

JULY 2009

# Lifestyle Matters

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## Budget '09— Labor Raids Super

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Is Super still attractive?

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“  
This is the biggest reform of superannuation Australia has ever seen. It smashes through the complexity of RBLs (reasonable benefit limits), aged-based contribution limits and differential taxation in relation to lump sum withdrawals and pensions. It makes superannuation the best investment a person can make in their lifetime.

”  
*Peter Costello – 5 September 2006*

“  
...what we have done at the top is to take some of the obscenities out of the superannuation system.

”  
*Wayne Swan – May 13 2009*

For a short period, Australia enjoyed one of the most generous and flexible savings regimes in the Western World. Under the previous Liberal Government many of the complexities and deterrents of our superannuation system were removed. This has made it, easily, the most tax-effective vehicle into which Australians can save for their retirement.

Then came Budget 2009. Numerous leaks prior to May 12 were designed to lessen the blow of impending changes to the contribution limits. Despite this, we were shocked at the severity of these changes and the impact they will have on those who want to self-fund their retirement.

The Rudd Labor Government suggests that these changes will only affect the wealthy (they estimate 2% of the population). We disagree. At Lifestyle, we expect that it will impact more than 50% of our clients at some point of their working life...especially those looking to load up their superannuation after getting the mortgage under control and raising their children. Certainly, pre Budget 2009, most of our clients were on track to achieve a comfortable level of financial independence (of around \$50,000 tax free income pa in retirement) by simply salary sacrificing to super. Now, Financial Plans will need to be re-written and alternative strategies explored if goals are to be achieved.

At the risk of being too political on this issue, we question why people on above average incomes are now going to be forced to reduce their tax efficient income from superannuation so dramatically when they retire; particularly as the taxes these individuals have paid throughout their working life have been so much higher than those on average incomes. Why should those Australians, who have worked so hard throughout their life, perhaps taken a few risks and made some sacrifices along the way, be punished for their success? It seems the Labor Government is intent on dampening the rewards for being successful and ensuring mediocrity across the board.

Our question to the Rudd Government is this? Will the level of retirement pension income afforded to Federal Politicians be detrimentally impacted by these changes to superannuation? I think we all know the answer to that one.

# Is Super still attractive?

Unequivocally yes! It is still the most tax-effective vehicle in which to hold your long-term savings. It has just become a lot more difficult (~impossible for most) to accumulate enough super in order to achieve a dignified and self-funded retirement.

## What now?

Unfortunately, Australians will now have less money to save for their retirement as they will be forced to pay more income tax – due to the massive reductions in amounts that can be salary sacrificed. This means that there are now 3 choices in relation to your financial plan:

- Choice 1:** Accept that you will have a lower income in retirement if you are relying solely on superannuation for your financial independence.
- Choice 2:** Work longer to achieve the same level of financial independence that you would have achieved pre-Budget 2009.
- Choice 3:** Look at alternative strategies to build wealth outside of superannuation. As you now have less investable funds, due to being forced to pay more tax, this will probably involve taking on more risk. For example, gearing, or borrowing to invest.

## Has the Rudd Government got any more nasty surprises for us?

We think YES. Kevin Rudd and Wayne Swan have clearly shown that they intend to tax “obscenities” out of the system. Currently, the Henry Review is looking at the “efficiencies” of our tax system. Separately, another enquiry has commenced which will look at the superannuation system. These are ominous signs.

We are not confident that the reduction of contribution limits is anywhere near the end of the Labor Government’s raid on Australia’s superannuation regime. The level of contribution taxes, the rate of taxes on superannuation investment income and the tax-free status of pension income will all be looked at by these reviews. Let’s hope they leave these concessions alone.

## Can we still trust superannuation? What if they change it for the worst?

We are reasonably confident that future changes to super will not be retrospective and disadvantage current account balances. It is likely that the current generous tax arrangements around super would be “grandfathered” for current balances. That is, if the Government was to introduce more taxes to super at a future date, it is likely that balances accumulated prior to that date would be excluded from the future taxes – as has been the case with previous changes.

## Some of the major changes include:

Proposed Change	Description
Pre-Tax Concessional Contributions (CC)	Reduced to \$25,000 pa from July 2009 (from \$55,000). Transition (50 yr olds) – reduced to \$50,000 pa over 3 years to June 2012 (from \$105,000). After 3 years, reduced to \$25,000.
Post-Tax Non-Concessional Contributions (NCC)	Limited to 6 times the CC. \$150,000 from July 2009. 3-year NCC Cap = \$450,000.
Super Co-Contribution	Reduced from \$1,500 to \$1,000. Increasing to \$1,500 by 2014/15.
Pension Concession	Only required to draw 50% for 2009/10.
Medicare Levy Surcharge & Private Health Insurance Rebate	For high income earners (above \$75K for singles and \$150K for families) the Surcharge will increase and the rebate will reduce, partially or fully, dependent on income levels.
Age Pension Age	Increases from 65 to 67 between 2017 and 2023 (@ 6 mths/2yrs).
Income Tax Cuts	Confirmed previously announced cuts will go ahead as planned.

## Our own Soap Opera – In the Fish Tank

Spare more than a passing glance at our beautiful tropical fish tank and you will appreciate that there is a serious pecking order in existence. Following the demise of our first pair of Parrot Fish we embarked on an extensive search to find a replacement. We were successful, and welcomed a big beautiful orange Parrot Fish into the tank. Unfortunately, his stay was short lived due to being constantly chased, and even attacked, by the smaller and more agile local residents. To save his life, we returned him to his original owner. Now, we are waiting for a pair of smaller Parrot Fish to arrive. Maybe two can support each other and survive any possible territorial attacks! ...watch this space...

## Rainforest Run in Chatswood?

Who would believe that you could find rainforest in suburban Chatswood? At Lifestyle we all try to keep relatively fit and over the past few months the Rail to River run has become a popular weekly activity. It is nice to get away from the mayhem of the GFC and enjoy the next best thing to a Daintree River experience. The challenging run is approximately 7 km and goes from Chatswood Station to Lane Cove River and back. While it is supposed to be a relaxing jog, we do occasionally time it. The record so far is 38 minutes.

## David in Hawaii

David once again lined up for the 55km World Surf Ski Championships which are raced annually between the islands of Molokai and Oahu in Hawaii. Conditions were particularly tough this year, with unseasonal hot and calm conditions making for a longer than usual race of around 4 hours. While the young speed demons flew off the start, David held back and

# What's happening at Lifestyle

gradually passed most of them as they tired in the last hour to record a great result...1st in his age group (0/40) and 4th overall.

## Tim setting high expectations for Sam

Tim's son Sam recently went on a cub scout excursion to Camp Coutts near Royal National Park. They met at the local train station at 7.30am on the Sunday of the June Long Weekend (no wonder Tim is always so tired) so that they could get there early to go on the flying fox.

When Sam was asked about how the camp and flying fox was, Sam replied good (as any 9 year old boy would). When asked further, he said that "the flying fox was fun because you went over trees but was not as "good" as the one you built because you don't go as fast and don't end up in the water".



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