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FINANCIAL SERVICES PTY LTD

Timely Tips

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Did you know?

During the 12 months to 31st December 2007, just over 48,000 new self managed superannuation funds were established

Source: APRA Statistics

Basics of Superannuation – Part 2

In the March 2008 issue of Timely Tips in our “Back to Basics” series we looked at what a superannuation fund is, some of the types of funds available and how super funds are taxed. In this issue we are looking at the sole purpose test, who can be a fund member, and making contributions.

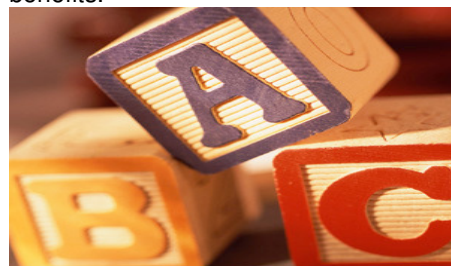
The sole purpose test

Superannuation can provide significant taxation benefits. In the previous issue we addressed the tax benefits in some detail. With superannuation being so favourably taxed, there may be the temptation for the public to put every available spare cent they have into super to enjoy the tax concessions. We also addressed one of the trade-offs for the favourable tax treatment, that being preservation of benefits – that is, superannuation savings can only be accessed once a condition of release has been satisfied, generally retirement on or after reaching age 55.

One of the central principles of superannuation is the sole purpose test. The sole purpose test simply means that superannuation is to provide benefits to a member in their retirement, or to their dependants in the event of their death.

In addition to the sole or core purpose, a superannuation fund can also have ancillary purposes written into its governing rules, such as the provision of benefits in the event of a member becoming disabled.

It is important for every person who is a member of a superannuation fund, to be mindful of the sole purpose test and ensure that any decisions they make regarding their fund membership relates to the provision of retirement or death benefits.



This is particularly important for those who may have a self-managed super fund.

Who can be a fund member?

Today there is very little restriction on who can belong to a superannuation fund. In broad terms superannuation is generally the domain of those of us in the workforce, whether we are employees or self-employed. However, many retirees remain participants in the superannuation system where they are receiving a pension or income stream from a superannuation fund. In addition, even children can become members of a superannuation fund.

Making contributions

Some years ago, in order to be able to make a contribution to a superannuation fund, the member was required to have current or recent workplace participation. However, subsequent amendments to legislation saw superannuation being opened up to the extent that a person under the age of 65 can now make contributions even though they may never have been gainfully employed. This has opened up significant opportunities for those not actively engaged in the workforce to be able to set aside savings for their eventual retirement years. It also gives those in our community who take time out of the workforce to raise families etc to continue to make, or have made on their behalf, contributions to a super fund.

Once a person turns 65 years of age, in order to continue to be able to contribute to a super fund, they must meet an annual work test. This test requires they be gainfully employed or self-employed for a minimum period of 40 hours worked over not more than 30 consecutive days in the financial year in which the contribution is to be made. Once a person turns 75, the only contributions that can be made are “mandated employer contributions”. Such people are unable to make personal contributions, or contributions under a salary sacrifice arrangement.



In the next issue we will look at how superannuation funds invest their money for the benefit of members.

Source: *Associated Advisory Practices*

Insurance Bonds



Some months ago we looked at insurance bonds and their place in an investment portfolio. Given the enquiries we have been receiving, we have decided to revisit this topic.

Insurance bonds were a popular investment option back in the 1980's and 90's. They still exist today, but perhaps don't enjoy the same popularity of past years. So, what is an insurance bond?

Basically insurance bonds are a life insurance policy that contains an investment component. In fact, the entire investment (referred to as a premium) is used to establish the investment account. Insurance bonds can be set up with a single investment (premium) or can be structured to receive regular or spasmodic contributions.

Whilst an insurance bond is treated as a life insurance policy both from a regulatory and a taxation perspective, they generally don't provide for the payment of large insured benefits in the event of the death of the life insured. In most cases, the death benefit payable is limited to the amount in the member's account at the time of death.

There are three parties to an insurance bond, the "policy owner" being the person who makes and owns the investment, the life insured, and the life insurance company that issues the bond. It is quite common for the policy owner and the life insured to be the same person.

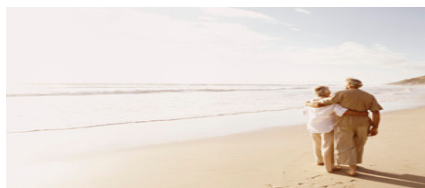
In some cases there may be a fourth party to an insurance bond. That is a "beneficiary". It is possible with many insurance bonds to nominate a person to receive the proceeds in the event of the death of the life insured. Insurance bonds are subject to an interesting

taxation regime. The amounts contributed to an insurance bond is invested by the life insurance company, generally at the direction of the policy owner,

and any income derived from those investments is taxed in the hands of the life insurance company. Life insurance companies are generally taxed at a rate of 30%, however, the actual rate of tax may be substantially lower once the effect of deductions, franking credits and other tax concessions are taken into account.

The policy owner does not pay tax on the investment earnings of their insurance bond unless they withdraw the proceeds within 10 years of the commencement of the bond. If a withdrawal is made within 10 years (special provisions apply to withdrawals made in the eight and ninth years) the investment earnings are taxable in the hands of the policy owner but they receive a 30% tax offset or rebate to compensate for the tax the life company has already paid.

Life companies that market life insurance bonds generally offer a wide range of investment options ranging from cash and fixed interest funds, through to funds that invest exclusively in Australian or overseas shares. Most, also offer a range of diversified funds that invest in a number of different asset classes (cash, fixed interest, shares and property). Today, the investment options available through insurance bonds allow investors the opportunity to structure an investment mix that is appropriate to their risk profile and investment objective.



Insurance bonds appeal to a range of people including those on higher marginal tax rates, as well as people who may have money to invest but don't want the complexity of having to include the income on their tax return each year. They can even present opportunities for those on lower tax rates. Most importantly, an investment does not have to be held for 10 years before accessing it.

Source: *Associated Advisory Practices*

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Services & Strategies we offer include:

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- Retirement Planning
- Financial Strategies
- Financial Structures
- Self Managed Superannuation Fund strategies & legislation
- Asset Protection
- Personal & Group Insurance
- Savings & wealth creation strategies
- Divorce & Separation strategies
- Business Succession planning
- Superannuation

Contact your adviser at:

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