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Strategy of the week!

This week's case study revolves around a strategy we came up with for a husband and wife (we will call them Bill & Mary) who were new clients to us. They were recommended to us by friends of theirs who were existing long standing clients of ours.

Bill and Mary were considering whether they might be able to retire; but they thought they could not. They only wanted a modest income but were looking to slow down and enjoy a quieter life. We had helped their friends previously and the friends thought we may be able to help them too.

They had worked hard all their lives to build up their savings whilst raising a family and dearly wanted to spend more time together and with their families. They also were very keen to help their children out where possible and spend more time with their grand children. If possible they also wanted to do a little travelling with their caravan.

Bill & Mary were quite despondent and very confused as to what they should do because on the surface they could not see any way that this would be possible. The complexity of all of the financial issues they were confronting was very daunting and they really did not know which way to go.

They had a modest amount in superannuation but had bought an investment property some years ago and had managed to pay off the debt.

Their asset position was as follows:

Home	\$1,200,000
Contents	\$50,000
Car	\$15,000
Caravan	\$20,000
Husband's Super	\$250,000
Wife's super	\$150,000
Jointly owned Inv. Prop.	\$450,000 (they paid \$350,000)

Bill was turning 65 in 3 months time.

Mary was 56.

They need to be receiving at least \$45,000 per year after tax but also having access to some capital in the short term if required would be very desirable.

What did we suggest?

One of the big disadvantages of their current situation is that whilst the husband would be entitled to a Centrelink age pension at age 65; the amount he would be eligible for would be greatly reduced due to their asset position.

We know the rules state any assets the wife has in superannuation would not be assessed as an asset, until she reached 65 years of age; or until she withdrew them from the super environment.

This really forced our hand to suggest to them they really needed to sell the investment property and get that money into super predominantly in the wife's name.

Yes there would be some transaction costs and some capital gains tax to consider but we felt the benefits of the strategy far outweighed these negatives.

There were things we could do to eliminate the capital gains tax completely for them whilst restructuring to enable them to gain maximum age pension for Bill until the Mary attained 65 years of age.

Currently the age pension is around \$14,000 per year, so a simple restructure of this nature entitled them to **an additional \$126,000 of income** between now and the time Mary turned 65.

With this in mind we felt they had to sell their investment property and contribute the proceeds in the following manner:

Contribute \$11,000 each into super as a concessional (tax deductible) contribution. This completely wiped out the tax they would have had to pay. As they were both under 65 no work test needed to be met but in this case it would have not been a problem any way.

The remaining \$425,000 (approximately after costs) was contributed into Mary's superannuation as a non-concessional (after tax) contribution.

This helped them to achieve their goals and enabled them to retire and pursue their interests whilst ensuring they had enough income for them both now as well as into the long term future.

In fact when Mary reaches age 65 in 9 years time we estimate their combined income (on modest projections) would be over \$60,000 tax free.

They would be drawing the minimum allowable amount out of their investments which would enable the investments to continue to grow. They would still be entitled to a very small age pension amount which would help them to qualify for a health care card and other discount benefits.

What if I want to retain my investment in property?

For some people they may not want to be without an investment in property.

In a slightly different situation for other clients we worked with who did not wish to be without their property investment; we did a very similar strategy.

We then assisted them to establish a self managed super fund for the purpose of enabling them to buy another property investment. The contributions were restructured in a similar way to what was recommended above and they also managed to qualify for age pension entitlements.

There are many benefits to seeking quality financial advice and I would encourage anyone in a similar situation to investigate what their true entitlements are.

Of course every situation is different and this will not suit everyone.

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