# AMBLESIDE NEWSLETTER

## AUTUMN EDITION

### WHAT'S INCLUDED


# A WORD FROM THE PRINCIPAL

**Welcome to our autumn newsletter. This is the second version of the new layout where the articles are linked to our website, rather than attached to an email. For those of you who don't have (or want!) email we will continue to send you a hard copy with the postman.**

As part of the revision we're including a greater range of articles, which are either in response to recent media reporting, or recurring questions we're often being asked. Keep an eye out in this edition for an article by Caitlin on the proposed Labor tax policies in the lead up to the federal election, an article by Tom on the key differences between income protection insurance, Workcover and TAC; and an article by James on the outcomes of the Banking Royal Commission.

Centrelink and the ATO are continuing to be challenging, with applications and updates often held up due to department workload or simple human error. Where this happens, we may request additional authorities from you so we can follow-up applications on your behalf. In some cases we've found the quickest way is for you to come into the office and grant authority over the phone. This is far quicker than signed authorities that can take a staggering 30 days to approve. Centrelink is continuing to require detailed evidence of transaction history, especially for aged pension updates. In one example they wanted full transactions going back to 2010 for an aged pension that had already been going for two years. Thanks in advance for your patience if we have to come back to you multiple times asking for information.

We have recently started trialling a new internet based program called MyProsperity. It brings all your financial information together in one place, to give you a quick and accurate snapshot of your financial situation.

It is especially good at helping with tracking cashflow and processing bank account transactions, automatically categorising your expenses so you know, and can then control, where all your income goes. We hope to roll this out widely in time and more information can be found at www.ambleside.net.au/myprosperity.

As the final part of our online revamp we are looking to include client testimonials on our website and with the popular website Adviser Ratings. These are short written paragraphs from you, briefly describing what Ambleside has done and how we have helped. As most of you would be aware from your time on the internet testimonials are an increasingly important part of a business' profile. We would greatly appreciate your support when we request these over the coming months.

- James Kelly

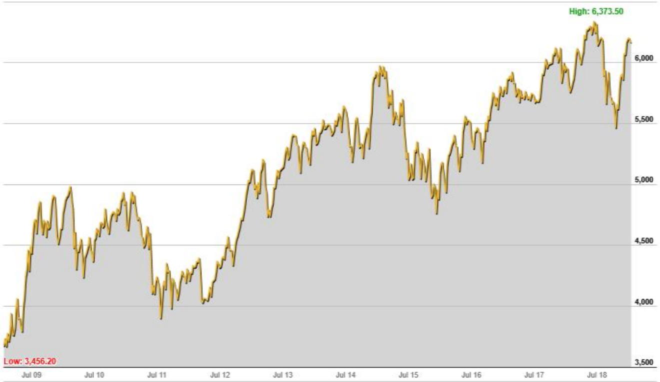
## AMBLESIDE'S FOOTY TIPPING COMP!


**Just a reminder, you can jump onto our website to check your footy tipping score throughout the entire season!**

**Go to the link below:**
**https://www.footytipping.net.au/cgi-bin/ambleside/comp.cgi**

# MARKET UPDATE!

The last six months have been a volatile period for Australian and international markets. Between 31st August and 21st December 2018 the ASX 200 dropped 15% to reach its lowest point in two years, and from there quickly rose 14.5% from the start of January. It is an interesting quirk of mathematics that it takes a greater percentage gain to make up for any percentage loss, for example going from $100 to $90 is a 10% loss, but going back to $100 is an 11.1% gain. The chart below shows the performance of the ASX200 (not including dividends, or income) over the last 10 years. The recent correction and recovery can clearly be seen on the right hand side and there have been a number of similar events over the last decade. Despite these ups and downs the long term trend is sustained growth. To put numbers behind this $100,000 invested in Australian shares in 2009, with the dividends reinvested, would today be worth over $260,000.




ASX200 Index - March 2009 – March 2019

Many of the issues that caused the drop at the end of 2018 were responsible for the recovery at the start of this year. Markets were initially very concerned about trade posturing between the US and China, but they are now 'optimistic an agreement will be reached'. Next, markets were concerned the US Federal Reserve was raising interest rates too quickly (following record lows after the GFC), but later buoyed when the Fed Reserve said they 'saw no need to increase rates further in the short term'. I think this is a good reminder not to pay too much attention to finance reporting and short term market movements.

On the topic of interest rates it is interesting to look at what Australian rates have actually done over the last decade. Post GFC the Reserve Bank of Australia dropped rates from 6¼ to 3%, raised them again for a period and dropped them to 1½% in August 2016. Since then they have held at this point and not moved. An official rate rise this year is not looking likely, especially when banks have already raised their lending rates in response to increased borrowing costs. One concern economists do hold with interest rates already at 1½%, is that if there is a recession the Reserve Bank can't further lower interest rates to stimulate the economy, since they are already so low.

# MEET BROOKE!

Brooke is our new Administration Officer. She has worked in the financial planning industry for 5 years in both Warrnambool and Geelong.

## BROOKE'S FAB FOUR!

Favourite Food: Pasta
Holiday Destination: Glenelg (hope to do first overseas trip early next year)
AFL Team: Richmond
Favourite Movie: Bridesmaids

# LABOR'S PROPOSED ELECTION POLICIES

With an early federal budget scheduled for April 2nd and federal election likely to be held in May we can expect a lot of talk in the media around the proposed changes to superannuation and tax. In this article Caitlin presents a summary of the Labor government's proposed polices to save money for the Federal budget. In total these are projected to save $26bn over four years.

An important term to understand when reading the proposed polices is 'grandfathering'. This is a term used when to describe what happens when a new legislation or policy is introduced. If a policy is 'grandfathered' it means that all people who were eligible under a policy **before** the changes took effect will continue under the old rules, and people who become eligible **after** the change date will be subject to the new rules. As you will see below some of the Labor policies are grandfathered and some are not.

The implementation date for these policies is not known and it will depend on a number of factors, the obvious one being Labor needing to first win the election, the final makeup of the House of Representative and Senate, and Labor's priorities for introducing and passing legislation once in power.

**Capital Gains Tax (CGT).** When an asset is disposed after being held for longer than 12 months the current CGT discount is 50%. The proposed policy reduces this discount to 25%. This proposal is grandfathered, meaning it only applies to assets purchased after the implementation date.

**Personal Tax Rates.** For the higher income earners, Labor intends to increase the marginal tax rate from 45% to 47% (excluding the Medicare levy).  This will impact people who earn above $180,000 pa.

**Negative Gearing.** Labor intends to remove the ability for people to negatively gear property investments. The policy will be grandfathered and will not apply to new build houses purchased as investment properties.

**Franking Credits**. This is the proposal getting the most attention as it will affect a lot of retired Australians.  Labor proposes that after 30 June 2019 franking credits will no longer be able to result in a tax refund. Franking credits will be able to continue to reduce tax to nil, but no refund will apply.  Importantly some people will be exempt, including those in receipt of the aged and disability support pensions.

**Taxation of trust distributions.** Trusts are often used to distribute funds to non-working spouses and young adult children who earn little or no income. If you are receiving trust distributions the proposal is to have a minimum tax rate of 30% to beneficiaries. However, testamentary trusts (a trust that starts once you pass away and only if it is stated in your Will), special disability trusts and farm trusts will be exempt.

**Non-Concessional Contribution (NCC) Cap.** NCC are funds added to superannuation that have already had tax paid (in comparison to concessional contributions which are made before income tax is paid). The NCC cap is currently $100,000pa, or $300,000 using the bring forward provision. Labor is proposing to reduce this to $75,000pa.

**Catch-up Concession Contributions (CC)**. Legislation recently passed by the Coalition government allows people to accrue unused concessional contributions (which are capped at $25,000pa) and carry these forward for up to five years. Labor is proposing to remove catch up contributions, meaning you would be limited to $25,000pa regardless of what you did in previous years.

**Division 293 Tax.** Division 293 tax is an additional tax paid by high income earners when making contributions to superannuation. It currently applies to incomes greater than $250,000 Labor proposes reducing this threshold to $200,000.

**Limited Recourse Borrowing Arrangements (LRBAs)**. LRBA applies to self-managed superannuation funds and allows these funds to take out loans to purchase assets. Labor proposes to ban all LRBA arrangements.

There is a lot of detail yet to be announced and we will be keeping a close eye on developments.

Please get in touch with us if you would like further information on any of these proposals. More information can be found at:
www.abc.net.au/news/2019-02-07/election-labor-coalition-liberal-policies-show-me-the-money/10442114

- Caitlin Mason

# 2019 WARRNAMBOOL LAWN TENNIS BOWLS CLUB CORPORATE CUP!

During the month of February the team participated in the Corporate Bowls competition down at the Warrnambool Lawn Tennis Bowls Club. We managed to come away with a win on the last night in a close match against the Flying Horse!

# WEBSITE UPDATE!!

## Have you visited our website lately?

We are always adding new content to our ‘Knowledge Hub’. It’s full of articles covering investments, insurance, social security & tax and lots more!

Jump on our website for some helpful tips on how to best manage your finances!

# BANKING ROYAL COMMISSION UPDATE

The report was handed down by Commissioner Hayne on 1st February 2019. Hayne is considered to be a stickler for process and punctuality, so it was no real surprise an extension wasn't requested and all deadlines were met to the day.

The report contained 76 recommendations. Both sides of government have pledged action on all recommendations, which is not quite the same as agreeing to them all, but none the less a pretty strong response.

As an overall observation the report was not seen to be as tough as it could have been. Some commentators expected to see individuals named and shamed, even though this wasn't really the purpose of the commission. Hayne has however made 24 referrals for misconduct to the regulators ASIC and APRA and a number of executives have been forced out of senior positions, including the Chairman and CEO of NAB.

I believe the devil is in the detail and the final 'harshness' of the report will come down to how the recommendations are implemented. There is plenty of scope to make a generational impact on financial services if the government so chooses.

A key complexity is who the government will be that implements the recommendations. Labor have been particularly critical of the sector and right now are odds on favourite to win the election. In the modern age it is of course not enough to just 'win', it has to be done with a sufficient majority in both houses to actually pass legislation. A few key issues that caught my attentions are discussed below.

**ASIC empowerment.** A major conclusion has been that the Australian Securities and Investments Commission (ASIC) has not been doing their job in holding financial institutions to account. This is partly a cultural issue, including a preference to negotiate rather than prosecute, but also an inevitable situation after years of budget cuts. Expect to see a far better resourced organisation on a mission to prove a point.

**Culture and pay.** The word 'greed' featured strongly throughout the report and Commissioner Hayne puts most failings down to individuals putting their own interests before those of clients.

Banks have hidden behind the corporate finance theory that their sole job is to 'serve the interests of shareholders' (which means make as much money as possible), regardless of the impact on clients. This will no longer cut it.

Several AGMs at the end of 2018, including for the NAB, have seen unprecedented shareholder revolts against banker pay packages. It remains to be seen how this will change but bank executives are now all about reflecting on the Royal Commission as an 'extremely difficult and confronting process' and 'regaining trust'.

**Mortgage broking.** This area was perhaps the biggest surprise however Hayne has been very consistent in trying to root out all forms of conflicted remuneration across the sector. Put simply Hayne does not see why mortgage brokers should collect an ongoing payment for the life of the loan when many (but not all) mortgage brokers do nothing for the client after the initial setup.

Secondly, he does not see why the initial fee charged should be a percentage of the loan, as this just encourages the broker to lend more. Once again implementation will be key on this one as right now 58% of mortgages are originated by mortgage brokers and they are a key part of the economy. It is important that any changes don't result in more money and business going back to the banks.

This analysis only covers a small part of Hayne's report but it does show where he sees the issues in the industry. We will need to wait until after the election to see the full extent of changes.

On the financial planning side, and how it will affect Ambleside, we don't expect major changes on the how we work with you and what we provide, however there will greater compliance and documentation required to show how we reach our recommendations.

- James Kelly


Income protection, Transport Accident Commission (TAC) and WorkCover are three types of insurance that can provide compensation if you can't work due to injury or accident. There are key differences between these insurances regarding what they cover, when you're covered and how much you will be paid. In this article Tom provides an overview of the three systems.

**Income Protection.** Income protection (IP) covers the widest range of incidents, critically including cover outside of the workplace and outside of transport accidents. The benefit is up to 75% of your salary and can be paid to you for between two years and right up to the age of 70 ('benefit period'). Claimants also have to wait for a period of time between suffering the incident and receiving the funds ('waiting period'). This can also be varied, typically between 14 days and 12 months.

Unlike WorkCover and TAC, which are compulsory insurances, IP is voluntary, and the premium is paid directly by the person taking out the cover. There are a number of options that determine the premium, including your age, occupation, benefit period, waiting period and amount of cover. You also have the choice of paying the premium directly from your bank account, or from within your superannuation fund.

IP is the most comprehensive form of insurance and covers you for many situations that WorkCover and TAC do not. As a result, it is the most expensive of the three insurances. IP is available directly through your superannuation fund, online and through a financial adviser. The quality and cost of the cover can vary greatly, and we recommend you talk to us about your cover requirements.

**Transport Accident Commission.** TAC provides 'loss of earnings' payments where injury or death takes place as a result of a transport accident or injury. The benefit can initially be paid for a period 18 months to a value of 80% (maximum of $1,350 per week) of your income from work to assist with living expenses, medical bills and rehabilitation costs. TAC is a compulsory insurance that is paid as part of the vehicle's registration fee. It is a no fault scheme, meaning payment will be made even if you cause the accident. It is important to note that the vehicle being operated must be registered, meaning it is important for farmers to avoid the temptation of using unregistered vehicles on the farm.

You must have been in a form of paid work prior to the accident or injury event (including casual, part-time, full-time and self employed) **and** have experienced an injury or illness as a result of a transport accident. For more information check www.tac.vic.gov.au/clients/what-we-can-pay-for/policies/other/loss-of-earnings-benefits.

**WorkCover.** This is a compulsory insurance that employers must pay to cover employees for work related incidents. There is no waiting period and compensation is based on 100% of an employee's income. Payments can cover wages, medical expenses or rehabilitation costs and is generally capped at 130 weeks.

In order for WorkCover to apply, the incident that has caused you to become ill or injured must have occurred whilst at work or when completing their work-related duties. It will only cover those who are employed and **does not** apply to those that are self-employed. For more information check www.worksafe.vic.gov.au/simple-guide-workcover-insurance

**Considerations**. In the event of an injury you may have the option to claim under TAC, or WorkCover, or income protection; however you generally cannot claim more than one type of insurance at a time.

A key advantage of income protection is it covers you outside of the workplace and transport accidents. An example of this is an IP policy can provide cover in the event you suffer an injury playing football.

You may be eligible for WorkCover even when the injury has no connection with actual work duties, for example authorised breaks, travelling between worksites, or on a work trip. Importantly there is no WorkCover entitlement travelling to and from work at the start and end of day.

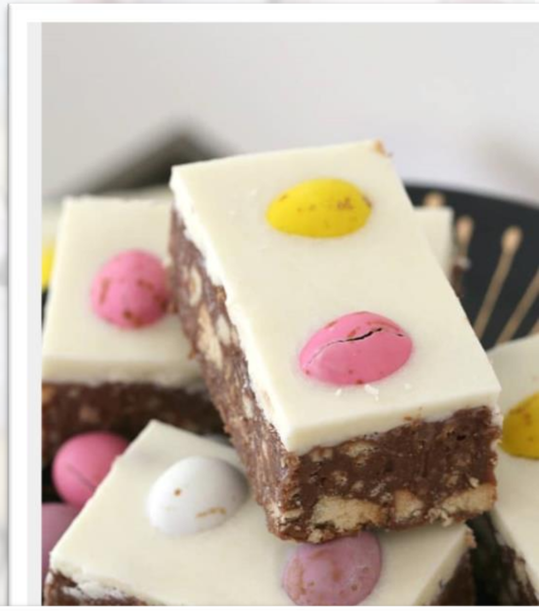
In situations where you have the option of TAC and WorkCover it is often the case that WorkCover is more difficult to deal with because of the restrictive nature of the legislation. In addition TAC usually pays more towards legal costs.

This is a complex area and if you need to make a claim it is important you claim under the right system. We strongly recommend you seek financial and legal advice to fully understand your options.

- Tom Carstein

# CHOCOLATE HEDGEHOG EASTER SLICE

*Easy no-bake slice, fun variation on a classic hedgehog recipe. Biscuits, chocolate and coconut with an Easter twist!*



**Ingredients**

250g Plain biscuits, crushed
1/2 cup desiccated coconut
2 tbsp cocoa powder
1 cup milk chocolate
100g butter
395g can sweetened condensed milk
1 ½ cups white chocolate
2 tbsp coconut oil (optional)
1 packet Cadbury mini eggs

**Directions**

1. Place the biscuits, coconut and cocoa into a bowl.
2. Melt the milk chocolate, butter and condensed milk.
3. Pour the liquid over the dry mixture and stir.
4. Press firmly into a baking tin.
5. Melt the white chocolate and coconut oil and pour over the slice. Decorate with chocolate Easter eggs.

## FOR YOUR CHANCE TO WIN!

Head to our Facebook page for more details on how you can win our upcoming Easter hamper competition!