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 **charter** financial planning

Federal Budget 2009/10: Are you affected?

Budget highlights

Key changes which may affect your financial planning strategies:

- Cuts to concessional contributions caps
- Super co-contribution reduced for now
- Relief for account-based pensions
- Good news for Commonwealth Seniors Health Card holders
- Keeping seniors in the workforce
- Relying on the Age Pension
- Taxation and private health insurance
- First home buyers' reprieve

Federal Treasurer Wayne Swan has presided over a record \$57.6 billion deficit in his second budget amid difficult economic conditions. With a return to surplus not forecast until 2015/16 and a \$210 billion collapse in government revenue over the next four years, budget spending has focused on infrastructure projects to stimulate employment and welfare support for pensioners.

Revenue raising to help fund these spending promises is largely targeted at higher income earners. Some of the key changes affecting retirees and those planning for retirement include the following:

Cuts to concessional contributions caps

Concessional contributions include compulsory employer superannuation contributions as well as salary sacrifice contributions. Also if you are self-employed, contributions for which you claim a tax deduction are classified as concessional contributions.

The government will cut the concessional contribution cap in half, from \$50,000 to \$25,000 for those under 50 years of age, from 1 July 2009. The transitional cap for people over 50 will also be halved from \$100,000 to \$50,000 until 30 June 2012, after which it will revert to the lower \$25,000 cap (indexed). However, you still have until 30 June 2009 to maximise your concessional contributions for the 2008/09 financial year.

Super co-contribution reduced for now

For those on lower incomes, the superannuation co-contribution matching rate will be reduced. This means that the maximum co-contribution payable will be reduced to \$1,000 for contributions

Federal Budget 2009/10: Are you affected? continued

made in the 2009/10, 2010/11 and 2011/12 financial years. Don't forget that you have until 30 June 2009 to make personal contributions and receive a government co-contribution of up to \$1,500 for 2008/09.

Relief for account-based pensions

In a welcome move for retirees, minimum drawdown amounts on account-based pensions will be halved for the 2009/10 financial year. This means a self-funded retiree who is committed to drawing down a minimum annual pension of \$30,000 will now only have to draw a minimum of \$15,000 from their super savings in 2009/10. The change is designed to help self-funded retirees recover from capital losses associated with the global recession and reduce the need to sell assets at a loss in order to meet minimum withdrawal requirements.

Good news for Commonwealth Seniors Health Card holders

The government's proposal to include lump sum withdrawals and gross pension payments from superannuation funds in the income test for the Commonwealth Seniors Health Card has been dropped. However, the proposal to include amounts salary sacrificed into super in the income test will apply from 1 July 2009.

Keeping seniors in the workforce

Many Australians may be working longer under changes to the pension eligibility age. Under the new rules to be phased in by 2023, people born after 1 January 1957 will not gain access to the Age Pension until they are 67. The current eligibility age for the pension is 65 for men and 63.5 for women.

The table below shows how the pension age will change:

Date	New Age Pension age	Affects people born between:
1 July 2017	65 ½ years	1 July 1952 to 31 December 1953
1 July 2019	66 years	1 January 1954 to 30 June 1955
1 July 2021	66 ½ years	1 July 1955 to 31 December 1956
1 July 2023	67 years	From 1 January 1957

The move also foreshadows a recommendation of the Henry tax review, to lift the superannuation preservation age to 67 in the future, to bring it into line with the increased pension age. Current super preservation ages stand between 55 and 60, depending on your date of birth.

Taxation and private health insurance

High income earners will receive a lower tax rebate for their private health insurance premiums. The Medicare levy surcharge will also increase for some high income earners who choose to opt out of private health insurance.

Three new private health insurance tiers will be introduced from 1 July 2010, as shown in the following table:

	Projected 2010/11 MLS* thresholds	Tier 1	Tier 2	Tier 3
Singles	<\$75,000	<\$75,001 – \$90,000	<\$90,001 – \$120,000	>\$120,001
Couples	<\$150,000	<\$150,001 – \$180,000	<\$180,001 – \$240,000	>\$240,001
MLS*	1%	1%	1.25%	1.50%
Private health insurance rebate				
▪ Up to 65 years	30%	20%	10%	0%
▪ 65 – 69 years	35%	25%	15%	0%
▪ 70 years or over	40%	30%	20%	0%

* Medicare levy surcharge (MLS) rates if individual opts out of private health insurance.

Existing arrangements will remain unchanged if your income is less than \$75,000 per annum (single) or \$150,000 per annum (families).



Relying on the Age Pension

The budget will also increase assistance for pensioners by \$32.49 per week, to \$336.68 per week for singles on the full rate and \$10.14 per week to \$507.50 (combined) per week for couples on the full rate, from 20 September 2009.

However, the increase is offset by the news that the rate at which the pension is reduced for pensioners with private income will increase from 40 cents to 50 cents in the dollar, at the same time. This means that payments to pensioners will be reduced by 50 cents for each extra dollar of private income above the threshold allowed by the pension income test.

Under the new arrangements, the pension will be paid to single people with a private income of up to \$38,693 per annum instead of \$47,444, and couples will be able to earn \$59,228 (combined) per annum before their pension cuts out, down from \$72,423.

First home buyers' reprieve

The First Home Owners Boost will be extended for six months and then abolished after 31 December 2009. The boost will also be halved in the last three months of the scheme.

For more information on the Federal Budget 2009/10 and its implications for your personal circumstances, please contact us today.

Insuring against a cancer shock

Cancer is a devastating illness – not just for the person who suffers from it, but also for those around them.

When cancer strikes, money is usually the last thing on anyone's mind, but once the dust settles, the financial stress caused by cancer can be much greater than expected and may even lead to new problems.

Sarah's story

Working as a primary school teacher in regional New South Wales meant that Sarah led a hectic life. At age 46, with two small children and a class of Grade 4s during the week, there was rarely a dull moment.

Sarah had visited her local doctor for a pap smear. Three days after the screening test, her GP had called to say the test had returned an abnormal reading and that she was referring Sarah to a specialist gynaecologist in Sydney.

The following week, Sarah took a day off work and drove to Sydney. The specialist arranged for a biopsy and explained that the results would reveal whether cancer was present.

The result confirmed the presence of abnormal cells on her cervix with a 'CIN 3 grading'. The specialist explained that this was a pre-cancerous growth that had been picked up at a very early stage.

Sarah would need a minor operation to remove the area where abnormal cells were present, followed by pap smears every six months for the first two years. If the results were normal, she'd then have check-ups annually. The good news was that she'd more than likely make a complete recovery.

A year before Sarah's initial screening, she'd discussed her insurance needs with her financial adviser. Her adviser recommended a Trauma Insurance Plus Plan with a sum insured of \$200,000.

Once Sarah was diagnosed with the early stages of cervical cancer, she notified her insurer and received a lump sum payment of \$20,000*. The insurance payment meant she didn't have to worry about taking time off work or the cost of travelling to and from Sydney for appointments, allowing her to focus on her treatment and getting better.

* The sum insured (benefit) is \$200,000, so Sarah would be entitled to claim 10 per cent of the benefit (\$20,000) for this trauma event, based on having purchased a Trauma Insurance Plus plan.



With rapid improvements in modern medicine, many people who suffer a trauma such as cancer, heart attack or stroke can expect to survive and recover to live long into the future.

Trauma insurance can step in to provide a financial helping hand and help you to maintain the quality of your life, in the event that you suffer a traumatic event.

For further information about trauma insurance to suit your needs, please call our office.

A guide to reducing your household expenditure and saving our planet

Global warming is one of the most persistent problems of our time. It can be tempting to do nothing – after all, what can any one person achieve?

While it's up to governments to grapple with energy policies and emissions trading schemes, you can make a difference by making some simple changes to your daily routine. And the good news is that helping to save the planet can also save you money.

Did you know...

You can reduce your energy usage by:

- buying energy efficient appliances. All whitegoods now come with an energy star label – an international standard for energy efficient products. For example, the running costs of an energy efficient washing machine can be up to 25 per cent less than other machines over its lifetime.
- turning appliances off at the power point and potentially saving up to \$100 a year.
- installing solar panels and taking advantage of the \$8,000 Federal Government rebate.
- installing fluorescent light bulbs. By using just one 15-watt fluorescent bulb instead

of a 75-watt standard bulb, you could save about \$10 a year on your energy bill. That may not sound a great deal, but a household with 20 lightbulbs for example, could save up to \$200 a year.

You can help save water by:

- installing a free water-efficient showerhead and saving up to 21,000 litres of water a year – that's up to \$100 a year on your water bills.
- installing water-saving products like rainwater tanks and greywater systems while taking advantage of incentives such as the National Rainwater and Greywater Initiative, which offers rebates of up to \$500.

You can save money on petrol and keep fit by:

- taking public transport, walking or cycling to work – the train generates 14 grams of carbon per kilometre, compared with up to 270 grams in a car. The cost of running



a normal car per year is between \$5,200 and \$16,000, compared with, for example \$1,800 for a typical yearly public transport ticket in Melbourne.

Directing money that you have saved from adopting energy efficient practices into your investments may contribute to a more financially secure future for you and your family.

Need an insurance check-up?

Maintaining a fit and healthy lifestyle can reduce the risk of illness, but you should also ensure your family has adequate financial protection.

Maintaining a healthy lifestyle is easier than you think.

By taking some straightforward tests and implementing simple lifestyle changes, you could substantially improve your health and reduce the risk of suffering a life-threatening trauma.

The risk of illness

Unfortunately, diseases and illnesses such as cancer, diabetes and strokes are increasingly common as we enjoy longer but more sedentary lives.

One in four Australian women and one in three men will be diagnosed with cancer by the time they are 75.¹ And the number of new cancer cases diagnosed in Australia is projected to rise to 115,400 a year by 2011.²

Cardiovascular disease (CVD) is Australia's leading cause of death, accounting for more than a third of all deaths in 2006. It kills one Australian every 10 minutes and two out of every three families have been touched by some form of CVD, such as heart attack, stroke or cardiac arrest.³

Diabetes is Australia's fastest growing chronic disease. An estimated 275 Australians develop the condition every day, with 890,000 currently diagnosed with diabetes – and a similar number remain undiagnosed. By 2031, it is projected that 3.3 million Australians will develop type 2 diabetes,⁴ the most common form of the illness.

Fortunately there are ways to minimise the risk of developing a life-threatening illness, simply by monitoring your health and improving your fitness. Consider the following:

Do you measure up? Four ways to test your health

1. Measure your waist

Your waist size is a more accurate measurement of your weight than body mass index (BMI), which doesn't take into account muscle or weight distribution. The simplest way to monitor your weight is to measure your waist, level with your navel. A waist



measurement of more than 80 cm for women and 94 cm for men could place you at higher risk of contracting a disease or illness.

2. Test your blood pressure

High blood pressure can lead to a heart attack, heart failure, stroke or kidney disease. While there is no 'ideal' blood pressure, a normal reading is considered to be less than 140/90.

3. Test your blood glucose

The normal blood glucose level ranges between 3.5 and 7.8 millimoles per litre (mmol/L). Blood glucose levels outside of this range can be an indicator of diabetes.

4. Monitor your cholesterol

High blood cholesterol is a major risk factor for coronary heart disease and even some types of stroke. A total blood cholesterol level above 5.5 mmol/L increases your risk of developing coronary heart disease.

Four steps to a healthier lifestyle

1. Give up cigarettes and avoid passive smoking

Smoking is a major cause of heart disease, stroke and several different forms of cancer, as well as a wide variety of other health problems. Stopping smoking brings immediate and lasting health benefits, regardless of your age or gender.

2. Eat a healthy diet

Most Australians eat only half the amount of fruit and vegetables recommended for good

health. Adults should aim to eat at least two serves of fruit and five serves of vegetables every day.

3. Exercise for 30 minutes on five or more days per week

Incorporating 30 minutes of moderate physical activity into your daily routine can lead to improvements in blood pressure, blood cholesterol and body weight.

4. Drink alcohol in moderation

While one or two standard drinks per day may do no harm (assuming you are otherwise in reasonable health), excessive alcohol increases your risk of high blood pressure, heart disease and stroke as well as many other health problems. Everyone should have at least one or two alcohol-free days per week.

While we hope you take the right steps to maintain a healthy lifestyle, the reality is that a traumatic health event can still happen and it's vital that you and your family have adequate financial protection.

What would happen if you were incapacitated by a serious illness? How would you cover financial necessities such as mortgage repayments, bills and school fees?

It's important to set aside some time to review your insurance each year. We can help you determine the type of insurance and the level of cover that's right for your circumstances and lifestyle.

1 Australia's Health 2008 (Australian Institute of Health & Welfare)

2 Australia's Health 2006 (Australian Institute of Health & Welfare) and Australian Cancer Research Foundation.

3 Heart Foundation

4 Diabetes Australia