



October 2005 Edition

## Talking Point!

**WELCOME from the Adviser to Your Personal Super Plan.**

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In this edition we cover the following topics:

- May 2005 Federal Budget -new “Super Opportunities”;
- Transition to Retirement - the new Super Access rules;
- Superannuation Splitting - proposed from July 1 2006; and,
- Underinsurance -Does it Apply to You?

### **MAY 2005 Federal Budget – new “SUPER OPPORTUNITIES”**

As part of the May 2005 Federal Budget process and in the weeks following, several initiatives were announced or confirmed which have wide implications for the attractiveness and flexibility of your superannuation investment.

These were as follows:

- Choice of Fund regulations were finalised for implementation from 1 July 2005, covering superannuation contributions from that date;
- Portability regulations were widened- allowing rollover of existing superannuation balances at any time to the fund of your choice;
- Superannuation Surcharge was abolished from 1 July 2005 for employer and salary sacrifice contributions and terminations payments. This combined with the new “Transition to Retirement” rules and planned introduction of “Superannuation Splitting” makes salary sacrificing even more attractive as a tax effective investment option;
- Transition to Retirement rules were introduced- see below; and,
- Superannuation Splitting proposals were announced, to apply from 1 July 2006- see below. (**STOP PRESS**- introduction now announced from 1 January 2006!)

### **TRANSITION TO RETIREMENT- NEW OPPORTUNITIES**

The Government released amendments applying from 1 July 2005 that allow anyone of “preservation age” (age 55 for people born prior to 1 July 1960, and at a later date, maximum age 60, for people born after 1 July 1960) to access their superannuation in the form of a non-commutable income stream, without having to retire or resign from the workforce.

These new rules are intended to encourage people to transition into retirement through part-time employment- with the non-commutable income stream from superannuation supplementing their income requirements. On full retirement from the workforce, the non-



commutable income stream can be converted to a commutable income stream, or alternative superannuation can be accessed as a lump sum.

The new rules do not require any minimum or maximum employment hours before superannuation can be accessed with a non-commutable income stream. Accordingly, a potential tax saving planning opportunity which has been identified is commencing a non-commutable income stream and salary sacrificing back into super at the same time- some commentators have suggested that the ATO may review/disallow this “double-dipping” arrangement in the future, so caution and good advice is recommended at this stage.

### **SUPERANNUATION SPLITTING from 1 JULY 2006- STOP PRESS! Just announced introduction date 1 January 2006!**

The Government announced in the May 2005 budget that it will introduce legislation enabling the splitting of superannuation contributions between spouses from 1 July 2006 i.e. the transfer/rollover of employer, salary sacrifice and personal contributions paid on behalf of a member into a superannuation account of a spouse. Whilst the details of the new splitting rules have not been finalised, it is believed that splitting will be effected by a transfer/rollover at the end of each financial year, with the transfer/rollover amount being limited to 60% of employer/salary sacrifice and 100% of personal contributions made during the financial year. There will be no splitting of accumulated balances.

Why split super between spouses? There are significant potential tax benefits at retirement from splitting super - two individual tax free lump sums which can be accessed, lower tax from splitting retirement income, and access to two individual RBL's (Reasonable Benefit Limits).

The new superannuation splitting regulations will encourage longer term pre-retirement planning of the allocation of super balances between spouses, and remember, in the event of divorce superannuation balances are able to be reallocated as part of any property settlement.

### **UNDERINSURANCE - DOES IT APPLY TO YOU?**

Research published recently has shown that a very large proportion of Australian families are leaving themselves exposed to financial risk if either partner dies or is disabled.

Consider the following statistics:

- one in three men and one in four women will be diagnosed with a malignant cancer before age 75;
- cardiovascular disease affects 3.67 million Australians and was the cause of 50,294 deaths in 2002; and,
- each year around 40,000 to 48,000 Australians have a stroke, which equates to a stroke occurring every 11 to 13 minutes.

Adequate personal insurance cover, whether Death, Total & Permanent Disability, Income Protection or Trauma, is a vital part of personal financial planning and should not be overlooked. It is recommended that you review your personal insurances, and seek personal financial advice about arranging any necessary increased cover.

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