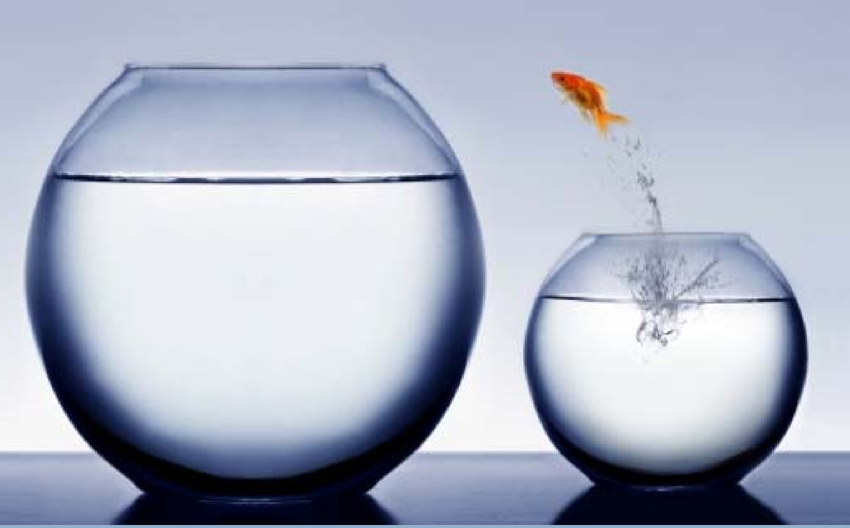
# Personal Wealth



Winter 2016 A Quarterly Newsletter for **Lifespan Clients**

## *We have moved. . . . . . .*

Lifespan Financial Planning are pleased to announce that we have moved to new premises, but we are still in the heart of the Sydney CBD.

**Our new address details:** **Lifespan Financial Planning**
**Level 23, 25 Bligh Street**
**SYDNEY 2000**

All other contact details such as phone and email remain the same.

## What's inside…



- **2016 -17 Federal Budget report highlights.** On Tuesday 3 May the Treasurer, Scott Morrison, released the Government's 2016/17 Budget
- **Investment Markets.** Brexit Rattles Markets
  - Recent History
  - Economy
  - Markets and Outlook
- **In The Community**
  - Lifespan Advisers pitch in to lend a hand


# 2016-17 FEDERAL BUDGET REPORT HIGHLIGHTS

## WHAT IT MEANS FOR YOU

On Tuesday 3 May the Treasurer, Scott Morrison, released the Government's 2016/17 Budget .

The budget contained a number of important changes to the superannuation system, including retirement income streams and tax changes.

**Note:** These measures are proposals only and will need passage of legislation to become law.

The key superannuation changes announced include:

- Reducing the concessional contributions cap;
- New lifetime non-concessional contributions cap;
- $1.6 million cap on the amount that can be transferred into a tax-free retirement income stream;
- Increasing flexibility for contributions made after age 65;
- Change to the taxation of transition to retirement income streams.

## SUPERANNUATION

### CONCESSIONAL CONTRIBUTION CHANGES

From 1 July 2017:

- The concessional contributions cap will reduce to $25,000 per year (down from $30,000 per year for those under age 50 and $35,000 per year for those aged 50 and above). This will also apply to members of defined benefit schemes.
- Individuals with superannuation balances of $500,000 or less will be able to accrue unused concessional contributions cap amounts (up to 5 years) and carry them forward for

use in later years.

• Individuals with income and concessional contributions above $250,000 per year will have to pay additional tax of up to 15 percent on concessional contributions. Similar measures will apply to high earning members of defined benefit funds.

• All individuals up to the age of 75, regardless of their employment status, will be able to claim an income tax deduction for personal superannuation contributions made in an income year.

### NON-CONCESSIONAL CONTRIBUTIONS

As of 7:30 pm (AEST), 3 May 2016, non-concessional contributions are capped at a lifetime amount of $500,000 (indexed).

### RETIREMENT INCOME STREAMS

From 1 July 2017:

• The government will limit the amount of superannuation that can be transferred to tax-free retirement income streams to $1.6 million.

• Existing and new transition to retirement (TTR) pensions will have investment earnings taxed at up to 15 percent, in line with superannuation in accumulation accounts.

• Tax exemption will be extended to products such as deferred lifetime annuities and group self-annuitisation products. This will allow product providers to offer new retirement income products that can help individuals achieve a broader range of retirement goals.

### OTHER SUPERANNUATION MEASURES:

From 1 July 2017:

• Individuals aged 65 to 74 will no longer need to meet a work test to make a personal contribution or to receive a spouse contribution.

• The spouse contribution tax offset of up to $540 will be available to individuals contributing to their spouse's superannuation fund who can earn up to $37,000 per annum (up from the current $10,800).

• A Low Income Superannuation Tax Offset (LISTO) of up to $500 will be available to those with adjusted taxable income below $37,000 per annum.

• Superannuation funds will no longer be able to pay an anti-detriment payment to an eligible dependant after the death of a member.

## TAXATION

### CHANGING THE INCOME TAX THRESHOLDS

From 1 July 2016, the income threshold where the 37% marginal tax rate starts to apply will increase from $80,001 to $87,001. The income threshold and marginal tax rates from 1 July 2016 are as follows:

| Taxable income threshold | Tax payable (exc. Medicare levy) | % tax on excess |
|---|---|---|
| $18,200 | NIL | 19.0% |
| $37,000 | $3,572 | 32.5% |
| $87,000 | $19,822 | 37.0% |
| $180,000 | $54,232 | 47.0% |

### TEMPORARY BUDGET REPAIR LEVY

The three year Temporary Budget Repair Levy on high income individuals will cease from 1 July 2017. Up until then the temporary levy will continue to apply at a rate of two percent on individuals' taxable income in excess of $180,000 per annum. This will mean that the top marginal tax rate will reduce from 47% to 45% (excluding Medicare Levy) from 1 July 2017.

### EXTENDING THE EXISTING FREEZE ON THE MEDICARE LEVY SURCHARGE AND PRIVATE HEALTH INSURANCE REBATE THRESHOLDS

From 1 July 2018, the Medicare Levy Surcharge and Private Health Insurance Rebate thresholds will remain paused for three more years.

***For more information please contact your adviser.***

# INVESTMENT MARKETS - BREXIT RATTLES MARKETS

## Recent History

April and May were generally positive for growth assets while June has seen a sharp pullback as markets focus on Brexit – i.e. the unexpected vote by Britain to leave the European Union (E.U.). These concerns have contributed to lower global bond yields with the German 10 year government bond finally trading below zero percent yield. Another major event during the period was the Reserve Bank of Australia (RBA) cutting the official cash rate from 2.0% to 1.75% in May, a new all-time low on lowered inflation forecasts.

The Australian share market returned 11.6% for the 3 months to the end of May as markets recovered from the big sell-off earlier in the year. Australian Small Cap Equities continued their recent outperformance over large caps returning 13.1%. Developed Market global shares underperformed domestic shares with a return of 7.6% while Emerging Market equities returned 8.1%. Global equities were hindered by the Australian dollar which rose 1.4% versus the US dollar over the period. The Australian fixed interest benchmark returned 1.3% for the 3 months to end of May while Cash returned 0.59% for the period.

## Economy

While the RBA rate cut was unexpected, it was their view on inflation that surprised markets. The RBA said “ongoing very subdued growth in labour costs and very low cost pressures elsewhere in the world, point to a lower outlook for inflation than previously forecast”. First quarter inflation came in at -0.2% which was below expectations and the annual rate fell to 1.3% per year, from 1.7%. This was well below the RBA’s 2% to 3% target range. Australian bonds rallied on the news and the market anticipated another rate cut. The Australian dollar fell about 5% on the cut but has rebounded since then. Australian GDP grew 3.1% in the year to March 2016, this was the biggest expansion in three years, led by a household spending and exports.

The other significant event was US employment growth which surprised markets by only increasing by 38,000 in May, well below expectations of 160,000 while there also downward revisions to the prior two months employment numbers. The weaker outlook for the US economy resulted in the US Federal Reserve lowing expectations for the pace of future rate rises and US yields moved lower. US Headline inflation rose 1.0% in the year to May 2016. However the Core CPI (which strips out food and energy costs) rose 2.1% over the same period .

## Markets and Outlook

There is huge amount of uncertainty regarding the fallout from Great Britain leaving the E.U. European markets were particularly hard hit but have recovered much of that ground lately. It has also been quite a volatile period for the Australian dollar as well as local interest rates.

The Australian 10 year government bond yield trended lower in June to briefly trade below 2.0% before rising again, while the Australian dollar traded below 72 US cents on the rate cut but is now closer to 75 cents. These moves reflect swings in bearish and bullish sentiment which is currently being driven by uncertainty of the effects of Brexit on economies and markets.

The Australian equity market (with the ASX 200 at 5,220) is trading at about 16x forward PE - a level that has not been sustained historically without strong earnings growth.

Current estimates are for earnings growth (EPS) to be about 11% lower in fiscal 2016 compared to 2015. Earnings are forecast to rise about 6% in fiscal 2017, largely driven by resources. So the valuation of the Australian market (PE) is well above the long term average which is in the low 14 times earnings.

Equity markets are being supported by extremely low interest rates. For example, 10 developed-market sovereign issuers have negative yields on their 5-year bonds according to data compiled by Bloomberg. Also, more than $US100 billion of corporate bonds, including French drug maker Sanofi and Royal Dutch Shell, now yield less than zero. With negative yields, in order to make a return on your investment you need a capital gain i.e. yields need to go even lower. Obviously this cannot go on forever. Simply put there is almost nowhere to go apart from equities if you are looking for a reasonable yield.

Given current yields we remain underweight in fixed interest despite the flight to safety caused by Brexit. However, with equities trading at above long term average valuation levels we expect returns to be below historical averages. In a low growth environment, active management will help, but investors also need to take advantage of market pullbacks to add to their holdings rather than using a fixed schedule if possible.

Chart 1: Investment Returns to 31 May 2016 (% p.a.)

| Asset Class | 1 month | 3 months | 1 Year | 3 Years | 5 Years |
|---|---|---|---|---|---|
| Australian Shares | 3.09 | 11.60 | -2.38 | 7.71 | 7.54 |
| Global Shares | 5.47 | 7.60 | -0.07 | 15.50 | 13.61 |
| Listed Property | 2.63 | 8.04 | 15.31 | 16.80 | 17.09 |
| Fixed Interest | 1.26 | 1.30 | 4.64 | 5.41 | 6.57 |

Source: Mercer

# IN THE COMMUNITY

## Lifespan Advisers pitch in to lend a hand


While the east coast of Australia was recently battered by storms which brought large amounts of rainfall to coastal regions, spare a thought for some of our hard working farmers and graziers who have not experienced decent rainfall in nearly 5 years.

Farmers continue to struggle to maintain their properties and support their families in very difficult times. As a result, suicide rates have been on the increase, with some families forced off the land as a result of drought.

With personal experience of the tragedies besetting families in the rural Australia, Stephen Dykes, a Lifespan Financial Planner based in Warners Bay has recently stepped in to help coordinate several hay runs to assist struggling farmers to feed their stock.

Galvanised by Stephens' passion to assist the town of Eulo in the Paroo shire in south west Queensland (887 kms west of Brisbane), the management of Lifespan and our advisers recently donated over $6,000 to help cover some of the costs to deliver 5 loads, totalling 350 round bales of hay to local Eulo farmers.

Stephen is an active member of the Hunter Valley farmers and transport companies group who have come together to assist the Eulo community with donations of fodder to keep the livestock alive during these tough times. They have successfully raised donations of 2,000 round bales at present.

As money comes in the group draw fuel vouchers to fill their truck to do each load with an average cost of $1,200 per trip, depending on the fuel price and the load size. Vehicle services, tyres and all other running costs and time are donated by the Hunter Valley support group and the truckies as part of their efforts.

For anyone interested in helping out all donations go to Aussie Helper Working Dog.

**BSB No. 084 500.**

**Account 811 336210.**

**Reference: Hunter Valley**

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