

# PARTNERS OUTLOOK

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## GLOBAL GROWTH OR MORE BAD NEWS?



**Doesn't a lot happen in 6 months? In our last newsletter we were predicting that markets would consolidate their strong recovery and that business and consumer confidence was on the rise.**

*By Chris McMahon*

With the exception of February, momentum continued to deliver very pleasing performance across all our portfolios to the 31/03/2010 (see below).

	Defensive	Moderately Defensive	Balanced	Growth	High Growth
Partners Model Portfolio 12mths to 31/03/2010	25.34%	26.47%	28.38%	29.73%	31.13%
Benchmark Portfolio Charter Financial Planning	11.90%	16.70%	22.30%	26.50%	27.90%
Out Performance	13.44%	9.77%	6.08%	3.23%	3.23%

\*Summit Portfolios with Australian Equity Asset Allocation of \$50,000 or more. Past performance is not a reliable indicator of future performance. Portfolio returns are notional returns and reflect the historic performance over the previous 12 months if the investment allocation as at 31/03/2010 had been held constant over the full year. Model Portfolio performance is calculated before taxes, platform fees and brokerage costs but after managed funds fees.

### The important thing now is – where to from here?

Asset allocation in our view remains one of the key drivers of return. Our overweight position to high quality debt contributed greatly to the returns last year. Given the low purchase price and high quality nature of our Australian Hybrid portfolio it is likely that we will hold these allocations until maturity (the yield to maturity on these is close to that of equities).

Globally we see the recovery consolidating to deliver global growth of between 3% - 4%. If this eventuates it will be a massive improvement on what most of our media commentators were predicting.

We see downside risk to this as minimal given that global consumption is improving, the weak US dollar is rebalancing trade capital flows and that globally there is still about half of the planned post GFC stimulus packages unallocated.

In Australia we haven't seen the 8% unemployment figures we were predicting 12 months ago. In fact it looks to have peaked at below 6%. This is a fantastic outcome due in some part to the impact of monetary and fiscal policy, our proximity to Asian growth economies and a strong banking system.

**This good news should carry on through most of 2010. The risk is inflation which is remaining outside the RBA's target band of 2 -3%. As a result we will probably see interest rates rise further over 2010. We just hope that the RBA maintains its cautious approach because high household debt levels mean that a small increase has a big impact on household disposable income and hence it's discretionary expenditure.**

The Greek debt situation is of course a concern along with that of a number of other Southern European countries. We expect that this will be managed by the European Union and IMF but will be monitoring this situation with the aim of avoiding any future surprises.

All in all, our outlook for the next 6 months is to proceed with caution. In this context we will be looking for opportunities in large cap industrial equities, corporate debt and direct property.

*Chris McMahon is CEO of the Partners Group. He is responsible for investment portfolio construction and specialises in the development of effective investment and retirement strategies. Chris McMahon is an Authorised Representative of Charter Financial Planning Limited.*

# AGEING TRUSTEES – have you taken the necessary precautions?



**TRUSTEES of self managed super funds who do not take the necessary precautions in the event of becoming mentally or physically incapacitated or suddenly dying, run the risk of causing their funds great harm.**

**Members of funds that are unprepared can potentially leave their children unnecessarily exposed to tax problems and their ageing spouses or partners in charge of a fund they may have little or no understanding of.**

*By Martin Murden & John Lethbridge*

## What Can Be Done?

There are a number of considerations and options that are available to trustees.

## Appoint a Power Of Attorney (POA)

A person could be given a POA that takes effect either immediately or upon the occurrence of a trigger event. The latter could be when the person's health prevents him/her carrying out his/her role as trustee.

An attorney could be a trusted family member or friend, ideally someone who has a good understanding of business and of investment markets.

An attorney is charged with acting in the best interests of the Trustee. Wherever possible, they should make the same decision that the trustee would have made, keep accurate records of dealings and transactions made under their power, avoid situations where there is a conflict of interest and they must keep the trustee property and money separate from their own.

## Include Your Children

Consideration could be given to bringing children into the fund as members and trustees. If the children become members and trustees, it gets them involved in the decision making for the fund from day one. This means having them attend meetings with the fund's accountant and investment advisor, thereby helping the children understand what their parents want to achieve.

Because SMSFs can only consist of four family members, be mindful that this option may cause problems for families with more than two children.

## Binding Death Nominations (BDN)

These are nominations that can be made by members of the fund that are binding on the trustee when the death benefit is payable. It is important to note that a BDN can only be made to member's dependents or a legal personal representative, being an executor, a trustee, or a person with power of attorney.

In early 2009 the ATO announced that BDNs made within a Self Managed Super Fund could remain indefinitely, provided that:

*The trust deed allows for such a nomination; and*

*The nomination itself does not have a lapsing restriction i.e. 3 years*

From an estate planning perspective you should ensure that the nominations made within your superannuation fund complement your will. Superannuation death benefits can be retained within the fund and paid either as reversionary pensions or directly to a dependant, bypassing the deceased's estate.

You may wish to consider a BDNs function and whether they are suitable for your needs. Tax consequences of directing or retaining death benefits within the fund also need to be understood and adequate advice should be sought in these areas from both a legal and accounting perspective. Please give us a call if you would like further information.

## Is Your SMSF Trust Deed Up To Date?

Trustees need to be aware that their SMSF trust deed represents the governing rules of their fund. If legislation permits certain investments and actions within super, it is important that your trust deed complies with the current legislation.

Here are some key dates that are relevant when determining whether your current trust deed may or may not be up to date:

Date	Event
Pre 1 July 1994	SIS legislation was introduced
2000	Binding death nominations were introduced
1 July 2005	Transition to Retirement Income Streams were introduced
1 July 2007	Simple super legislative changes took effect
Sept 2007	Instalment Warrants were permitted in super
2009	Binding death nominations could remain indefinitely within a Self Managed Super Fund if the trust deed and nominations permit

**Do not assume that if your deed was prepared or updated prior to or after a particular date that it will cater for the change.**

## Conclusion

As with ensuring you have adequate estate planning advice, the same principle applies to Self Managed Super Funds and being prepared for upcoming events to minimise confusion and reduce future expenses. This article covers some of the key areas that should be given appropriate consideration by anyone acting as a trustee.

*Martin Murden is a director of Partners Superannuation Services and one of Australia's leading authorities on self managed superannuation funds (SMSFs).*

*John Lethbridge is the Superannuation and Pension Consultant for the PARTNERS Group.*



*Martin Murden and John Lethbridge had a discussion with Bruce Collins (Asst Commissioner, Aggressive Tax Planning) and Stuart Forsyth (Asst Commissioner, Funds Segment Superannuation) from the ATO late last year in relation to the emerging issues and trends in superannuation.*

# INTRODUCING PARTNERS PROPERTY



**PARTNERS PROPERTY is a joint venture between the Partners Group and a large property group, Opteon Victoria. It has been established with the purpose of helping clients make more informed property investment decisions. We are supported by a team of around 70 Certified Practising Valuers and Advisors that are trained in providing due diligence, reducing risk and providing greater certainty for people making decisions to buy or sell property.**

*By Dean Kitchin*

PARTNERS Property will work with clients to provide access to direct property investments and syndication opportunities. We take the same partnership approach to business that provides the foundation to the Partners Group.

If you already own property we can help with ways to minimise property risk, maximise return, help cash flow and if appropriate, strategize through any future development opportunities.

## Introduction

Most successful property investors have clearly defined strategies and a clear understanding of both the risks and expected returns of each investment they make. Like most businesses the most successful developers have established business models and the decision making process and project assessment basis disciplined.

Before making a decision to start looking for a property opportunity it is important to plan properly. **This should conclude with the type of property that best fits with your own situation, goals and risk tolerance. We also recommend consideration be given to the purchase entity and structure.**

In the simplest terms, investment returns are made up of income (net rent you receive less capital expenditure) plus capital growth. When considering a property, it is crucial to evaluate the risks and potential around both of these components.

Options include passive assets with an income orientation, passive assets with a capital growth orientation, development projects or a combination of above. Then there is the property sector to consider: retail, residential, industrial, office or specialized.

As an introduction, this article will focus on development projects, providing an insight into some of the issues that we consider when evaluating a potential investment for clients.

## Property Development

In theory, when someone buys a new property,

a margin above the cost to produce this asset is 'earned' by the developer.

**The size of the margin differs enormously. As you can imagine the margin is influenced by a large number of factors: the original purchase price of the property, construction costs, holding costs (development timing), loan to value ratio, selling rate and gross realisation prices are all key components that will influence the success of a development for the developer. It is important to have a good understanding on all of these issues prior to undertaking the investment.**

The benefits however of participating in a successful property development include some of the below points:

*Retail cost. If you intend to keep one or more of the properties you develop you do not have to pay the developers margin, agents commission, marketing costs etc, normally associated with buying a property from someone else. This lower cost provides a higher investment yield because the rents which one would charge are obviously still set by the market.*

*Profits. If you decide to sell the properties developed, a lower acquisition cost can lead to higher profits on disposal.*

*Tax benefits of depreciation if you decide to hold any newly built investment property.*

## Analysis

Depending on the nature of the development there are both simple (static) models and more sophisticated models (Discounted Cash Flow - DCF) that we use to analyze a project. The modeling allows us to make educated assumptions about the project and estimate the project return. The return can be expressed in a number of ways including the IRR (Internal rate of return) of the project, profit in dollar terms or as a return on equity (annual cash on cash rate). The modeling takes into account all the cash inflows and outflows and the time cost of money.

Changes in development return can be very significant, depending on the accuracy of the assumptions built in to the model. It is the

role of a property advisor to confirm these assumptions, ensure the projections include all relevant factors and to identify key risks so that the investor can then make an informed judgment about the investment.

To help quantify some of the potential risks of the project we also commonly complete a sensitivity analysis.

**Average Gross Realization (selling price per unit), Construction Costs, Planning Period Time to obtain planning permit, Selling rates, interest rates and loan to value ratio all have a considerable influence on the success of a property development. Obviously the impact of variables depends on the nature of the development i.e. with a higher land value content the potential costs of planning delays become much more significant.**

## Risks

To demonstrate how we are addressing risk in an example of a project that we are looking at in the south eastern suburbs the following aspects will help us minimize risk for our clients:

*Planning risk eliminated by commencing the proposed joint venture when the planning approval for the proposed development is granted.*

*Construction cost has been minimized and risk has been mitigated by tendering the construction/build, using established builders known to the major lenders and having a fixed price building contract in place.*

*Gross Realisation maximized by producing a type of housing that is in demand and reflects a gap in the market in this location. Estimates used in modeling should be realistic, and in this case will be supported by legitimate pre-sales.*

*Funding risk mitigated by having development finance approved (to the level reflected in the development modeling) by a major bank.*

*Project management is outsourced; fees are competitive and linked to performance.*

We are in the privileged position of being able to look at several development projects of varying size every month in our role as property valuers. Some of these are assessed

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# PARTNERS Q & A's

## Financial implications of entering an aged care facility



**While selling off the family home and going into a hostel or nursing home is an enormous readjustment for elderly people, it is also an especially challenging time for their children who not only want their parents to have the best possible care but also enough to live on. Unfortunately, not all achieve this goal.**

By Patrick Barry

*Note: This information only applies to those entering low and high level care facilities such as hostels and nursing homes. It does not apply to retirement villages.*

### Why is this?

Disposing of property and reallocating assets for elderly people entering an aged care facility is a complicated area and not many businesses specialise here. The result is that many elderly people and their children opt to go it alone and can often make some poor decisions.

The fallout from this is that the elderly may end up paying more in aged care costs and getting less in the way of Centrelink aged pension benefits.

**Seek expert financial advice but don't wait until you've disposed of your parents' property and they're about to move into a facility. Do it well beforehand.**

With careful planning and advice, the elderly can avoid paying thousands in additional aged care costs and will improve their Centrelink pension benefits. Additionally, correct structuring of investment assets could mean their assets grow rather than depreciate – a very important consideration when it comes to estate planning.

### What types of care facilities are there?

Supported care for those who require additional assistance, comprise:

*low care hostels*

*high care nursing homes*

### How do I know which type of accommodation my parent/s will be suited to?

They will be assessed by an Aged Care Assessment Team (ACAT) which will make this determination. An ACAT is usually situated at a public hospital and is made up of medical staff and social workers who specialise in aged care. These professionals will carry out an assessment that will determine whether a prospective resident will require low level (hostel) care or high level (nursing home) care. Low level care means people can feed and wash themselves and need limited supervision.

### What are the charges involved with accommodation?

#### Low level accommodation (hostels)

**Basic daily care fee.** This applies to all and is \$38.65.

**Daily Income Tested fees.** This applies if income is in excess of \$812.50 per fortnight. This fee is equal to 5/12 of any assessable income in excess of \$812.50. This fee can be as high as \$62.11 per day.

**Accommodation bond.** This applies where assets exceed \$37,500. However, the bond paid must leave the individual with a minimum of \$37,500 in assets. This is paid either as a lump sum, in instalments or a combination of both. It is determined by the facility provider. There is no fixed amount for an accommodation bond. It is agreed between the home and the person entering. Requests can be as high as \$750,000.

#### High level accommodation (nursing homes)

**Basic daily care fee.** This applies to all and is \$38.65.

**Daily Income Tested fee.** This applies if income is in excess of \$812.50 per fortnight. This fee is equal to 5/12 of any assessable income in excess of \$812.50. This fee can be as high as \$62.11 per day.

**Accommodation charge.** This is a daily amount that is payable if assets are above \$37,500 and is determined by The Department of Health & Ageing. When assets exceed \$93,410.40 the maximum applicable daily rate may be requested to be paid. This is currently \$26.88 per day.

*You can find more information at: <http://www.health.gov.au/feesandcharges>*

### Could you explain Centrelink's Income and Assets Test?

This test determines TWO things:

*How much pension people will receive*

*What they will pay in the way of Daily Income Tested fees and accommodation bonds and charges.*

Please note there are some differences in the operation of the assets test for calculating the accommodation bond/charge payable and the Centrelink pension payable. The changes relate to the treatment of the principal home,

#### 1. How the tests determine the pension amount payable (if any)

Under the "assets" part of the test, both a single person (who is a homeowner) and whose assets don't exceed \$178,000 and a non-homeowner, whose assets don't exceed \$307,000, will get the full pension. Asset levels above these amounts will result in a reduction in the age pension payable.

Under the "income" part of the test, the full pension is received when annual assessed income for a single person does not exceed \$3,692 per annum.

Many find their age pension entitlements are reduced as a result of the income test. Every dollar of assessable income above the threshold of \$3,692 reduces the amount of age pension by 50c.

#### 2. How the tests determine the age care fees, bonds and charges

Anyone entering an aged care facility will be subjected to Centrelink's Income and Assets Test. The "income" part of the test (how much income the retirees get from their investments) will determine how much they pay in daily fees while the "asset" part of the test (what they own) will determine their accommodation bond and accommodation charge.

For those whose income exceeds the threshold of \$812.50 p/f (\$21,125 pa) for a single person, an Income Tested Fee may also be added to their cost of care. For every dollar earned over the threshold, they will have to pay 41.67 cents. So for every dollar of assessable income above \$812.50 p/f, 5/12 has to be paid as an Income Tested Fee. The maximum income tested fee payable is capped at \$62.11 per day.

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from a risk perspective on behalf of the major lenders, we often complete due diligence in an advisory capacity, and we have investment opportunities presented to our group. The net result is an understanding of property development that can be very empowering to you or your clients.

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This fee is in addition to a reduction in Age Pension - 50 cents for every dollar of income over the income threshold of \$3,692 per annum.

Hence, for every extra dollar earned over the combined thresholds, they can be effectively penalised at a rate as high as  $(50 + 41.67 =) 91.67$  cents.

### What can be done to avoid the impact of the punitive Centrelink tests?

One little known strategy is to place financial assets into an insurance bond. This needs to be the only asset in a family trust.

This strategy works because family trusts are assessed under the income test (by Centrelink and the Department of Veteran Affairs) as 'taxable income', not 'deemed income'.

Insurance bonds do not distribute 'taxable income' to investors during their accumulating growth phase. Funds - provided they are structured properly as an asset of a family trust - are not assessed for income and are assessed as an asset under the assets test. This structure also has the advantage of allowing access to the funds if required, so money is not locked away.

Restructuring assets so they are in an Insurance Bond within a 'Trust' structure, as outlined above significantly reduces the amount of assessed income from a Centrelink and Aged Care facility perspective.

This may result in an increase in the Aged Pension and a decrease in the Daily Income Tested fee.

### Will proceeds from the family home affect the Income and Assets Test?

Yes they will. Any proceeds that are left after the Accommodation Bond has been paid will be deemed a financial asset by Centrelink for both the Income Tested Fee and Age Pension purposes.

### What should be done if one parent is alive and the other needs to go into a nursing home?

If the spouse is still living in the property, then

## More information

It is often asked where you go for genuine, independent, professional and ethical property advice. We can now assist you in this area. It is the purpose of Partners Property to help you make more informed decisions. Just like you may see our team of advisors or your accountant, we are more than happy to sit

the property is excluded from the calculation that determines the amount of the bond that is payable.

### In what other circumstances is the family or principal home excluded from the Income and Asset Test?

The home will be excluded from the test for two years from the date residence was taken up in the aged care facility.

The home will be excluded for two years from the date of death of the person's partner where the partner was living in the home.

For those paying an accommodation charge or periodic accommodation bond payments and the former home is rented:

The home is assets test exempt for the entire period that the periodic payments/accommodation charges are being paid.

Rental Income is exempt for Centrelink/DVA purposes (Income Test) for entire period paying the accommodation charge/periodic payments

### What about renting the family home?

As the ongoing costs of aged care accommodation are significant, clients often consider renting the principal home and using the rental income to fund these expenses. However in a significant number of cases the capital tied up in the family home will need to be used to pay for the accommodation bond.

### Is there a mechanism for offsetting medical expenses in an aged care facility?

Some payments made to approved care providers can be claimed under the medical expenses tax offset. They need to be in the range of 1-7 levels. For more information go to <http://www.health.gov.au/>.

### Should those entering a facility review other issues?

Yes, they should be reviewing their estate planning strategies, their wills and their powers of attorney.

**Estate planning.** This defines how someone's assets will be distributed when they die.

down with you and discuss anything property related. If you would like to arrange a meeting please call the office.

*Dean Kitchin is a Certified Property Valuer (AAPI 1818) and the Director of PARTNERS Property. He has over 18 years experience in the property arena. PARTNERS Property is not affiliated with Charter Financial Planning Limited.*

**The will.** For most people, one of the most important estate planning documents is the will. Although it is simple to prepare, many people die without having made a will, or die leaving a will that is out of date and which does not accurately reflect their existing circumstances. Note: Wills can often be challenged and the courts will decide who gets what - not you! Consider non-estate assets/vehicles such as trusts and insurance bonds if there is a risk of dispute.

**Power of Attorney.** This formal document specifies who will act on the person's behalf should they become incapacitated. It is a separate document from the will and operates only during the lifetime of the person. This is the most important document for someone entering Aged Care - every person entering care should have an attorney in place!

**Medical power of attorney.** Also referred to as an enduring power of attorney, is a legal document which appoints someone to make medical decisions on someone's behalf when they are unable to do so. These decisions involve medication, surgery, and other medical procedures.

**Binding Death Benefits.** This nomination is a written direction to the trustees of your superannuation fund that sets out the dependants and/or legal personal representative that you want to receive your benefit in the event of death.

**Superannuation** is comprised of both a taxable and tax-free component. Any funds that are viewed as taxable are taxed at 16.5% if they are paid to a non financial dependant on death. Strategies should be undertaken prior to death to avoid this punitive tax.

*Patrick Barry is a senior financial planning advisor at PARTNERS and an Authorised Representative of Charter Financial Planning Limited. Patrick is a specialist in superannuation and insurance.*

*We invite you to submit your questions on investments, superannuation, insurance or any other financial planning topic and we will endeavour to answer these in our next newsletter. Please submit to: [kylie@partnerservices.com.au](mailto:kylie@partnerservices.com.au) by June 30th 2010.*

For more information on any article appearing in this newsletter please call our office on (03) 8508 7800

# EXCESS CONTRIBUTIONS - Some changes



**With the halving of the concessional contribution caps from 1 July 2009, there is considerable risk that superannuants could find themselves in an excess contributions position for the 2009/10 financial year.**

*By John Lethbridge*

## Important information that has changed

The contribution caps for the 2009/10 financial year are as follows:

### Tax deductible [concessional] contributions

Age 18 - 49: \$25,000 per year  
Age 50 - 74: \$50,000 per year

To determine which cap applies your age on 30 June is used. People who turn 50 during the year can make the maximum contribution of \$50,000. However prior to reaching age 50, only \$25,000 can be contributed.

### Non tax deductible [non concessional] contributions

Age 18 - 74: \$150,000

Should you be aged 18 – 64, you can pay up to three years' worth of contribution (\$450,000). However, should you have exceeded \$150,000 in, say, the 2008/9 year, the maximum that can

be contributed for the 2009/10 and 2010/11 years combined is \$450,000 less the amount paid into the fund in 2008/9

### Penalties

If you have an excess contributions situation and are unable to reallocate contributions, tax rates of 46.5% will be applied to those amounts in excess of the caps. If both the concessional and non concessional caps are breached by a member during the financial year, contributions tax of 93% can apply to the combined excess amounts.

### What can be done?

Members should review what amounts they are contributing or salary sacrificing into super to ensure they are not in danger of breaching the contribution caps. For example, with the \$100,000 limit for those aged 50 or over decreasing to \$50,000 for 2009/10, members who are on \$100K salary and sacrificing in full could have already breached the concessional cap for the 2009/10 financial year.

### Checklist

Are you able to make this contribution based on your age and work status? If you intend to make maximum contributions, be certain that other contributions have not been made for you in the relevant financial year i.e. employer makes a Super Guarantee contribution into a public offer fund for some part time work

If under 65 years of age and you intend to make non concessional contributions, check that you have not triggered the three year carry over rule, which could limit contributions in the current financial year.

**Awareness is the best protection against exceeding the contribution caps and members should keep themselves up to date with the contribution caps while consistently reviewing their contribution amounts and types going into super. Please contact our office for more information.**

*John Lethbridge is the Superannuation and Pension Consultant for the PARTNERS Group.*

## Warren Buffet – quote

**“Whether we’re talking about socks or stocks, I like buying quality merchandise when it is marked down.”**

Warren Buffett is an American investor, businessperson and philanthropist.

#### Important information

This publication has been prepared to provide you with general information only. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. In preparing this information, we did not take into account the investment objectives, financial situation or particular needs of any particular person. Before making an investment decision, you need to consider (with or without the assistance of an adviser) whether this information is appropriate to your needs, objectives and circumstances. PARTNERS do not give any warranty as to the accuracy, reliability or completeness of information. We do not accept any liability for any error or omission in this presentation or for any resulting loss or damage. Past performance is not indicative of future performance. This information is provided for persons in Australia only and is not provided for the use of any person who is in any other country. The Advisers of Partners Retirement Planning & Investment Advisors are Authorised Representatives of Charter Financial Planning Limited Australian Financial Services Licensee Licence No 2324665