Ready, Aim, Insight

Catapult Wealth Newsletter | Summer 2015

Welcome to Ready, Aim, Insight.

2014 has come and gone and the time for reflection has begun.

The markets globally have nearly ended the year where they started, with the exception of the US.

The big economic stories this year have been the drop in the oil and iron ore prices, the continued weakness in the $A and the increasing prospect that not only will interest rates remain flat for a number of years but that they could decrease!

All of these issues will be topical in 2015 as well. We believe the $A weakness will persist and this is important in ensuring portfolios are correctly structured for this outcome.

I am still very comfortable with the outlook for economic growth in not only Australia but the rest of the world as well. The US economy looks particularly strong.

In preparing for 2015, make sure you take some time over the holidays to recharge the batteries, plan your goals for the next 12 months and get your diary all locked in with those important dates.

Thanks for all your support in 2014, we appreciate it.

I look forward to catching up with you all very soon in the New Year.

Cheers,

Tony Catt
Director - Catapult Wealth
Authorised representative of Lonsdale Financial Group Limited

Contents:

Five super traps pre-retirees should avoid:

Is your retirement just around the corner? Then it's time to make your super work harder by avoiding these common traps.

1. Outdated investment strategies

As you approach retirement, you should revisit your investment strategy. But that doesn't necessarily mean putting all your money into defensive assets like cash. Diversification is the key to smoothing out the inevitable bumps when economies, sectors and assets rise and fall. A well-diversified portfolio includes a good mix of asset classes — such as cash, fixed interest, property and shares.

2. Over-insurance

Just as your investment needs change, so will your insurance requirements. For instance, if you've eliminated or significantly reduced your debts, you may not need as much life insurance or income cover as you once did. If you're an empty nester, your insurance needs are likely to be very different to those of a young family's sole breadwinner.

Your lifestyle might have also changed over the years — for example, you may no longer engage in high-risk work activities or leisure pursuits like skiing. So make sure your cover matches your needs.

3. Missing out on tax benefits

Before the end of your career, it may be worth considering a transition to retirement (TTR) strategy. This involves drawing a pension from your super savings while you're still working, which you can start doing once you've reached the preservation age (currently age 55). This pension income is likely to be taxed at a reduced rate or to be tax-free. At the same time, you can boost your super contributions through salary sacrificing, with any contributions of up to $35,000 taxed at just 15 per cent.

This can give a valuable boost to your nest egg during the crucial pre-retirement years. That's why it's worth working with your financial planner to find out the best TTR strategy for your situation.

4. Inadequate estate planning

Although it's probably not something you like to think about, it's important to consider what will happen to your estate when you pass away. When it comes to super and insurance, this means nominating who you want to receive your super savings and any payable insurance benefits. The tax implications for your beneficiaries can vary depending on their age, their relationship to you and whether the payments are classified as a lump sum or as an income stream. When you're getting your affairs in order, it's a good idea to seek professional estate planning advice.

5. Going it alone

Everyone's circumstances are different, so your super strategies should be too. Talking to a financial planner is the first step in getting the most out of your super.

To find out more, contact Catapult Wealth today.

Source: MLC, October 2014

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Neglect SMSF liquidity at your peril

In this article, we look at the liquidity risk associated with holding fixed property in SMSF's, as well as some of the factors to consider when investing in these types of assets.

Fixed property holdings in SMSF's can have distinct advantages:

- Capital appreciation of the property is taxed at an effective rate of 10 per cent, with a reduction to zero if the realisation occurs during the pension phase.
- Over recent years, the progressive relaxation of borrowing restrictions inside SMSF's also means that SMSF fixed property investments can be geared in certain circumstances – an attractive prospect for many investors.

Potential liquidity risk – and solution

The fallout from holding illiquid assets in an SMSF can be severe if a member dies or becomes totally and permanently disabled. This is because, in many cases, the property assets may need to be liquidated in order to pay the required benefit to the member or their family from the fund – which could not only take time to resolve, leaving the member and their family in limbo, but a 'fire sale' could result in a lower than market price for the property.

Liquidity protection insurance enables a benefit to be paid to the member, or their beneficiary in the case of death, while enabling the SMSF to retain the property.

However, the question often arises about why conventionally structured life insurance would not be appropriate. In this situation, life insurance payouts are simply provided to policy holders or their estate - no provision is made for other members of the SMSF.

Thinking about compliance

Liquidity protection insurance is often an attractive option for SMSF's holding property. However, this is a relatively new area, and there is uncertainty about the best way of structuring these arrangements – particularly around the compliance and tax requirements.

It's important to understand how liquidity protection insurance is seen under the Superannuation Industry Supervision Act (1993), best known as SISA.

When considering liquidity protection insurance, the following compliance issues should be considered:

- Does it meet the sole purpose test? Liquidity protection insurance lies within the parameters of both the core and ancillary purposes, and therefore should meet the sole purpose test requirements.
- Does it meet investment strategy requirements? Liquidity protection insurance will usually contribute to satisfying these requirements, which obligate trustees to address liquidity issues when setting investment strategies.
- Does it meet the requirement to allocate premium expense on a fair and reasonable basis? While this can be a grey area, age and health issues of the members need to be discussed openly and objectively up-front.

Equally, in the event of a claim, payments must be allocated on a fair and reasonable basis. To avoid possible dispute, the allocation methodology should be agreed and documented.

Tax considerations

It is necessary to consider tax deductibility of the premiums, the tax treatment of the claim proceeds, and whether or not the strategy could create reserves which may be treated as taxable contributions when appropriated for the benefit of members.

Action plan

This 10 step guide may help SMSF trustees deal with liquidity risks:

1. Complete an asset and liability review.
2. Consider other strategies to eliminate liquidity risk – e.g. payment of benefits in pension form only.
3. Identify the cover required if the insurance option is chosen to mitigate liquidity risk.
4. Select the methodology for allocating premiums and claims proceeds.
5. Review the SMSF trust deed to ensure that insurance in the proposed format is permitted.
6. Brief the SMSF auditor on your proposal.
7. Hold the trustee meeting to approve the strategy. Ensure that the outcome of this meeting is minuted.
8. Ensure that the statement of advice (SOA) prepared by your planner is consistent with other documentation.
9. Once agreed, ensure that the insurance is properly disclosed in annual member statements.
10. Review the insurance annually and update it where necessary.

Source: TAL, October 2014

Living long – living well?

Australia's population is an ageing population. In 2007, 13 per cent of Aussies were aged 65 and over and by 2056 this figure will be close to 23 per cent - nearly a quarter of the larger populace.

Add to this the reality that many of us are going to outlive our savings, and the age we qualify for the Government pension is rising, then it's no surprise that aged care and estate planning are hot topics for government, financial advisers, and families alike.

So what are the important things to consider when looking to plan your life, or that of a loved one, after retirement?

Five core issues

1. The costs
Establish entry fees and bonds and ongoing costs of nursing homes and hostels. For residential care make sure you understand the costs are for things like daily care fees, and income-tested fees.

2. The family home
Consider if someone will continue to live there, or should it be sold or rented out? You might consider options such as a reverse mortgage.

3. Social security
Find out how to maximise your age pension entitlement by structuring your assets in the most effective way.

4. Tax
Look at what special tax offsets may be available when living in residential aged care.

5. Estate planning
Have you or your loved ones sorted out a power of attorney or enduring guardianship?

Government help

In July 2014, the Australian Government launched the Let's talk about changes to aged care campaign (myagedcare.com.au). The changes included:

- Greater support to stay independent and in your own home and community with more home care packages to meet your needs
- Older people being asked to contribute to the costs of care, if they could afford to do so
- Increased flexibility in ways to pay for accommodation in an aged care home
- Centrelink providing income testing for people receiving home care, and both income and asset testing for people receiving residential care.

Estate planning

A huge part of aged care planning is estate planning. At its most basic, estate planning is about working through what you want to do with your assets when you die. It's much more than just a Will. Effective estate planning is about protecting your assets and empowering you with the information and knowledge you need to make informed, conscious choices so that your family is not left stranded or your assets eroded or exposed to systems, processes and challenges that you may not be aware of or have even considered.

Financial planning

Whatever your preferred choices are for aged care there is a need for preparation and sound financial planning.

Source: BT Financial, October 2014

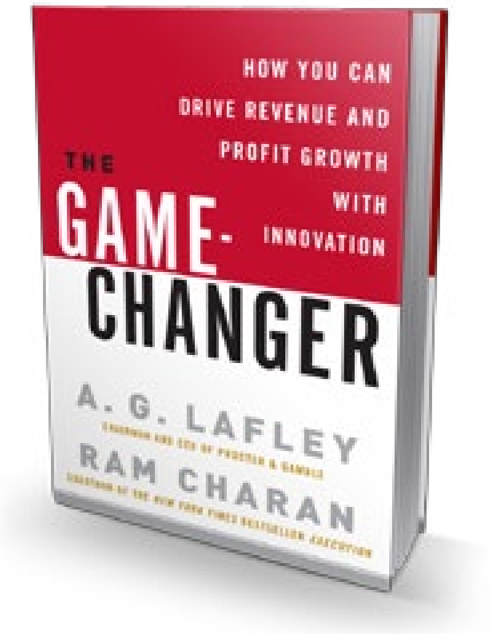
Catapult Wealth Christmas Party

Thanks to all who made it out to the baseball to watch Adelaide Bite take on Canberra Cavalry last month for the Catapult Wealth Christmas party. It was a wonderful night and great to see so many of you bringing kids and grandkids along for the occasion.

We hope you enjoyed the fun!

Book Review:

The Game Changer: How Every Leader Can Drive Everyday Innovation **by Ram Charan & Alan G. Lafley**



The authors of The Game Changer are impressive – Charan was born in a small town, worked in the family business and then went on to Harvard to complete an MBA and then a Doctorate. He taught at Harvard and is now a management consultant with several books to his name. Lafley is the CEO of multinational giant Procter & Gamble. During his tenure, the company has tripled its profits.

The premise of the book is that an innovation led strategy is the best way for companies to achieve sustainable growth. You will enjoy the journey of P & G – Lafley put the consumer front of mind at all times and was able to instil this into P & G culture which quickly became a competitive advantage for the company.

The Game Changer is a well written book that outlines the principles of innovation and correlates them to success stories through case studies of P & G and other well-known companies such as 3M.

The book is not so much about innovating as it is about the management and strategic importance of innovation but it is a game-changing book that will help you improve your leadership and management skills.

Reviewed by Tony Catt

Catapult Wealth is a 2014 Fast Mover

Catapult Wealth was recently announced as a finalist at the In-Business Fast Movers Awards held at the Entertainment Centre on Wednesday, 3 December– finishing an impressive 18th out of the 25 finalists for Adelaide's fastest growing businesses.

Last year's winner, Vinomofo narrowly missed out on being crowned South Australia's fastest growing company for the second year in a row, placing third behind LED light manufacturer Haneco Lighting and fast food franchise Bing Boy.

2014 marked the 10th anniversary of Fast Movers.

The turnover of Fast Movers finalists ranged from $31.3 million to $351,885 in the 2014 financial year.

Catapult Wealth finished 18th with an average annual growth rate of 25.93%

For a full list of 2014 finalists, PLEASE visit the in-Business website.

FAST MOVERS 2014

Words of wisdom:

"What the New Year brings to you will depend a great deal on what you bring to the New Year."

- Vern McLellan

"The bad news is time flies. The good news is you're the pilot."

- Michael Altshuler