



September 2004 Edition

## TALKING POINT!

### WELCOME

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In this edition we cover the following topics:

- Insurance Cover – when is enough enough?
- Improvements to the Government Co-contributions;
- Death Benefits – who can they be paid to? and,
- Recent Changes to Super.

### INSURANCE COVER

Within superannuation funds there are generally two types of insurance cover which can be arranged - Death & Total & Permanent Disablement and Salary Continuance insurance cover.

*What level of cover do you have? - and is it too little, too much.... or just right.*

The appropriate level of insurance varies depending on your personal circumstances – in particular your age, family situation (e.g. number and age of dependants), and financial position (e.g. level of mortgage, other debts etc). We suggest you regularly review your insurance cover, and if necessary seek financial advice as to its adequacy. If you need to change your level of cover, this can be arranged by telephoning your super fund provider. If you want to arrange additional insurance cover, you should see a financial advisor or specialist insurance broker.

Some other key points to note:

- You can have several separate Death/TPD policies, and claim a benefit from each of them. However, Salary Continuance policies will generally offset any benefit you have from another policy before paying a benefit - so normally there is no advantage in having duplicate cover;
- Salary Continuance insurance claim payments are generally based on your salary, or in the event you are unemployed, on your salary over the preceding 12 months. So if you have been out of the workforce for 12 months or more, and are not re-entering in the foreseeable future, you may wish to consider whether salary continuance insurance is of any benefit to you; and,
- You should familiarise yourself with the terms of your insurance cover – there can be variations in both the cover provided and the policy wordings between different insurers. The insurance terms are set out in the Product Disclosure Statement you will have received from your super fund.

### GOVERNMENT CO-CONTRIBUTIONS

The Federal Government Co-contribution system, first introduced for the 2003/04 year, has been extended for 2004/05 onwards and now provides an opportunity to boost superannuation for a much wider group.



The Co-contribution is now \$1.50 for each \$1 of personal contributions, with a maximum co-contribution of \$1,500 where assessable income plus reportable fringe benefits is \$28,000 or less. The maximum Co-contribution phases out by 5c/\$1 of income above \$28,000 and is therefore nil at \$58,000 income. Key qualifications are that you must:

- make personal contributions during the financial year;
- lodge a tax return for the financial year;
- have received employer financial super contributions during the year, or have employment income less than 10% of total income; and,
- not be substantially self-employed.

Further information can be found on the ATO website: [www.ato.gov/super](http://www.ato.gov/super).

### **DEATH BENEFITS- WHO CAN THEY BE PAID TO?**

Under superannuation regulations, the Trustee of a superannuation fund can only pay a member's death benefit (which comprises their account balance and any Death insurance) to:

- the member's spouse (including de-facto);
- child of any age;
- someone financially dependant on the member;
- the member's Estate; or
- a person with whom the member was in an 'interdependent relationship' (including same-sex couples).

Any nomination of beneficiaries outside of the above categories cannot be acted upon by the Trustee. In such cases, or in the absence of any nominated beneficiary, the death benefit will be paid to the member's Estate, and then is dealt with under the terms of their Will. In the Will there are no restrictions on the distribution of the superannuation death benefit proceeds. There can however, be differing taxation consequences dependant on the ultimate recipient of a superannuation death benefit.

### **RECENT CHANGES TO SUPER**

A number of changes to superannuation were introduced during the year, many of which were announced in the May 2004 Federal Budget and legislated mid-year. The main changes (other than any mentioned elsewhere in this newsletter) were as follows:

- All people under age 65 now eligible to contribute to superannuation, whether working or not;
- Changes to the rules for eligibility to contribute to super, and accessing super, after age 65;
- Reduction in the superannuation surcharge rate to 12.5% for 2004/05, and 10% thereafter;
- Changes to the taxation of super benefits transferred from an overseas fund;
- Choice of fund to be introduced from July 1 2005, with exemptions for certain workplace and industrial agreements; and,
- Introduction of market linked or 'growth' pensions from 20 September 2004. Such pensions will be complying for both pension RBL and Centrelink assessment purposes; From 20 September 2004 complying annuities/pensions to be 50% exempt for Centrelink asset testing, compared to the previous 100% exemption.

#### **Disclaimer**

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