currently receive a part pension, Centrelink will make the necessary adjustments however, people who are currently precluded from receiving any pension because of the level of assets they hold will now need to lodge an application for a pension.

From 20th September 2007 the estimated level of assets a person may hold before their pension entitlement will increase significantly.

Status	Maximum assets before pension reduces to \$0	
	Pre 20/9/07	Post 20/9/07
Homeowners		
Single	\$343,750	\$520,750
Couple - combined	\$531,000	\$825,500
Couple - seperated by ill health	\$590,500	\$944,500
Non-homeowners		
Single	\$464,750	\$641,750
Couple - combined	\$652,000	\$946,500
Couple - seperated by ill health	\$711,500	\$1,065,500

Assets test exempt income streams

Not all assets a person holds are assessed under the assets test. For example, a person's principal residence is excluded from assessment. Where a person invests in certain types of investment products that pay a regular income stream, the amount of capital placed in the investment may receive concessional treatment under the assets test. These investment products are referred to as "assets test exempt income streams" and

include certain types of annuities issued by life insurance companies and certain pensions (such as "market linked income streams") provided by superannuation funds. The one distinguishing feature of investment products that receive favourable assets test treatment is that once the investment is made, the capital invested can't generally be accessed.

Where an investment is made in an assets test exempt income stream between 20th September 2004 and 20th September 2007, 50% of the investment is excluded from the assets test. Investments made prior to 20th September 2004 received 100% exemption from the assets test.

With effect from 20th September 2007, new investments in assets test exempt income stream products will no longer receive any assets test exemption. Investments made prior to that date will retain their 50% assets test exemption.

For those people with assets that exceed their relevant assets test threshold, the use of an assets test exempt income stream product may be useful in gaining access to a higher pension allowance than may otherwise be achieved. Even where a person may not qualify for a pension until a future date, purchasing an assets test exempt income stream product before 20th September 2007 may be a worthwhile consideration as it will maintain its 50% assets test exemption into the future.

The impact of assets test exemption when combined with the reduction in the assets test reduction factor (from \$3 per \$1,000, to \$1.50 per thousand) makes for some interesting mathematics when optimising the spread between an assets test exempt income stream and other assessable assets. Of course, the impact of the income test also needs to be taken into account when assessing strategies aimed at maximising government income support.

In Conclusion

If you are currently receiving a reduced income support benefit such as the age pension, or if you are not receiving a benefit at all but think you may be eligible from September given the changes to assets testing, contact your Forsythes adviser as soon as possible to discuss.

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Forsythes Financial Planning Money Matters

Life is full of uncertainties. Future investment earnings and interest and inflation rates are not known to anybody. However, I can guarantee you one thing... those who put an investment program in place will have a lot more money when they come to retire than those who never get around to it.

Noel Whittaker

WELCOME TO THE FORSYTHES FINANCIAL PLANNING - MONEY MATTERS - SECOND EDITION 2007

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News Update

John O'Connor - Partner

Welcome to the second edition of Money Matters for 2007. At the time of going to print we have just completed a robust financial year with average returns on the Forsythes Financial Services balanced client portfolios coming in at 14.15% repeating a similar performance in the 2006 financial year. However, the domestic and international share market correction of late July serves as a timely reminder that the last few years strong market performance is unlikely to be maintained long-term.

It is with these corrections in mind that our Investment Review Committee sets restrained portfolio exposure to share markets to ensure our clients are buffered from such volatility. In addition, I can happily report that our clients have no, I repeat - Zero, direct exposure to the US sub-prime mortgage problems or the hedge funds which have encouraged their proliferation.

Our Investment Review Committee has also conducted in depth research into the increasing number of Socially Responsible Investment funds (SRI's). These funds offer clients access to investments which have been screened to exclude activities such as gambling, tobacco and armaments.

The SRI funds, whilst small in terms of the total funds management industry, are growing as a proportion and now have an established track record of comparable performance with conventional Australian Equity Funds. Clients who have an interest in this development should raise this with their adviser.

On a similar theme Forsythes has formed a "Green Forsythes" committee to consider operational issues which have an environmental impact. Issues under consideration include:

- Improving our rate of recycling.
- Reduction of paper usage.
- Reduction of electricity usage through more efficient use of lighting, computers and air-conditioning.

You may wish to participate in this effort by, if convenient, electing to receive your copy of Money Matters by email. This can be achieved by logging on to our website at www.forsythes.com.au or emailing Rebecca McNally at rmcnally@forsythes.com.au.

Staff News

Farewell to Lauren Mears and Kate Mantle who are leaving at the end of August, after 7 and 5 years with us respectively.

Lauren and her husband Jeff are expecting their first child in September. We hope she will be back with us on a part-time basis in '08.

Kate has decided to chase the bright city lights and has accepted a position with Macquarie Bank in Sydney.

We wish them both the very best in their new ventures.

Congratulations also to Darren O'Neill who has recently become our newest Authorised Representative.

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what is Estate Planning?

PART TWO - OF OUR 2 PART SERIES

The short answer – Making sure that on death, your Assets pass to the People you want to benefit. Proper estate planning is about more than just making a Will. It is about making sure your assets end up in the hands of the people you want to benefit.

Flexible Wills - Testamentary Trusts

Making a Flexible Will (incorporating a testamentary trust) is generally about 2 things - Asset protection & Tax minimisation.

When making a Flexible Will, the important thing to remember with testamentary trusts is that it is not about "who" is benefited but "how" you benefit them.

A Flexible Will incorporating a testamentary trust is a more flexible structure for the beneficiary. Each beneficiary can choose, at the time of your death, whether or not they want to take advantage of the more flexible structure. If a beneficiary chooses not to take advantage of the more flexible structure, then the Flexible Will simply operates just like a Traditional Will.

The cost of a Flexible Will is more than a Traditional Will. Making a Flexible Will (incorporating a testamentary trust) is a bit like taking out an insurance policy. There are benefits of the trust in a range of circumstances – if one (or more) of those circumstances exist at the time of death then the Flexible Will assists your beneficiaries in protecting their inheritance.

To assist you in determining whether a Flexible Will is right for you, we have included a number of examples of where the Flexible Will "saves the day". Those examples are "scenario" based:

- Young Family – the Flexible Will saves tax.
- Beneficiary in Business – the Flexible Will saves the inheritance.
- Married Beneficiary – the Flexible Will protects the inheritance.
- Grandparents – the Flexible Will saves tax (see page 3).

Young Families - Flexible Will "Saves Tax"

Where there are children or grandchildren under 18 there are potential tax savings to be made from a Flexible Will.

The tax benefits of a Flexible Will are highlighted in the following example.

Andrew and Phil did everything together. Tragically, on a fishing trip, their boat capsized and they both lost their lives. Both Andrew and Phil (aged 37 years):

- Were married with three children (aged 5, 7 and 11).
- Earned about \$35,000 a year and had wives earning \$30,000 a year.
- Had homes worth \$300,000 with mortgages of \$100,000.
- Had no savings but had superannuation and life benefits worth \$280,000.

Andrew and Phil could be described as the typical young husband. On their death, the following occurred:

Issue	Andrew	Phil
Will	Andrew did a Traditional Will. Under his will he left everything to his wife (Susan).	Phil left a Flexible Will, in which he established a testamentary trust for his wife (Mary).
Allocation of Estate	Susan repaid her mortgage with the funds from the estate. The balance then remaining (\$180,000) was invested in her name.	Mary also repaid her mortgage with the funds from the estate. The balance then remaining (\$180,000) was invested in the name of the testamentary trust.
Income earnings	Susan received a return of 10% on the investment - \$18,000 pa	The trust's investment also earned 10% a year - \$18,000 pa
The tax sting	The income was taxed in Susan's hands – Susan paid \$5,400 (30%) tax.	For tax purposes, \$6,000 was treated as income of each child. No tax was paid.
Balance	The balance of \$12,600 was then used to feed, clothe and educate the children.	The whole \$18,000 was available to feed, clothe and educate the children.
Result	Over the next 10 years, Susan paid a total of \$54,000 tax.	Over the next 10 years, no tax was paid by the trust.

Beneficiary in business - Flexible Will "Saves the inheritance"

Peter, John and Mary were partners in a business. Peter ran away with all of the business assets, leaving the business to flounder (and poor John and Mary to cope). At the time of Peter running away, the business owed \$800,000 to creditors and was subject to a claim for \$200,000 for an error made by Peter.

Both John and Mary's parents were on holidays together. Tragically, their bus crashed and they all died. The following occurred:

Issue	John	Mary
Will	John's parents did a Traditional Will. Under the will John was left everything.	Mary's parents left a Flexible Will, in which they established a testamentary trust for Mary.
Estate	John's parents were reasonably well off – they left an estate of \$500,000.00.	Mary's parents were not as well off – they left an estate of \$300,000.
Allocation of Estate	The creditors of the business soon discovered John had received an inheritance. They quickly seized the funds, leaving John with nothing.	The creditors of the business also discovered Mary's parents had died. They also tried to seize her inheritance but could not do so – it was locked up in the testamentary trust.
Flexibility	Unfortunately, John had no option but to wave his inheritance goodbye.	The creditors of the business threatened Mary with bankruptcy. Mary had the flexibility of: <ul style="list-style-type: none"> ▪ Going bankrupt (and protecting all the inheritance); or ▪ Making a deal with the creditors. Mary made a deal with the creditors under which she paid them \$100,000.00 for a release.
Result	All of the inheritance intended for John ended up in the hands of the business creditors. Poor John received nothing.	\$100,000 of the inheritance ended up in the hands of the business creditors. However, \$200,000 was salvaged for Mary.

People in business are always at risk of being sued. Often, business people (if properly advised), structure their affairs to protect their personal assets from claims.

If you have a beneficiary who is in business, there are significant asset protection benefits from a Flexible Will - the benefits are highlighted in this example:

Grandparents - A Flexible Will "Saves Tax"

The tax benefits of a Flexible Will are highlighted in the following example.

Betty and Martha did everything together. They both died leaving one child each. Both their children are:

- Aged 40 years.
- Married with three children (aged 5, 7 and 11).
- Earned about \$35,000 a year and had wives earning \$30,000 a year.
- Had homes with \$400,000 with mortgages of \$220,000.

Betty and Martha both left estates worth \$400,000. The following occurred:

End of Part 2 - Part 1 was published in our 2006 December issue of Money Matters and dealt with Superannuation, Life Insurance and Challenges to your Will.

Source: Mason Lawyers - Estate Planning Client Guide

Married Beneficiary - Flexible Will "Protects the inheritance"

If an intended beneficiary is married or in a de facto relationship, a question sometimes arises "will the relationship last?".

Unfortunately, many marriages or relationships fail. A failed marriage/relationship can lead to "leakage" of a share of the estate to the beneficiary's ex spouse (through family law proceedings).

The asset protection benefits of a Flexible Will are highlighted in the following example.

Bill and Ben are best friends. Unfortunately, both Bill and Ben's parents died in the last few years. Both Bill and Ben inherited about \$500,000 from their parents' estates. Both of them have been experiencing problems with their wives for years and both have recently separated. Neither of them told their parents of their marital woes. In fact, when Ben's parents died, there was no sign of any problems in the marriage.

Issue	Bill	Ben
Will	Bill's parents did a Traditional Will. Under the will, Bill was left everything.	Ben's parents left a Flexible Will, in which they established a testamentary trust for Ben.
Allocation of Estate	Bill's inheritance merged into and became part of his matrimonial assets.	Ben's inheritance was held in the testamentary trust.
Family Law Proceedings	Bill's wife claimed a share of all the matrimonial assets, including Bill's inheritance. At the time of the separation, the total assets were only \$600,000. Bill's wife received \$300,000 in the divorce (50% of the overall assets).	Because Ben's inheritance was in a testamentary trust, Ben argued it was not available in the divorce. The matrimonial assets were \$100,000 and the trust had assets of \$500,000 (like Bill, a total asset pool of \$600,000).
Flexibility	Unfortunately, Bill had no option but to share his inheritance with his ex-wife.	Both Ben and his wife were aware (from legal advice) that the Family Court had the power to give Ben's wife a share of the assets in the trust but that there was no guarantee it would do so. With this in mind, Ben was able to negotiate a settlement out of Court under which Ben's wife received 20% of the trust assets.
Result	Effectively, Bill's ex-wife ended up with half of his inheritance (\$250,000). Bill was not happy with this.	Ben's wife ended up with 20% of his inheritance (\$100,000). Ben could live with this, particularly when he saw what happened to Bill.

Issue	Betty	Martha
Will	Betty did a Traditional Will. Under her will, she left everything to her son Adam.	Martha left a Flexible Will, in which she established a testamentary trust for her son Ralph.
Allocation of Estate	Adam repaid his mortgage with the funds from the estate. The balance then remaining (\$180,000) was invested in Adam's name.	Ralph also repaid his mortgage with the funds from the estate. The balance then remaining (\$180,000) was invested in the name of the testamentary trust.
Income earnings	Adam received a return of 10% on the investment - \$18,000 pa	The trust's investment also earned 10% a year - \$18,000 pa
The tax sting	The income was taxed in Adam's hands – Adam paid \$5,400 (30%) tax.	For tax purposes, \$6,000 was treated as income of each child. No tax was paid.
Balance	The balance of \$12,600 was then used to feed, clothe and educate Adam's children.	The whole \$18,000 was available to feed, clothe and educate Ralph's children.
Result	Over the next 10 years, Adam paid a total of \$54,000 tax.	Over the next 10 years, no tax was paid by the trust.